

2018



FIRST HORIZON  
NATIONAL CORPORATION

ANNUAL REPORT

## CONSOLIDATED STATEMENTS OF CONDITION

December 31

(Dollars in thousands, except per share amounts)

|  | 2018                 | 2017                 |
|--|----------------------|----------------------|
| <b>Assets:</b>   |                      |                      |
| Cash and due from banks  | \$ 781,291           | \$ 639,073           |
| Federal funds sold   | 237,591              | 87,364               |
| Securities purchased under agreements to resell  | 386,443              | 725,609              |
| Total cash and cash equivalents  | 1,405,325            | 1,452,046            |
| Interest-bearing cash  | 1,277,611            | 1,185,600            |
| Trading securities   | 1,448,168            | 1,416,345            |
| Loans held-for-sale (a)  | 679,149              | 699,377              |
| Securities available-for-sale  | 4,626,470            | 5,170,255            |
| Securities held-to-maturity  | 10,000               | 10,000               |
| Loans, net of unearned income (b)  | 27,535,532           | 27,658,929           |
| Less: Allowance for loan losses  | 180,424              | 189,555              |
| Total net loans  | 27,355,108           | 27,469,374           |
| Goodwill   | 1,432,787            | 1,386,853            |
| Other intangible assets, net   | 155,034              | 184,389              |
| Fixed income receivables   | 38,861               | 68,693               |
| Premises and equipment, net (December 31, 2018 and 2017 include \$19.6 million and \$53.2 million, respectively, classified as held-for-sale)  | 494,041              | 532,251              |
| Other real estate owned ("OREO") (c)   | 25,290               | 43,382               |
| Derivative assets  | 81,475               | 81,634               |
| Other assets   | 1,802,939            | 1,723,189            |
| <b>Total assets</b>  | <b>\$ 40,832,258</b> | <b>\$ 41,423,388</b> |
| <b>Liabilities and equity:</b>   |                      |                      |
| Deposits:  |                      |                      |
| Savings (December 31, 2017 includes \$22.6 million classified as held-for-sale)  | \$ 12,064,072        | \$ 10,872,665        |
| Time deposits, net (December 31, 2017 includes \$8.0 million classified as held-for-sale)  | 4,105,777            | 3,322,921            |
| Other interest-bearing deposits  | 8,371,826            | 8,401,773            |
| Interest-bearing   | 24,541,675           | 22,597,359           |
| Noninterest-bearing (December 31, 2017 includes \$4.8 million classified as held-for-sale)   | 8,141,317            | 8,023,003            |
| Total deposits   | 32,682,992           | 30,620,362           |
| Federal funds purchased  | 256,567              | 399,820              |
| Securities sold under agreements to repurchase   | 762,592              | 656,602              |
| Trading liabilities  | 335,380              | 638,515              |
| Other short-term borrowings  | 114,764              | 2,626,213            |
| Term borrowings  | 1,170,963            | 1,218,097            |
| Fixed income payables  | 9,572                | 48,996               |
| Derivative liabilities   | 133,713              | 85,061               |
| Other liabilities  | 580,335              | 549,234              |
| Total liabilities  | 36,046,878           | 36,842,900           |
| <b>Equity:</b>   |                      |                      |
| First Horizon National Corporation Shareholders' Equity:   |                      |                      |
| Preferred stock - Series A, non-cumulative perpetual, no par value, liquidation preference of \$100,000 per share - (shares authorized - 1,000; shares issued - 1,000 on December 31, 2018 and 2017) | 95,624               | 95,624               |
| Common stock - \$.625 par value (shares authorized - 400,000,000; shares issued - 318,573,400 on December 31, 2018 and 326,736,214 on December 31, 2017)   | 199,108              | 204,211              |
| Capital surplus  | 3,029,425            | 3,147,613            |
| Undivided profits  | 1,542,408            | 1,160,434            |
| Accumulated other comprehensive loss, net  | (376,616)            | (322,825)            |
| Total First Horizon National Corporation Shareholders' Equity  | 4,489,949            | 4,285,057            |
| Noncontrolling interest  | 295,431              | 295,431              |
| Total equity   | 4,785,380            | 4,580,488            |
| <b>Total liabilities and equity</b>  | <b>\$ 40,832,258</b> | <b>\$ 41,423,388</b> |

(a) December 31, 2018 and 2017 include \$8.4 million and \$11.7 million, respectively, of held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure.

(b) December 31, 2018 and 2017 include \$28.6 million and \$22.7 million, respectively, of held-to-maturity consumer mortgage loans secured by residential real estate in process of foreclosure.

(c) December 31, 2018 and 2017 include \$9.7 million and \$12.2 million, respectively, of foreclosed residential real estate.

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## FIRST HORIZON NATIONAL CORPORATION

### PROVEN, FOCUSED, BETTER

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#### **DEAR FELLOW FIRST HORIZON SHAREHOLDERS:**

We were proud of the significant progress First Horizon made in 2018 to solidify our position as one of the leading financial services companies in the Southeast.

Our steadfast commitment last year to operating our company for long-term growth and value creation helped us realize many important goals. These goals included meeting our Bonefish targets, completing the Capital Bank integration, and returning profits to shareholders through increased dividends and share repurchases. We executed on our strategic and financial priorities while also articulating our long-term vision for First Horizon.

2018 highlights include:

- Strong execution on the Capital Bank merger priorities and successful completion of the largest merger in our company's history.
- Increased annual common dividend rate by 33% to 48 cents per share, and an additional 17% increase in early 2019 to 56 cents per share.
- Net charge-offs were 0.06%, reflecting stable credit quality.
- Increased net interest margin to 3.45% from 3.12%.
- Increased net interest income by 45%, driven by Capital Bank merger
- Grew deposits by 7% driven by momentum in key markets and a strategic focus on deposit growth.

Collectively, our strong progress in 2018 demonstrates our ability to continue delivering value for our shareholders, employees and communities.

#### **PROVEN SUCCESS**

Every day we work hard to earn and keep the trust of our stakeholders by operating First Horizon for financial stability, profitability, and growth.

Our Bonefish business strategy, introduced a decade ago, centers on key financial metrics to guide how we manage our company for the long-term, and in 2018 these targets were achieved.

This accomplishment proved our ability to implement a successful operating framework to drive sustained economic profit across our business. Even though we exceeded our historical Bonefish target of more than 15% return on tangible common equity, our focus on economic profit, complemented by our capital deployment strategies and lower-risk balance sheet, will continue to drive our business as we embrace the opportunities ahead.

Another major goal for our company in 2018 was the completion of the Capital Bank integration activities. In preparation for our integration, our dedicated employees completed 30,000 hours of

training and placed more than 200,000 outbound calls to our customers. In addition to the significant undertaking to position our organization for organic growth, we also delivered exceptional cost savings. Of our projected \$85 million cost savings targets, we achieved about \$50 million in 2018. Moreover, we continue to identify opportunities to build on these cost savings and further invest in our business, particularly by expanding our digital capabilities.

Lastly, our strong execution and fiscal discipline while building for the future enabled us to return capital directly to shareholders through increased dividends and share repurchases.

Key capital deployment highlights:

- Increased annual common dividend rate by 33% to 48 cents per share, and an additional 17% increase in early 2019 to 56 cents per share.
- Repurchased approximately \$100 million of shares, with more than \$80 million of shares repurchased in the fourth quarter of 2018.
- Sold our Class B Visa shares in the third quarter of 2018 for a pre-tax gain of \$213 million.
- Further optimized our loan portfolio for long-term profitability by exiting approximately \$500 million of high-risk and low-yield loans.

The results we achieved in 2018 will allow us to continue building from a significant position of strength in 2019 and beyond.

## **FOCUSED STRATEGY**

At First Horizon's Investor Day this past November, we announced our long-term strategy to deliver top quartile returns, maintain our strong credit quality, and continue to strengthen our balance sheet. We are confident in our ability to execute on our strategic priorities to deliver profitable growth, create value, and maximize shareholder returns.

In Tennessee, we continued to earn and build upon our #1 market share position. As a result, deposits in our home state were up 7% last year. Our bankers worked hard both to retain existing and attract new high-value customers with our distinct mix of products and services. We will continue to optimize this strategy with increased focus on profitability.

## **Strategic Priorities:**

- Dominate Tennessee
- Profitably Grow Key Markets and Specialty Businesses
- Transform the Customer Experience
- Optimize the Expense Base

In the second half of 2018, following the Capital Bank integration, we deployed the blueprint used in Nashville to drive growth and capitalize on opportunities in our new Mid-Atlantic and South Florida markets. Similar to Nashville, these markets offer high growth potential with strong household incomes, growing populations and attractive deposits – all factors that reinforce our confidence in our ability to drive future growth. We were very pleased with our end-of-year customer activity in new markets.

This past year, once again, we earned recognition from Greenwich Associates and J.D. Power for our customer service, customer experience, as well as recognition from the Reputation Institute. As we look to the future, we recognize that there are fundamental shifts occurring in our industry, from consolidation to rapidly evolving customer expectations. In order to remain competitive against both traditional and new entrants, we are committed to continuing investments to deliver superior and personalized customer experiences, and utilizing data-driven insights and technology to drive growth and efficiencies.

Our approach will incorporate a blend of technology, products and services, along with the commitment of our talented bankers, to anticipate and exceed customers' needs and enhance profitability. We will also continue leveraging and building upon our increased scale as we grow into our expanded geographic footprint, with our specialized lines of businesses providing a competitive advantage. As we move forward, we will continue to invest in transforming the customer experience and increasing the reach of our products, capabilities, and services on both regional and national levels.

In addition to realizing Capital Bank merger synergies, we continued to optimize our expense base last year by identifying and eliminating costs across our company and reallocating resources to improve productivity and customer service. For example, we closed and consolidated over 50 branches and upgraded our digital banking platform to better serve our customers. In 2019, we will continue to reinvest cost savings to enhance the way our customers bank with us, and improve our efficiency ratios.

While we are pleased to have benefited from a robust economy in 2018, we recognize that market conditions change. That is why our business model is designed to perform across various economic cycles and does not rely on the external environment to achieve our goals. The economy in 2018 was favorable for the bank but also challenging for our FTN Financial fixed income business, which provides unique countercyclical benefits. We remain committed to our fixed income business because it complements our approach to managing our company for soundness and profitability throughout shifts in the economy.

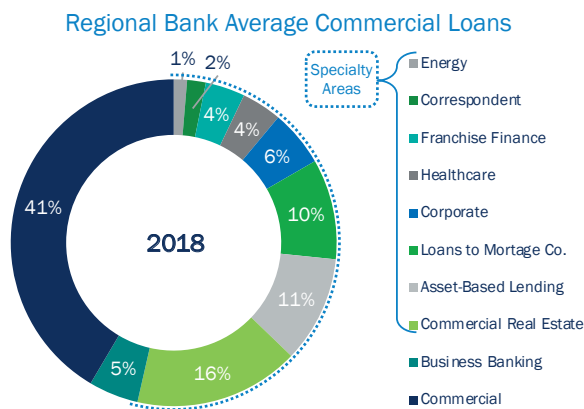
### BETTER OPPORTUNITIES

First Horizon entered 2019 with significant opportunities for continued growth and value creation. Our expanded footprint includes high-growth markets and attractive demographics. The North Carolina, South Carolina, and South Florida markets represent a combined \$730 billion of deposits, and our priority is to increase our market share in these regions.

Our emphasis over the last year on new customer acquisition in both consumer and commercial banking positions us to build upon our strong results. In 2018, we generated solid growth in First Tennessee Bank loans and deposits and added \$7 billion of loans and \$8 billion of deposits from Capital Bank that resulted in 39% average loan growth and 34% average deposit growth from 2017 to 2018. Our marketing and pricing strategies and investments contributed to our performance.

Our balance sheet was strengthened by focusing on specialty lending areas that yield high returns and generate strong levels of economic profit. With

more than 50% of the bank's commercial loans in our specialty lending portfolio, we can further build out this platform in our new markets. Importantly, our asset quality trends remain strong, reflecting disciplined underwriting from our experienced bankers.



Looking ahead, First Horizon's operations in our growth markets of Tennessee, North Carolina, South Carolina, and South Florida provide us with compelling growth opportunities as well as the ability to serve as a better partner to our communities.

### COMMITTED TO OUR COMMUNITIES AND PEOPLE

First Horizon provides financial capital and services, which people and businesses need to make their lives better and help our communities to prosper. Corporate citizenship is an important part of our business strategy, especially as we work to strengthen the communities we serve.

Last year, we reinforced our commitment to our communities through several compelling initiatives. A five-year, \$3.95 billion community benefits plan was unveiled in April 2018 to increase access to financial resources within our low- to moderate-income communities by increasing home ownership, building small businesses, fostering community development and working with minority-owned suppliers. First Horizon also released its inaugural Corporate Social Responsibility (CSR) report, Here for Good, which

highlights our company's impact and outlines our commitment to our shareholders, communities, employees and customers. The report detailed First Horizon's initiatives regarding our Environmental, Social and Governance (ESG) efforts and announced the establishment of an internal CSR Committee that will be responsible for guiding the organization's CSR and ESG investments and initiatives.

In 2018, the First Horizon Foundation celebrated its 25th anniversary. The Foundation provided nearly \$10 million in 2018 to support our communities. Our contributions emphasize promoting excellence and enrichment in the arts; educating and developing the next generation of leaders; promoting a more sustainable future; and improving the well-being of our communities by partnering with approximately 1,500 nonprofit organizations.

First Horizon employees make all the difference in fulfilling our promise of "being the best at serving our customers, one opportunity at a time," and we continued to build upon our commitments to them.

Our company is dedicated to hiring and retaining the best people and ensuring our employees are equipped with the support and resources they need to take the best care of our customers. Our emphasis on creating and sustaining an engaging and empowering workplace is reflected every day in the respect we show for our employees and the opportunities we offer for professional growth and advancement.

From their career development to their families and overall healthcare, investments in our people, benefits, and culture are designed to improve many aspects of our employees' lives. Last year we expanded our mentoring and development programs for women, doubled our adoption reimbursement benefits, and enhanced our paid time off/vacation benefits. These initiatives led to our national recognition as a top workplace by American Banker, Forbes, and Fortune magazines; the Bloomberg Gender-Equality Index; the Dave Thomas Foundation for Adoption; and the National Association for Female Executives.

The keys to providing differentiated customer service and value for all of our stakeholders are our culture and people. We believe these awards reflect the outstanding culture we have fostered and the efforts of our exceptional employees.

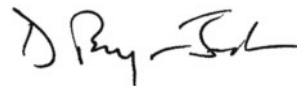
## **POSITIONED TO CREATE VALUE**

In early 2019, we have seen "merger of equals" transactions between large regional competitors. While it will take years to understand fully the impact of these deals, in the short term, it clearly underscores the value of efficiency in the face of technological change and evolving customer expectations.

Though scale achieved through mergers and acquisitions can create value, we see strong potential for value creation through increased specialization. Our specialty lines of business allow us to grow and deepen our regional and national customer relationships by bringing valuable products, digital capabilities, and differentiated customer service. As we build upon our accomplishments in 2018, we will continue focusing on economic profit, emphasizing our specialty lines of business, and growing into our expanded geographic footprint.

Our achievements in 2018 have provided First Horizon with a stronger foundation and better opportunities for growth and shareholder value creation. Thank you for your continued confidence in our organization and to our employees for their hard work and dedication. We look forward to building upon our momentum and continuing to deliver valuable results.

Sincerely,



**D. Bryan Jordan**  
*Chairman of the Board,  
President and Chief Executive Officer*

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## FIRST HORIZON NATIONAL CORPORATION

### AT A GLANCE

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Headquartered in Memphis, Tenn., First Horizon National Corp. provides financial services through its regional banking and wealth management subsidiaries across the Southeast U.S., and its fixed income operations across the nation and internationally. The banking subsidiary was founded in 1864 and holds the 14th oldest national bank charter in the country.

Today, First Horizon provides financial services through its Capital Bank, First Tennessee Bank, FTB Advisors, and FTN Financial businesses.

#### OUR COMMITMENT

First Horizon is committed to our customers, our people, our communities, and our shareholders. We demonstrate this long-standing commitment through our financial performance and corporate responsibility. This approach strengthens our long-term focus to generate value for our shareholders.

In 2018, we announced our strategic priorities for the next five years to deliver sustainable returns.

#### First Horizon's Strategic Priorities:

- Dominate Tennessee
- Profitably Grow Key Markets and Specialty Businesses
- Transform the Customer Experience
- Optimize the Expense Base

**\$4.2B**  
MARKET CAP

**\$41B**  
ASSETS

**\$28B**  
LOANS

**\$33B**  
DEPOSITS

**250+**  
FINANCIAL  
CENTERS

**43,000+**  
FEE-FREE ATMs\*

**820,000+**  
HOUSEHOLDS  
SERVED

MORE THAN  
**46,500**  
KILOWATT HOURS OF  
CLEAN ELECTRICITY

MORE THAN  
**1.6M**  
POUNDS OF  
PAPER RECYCLED

**5,500**  
EMPLOYEES

NEARLY  
**20,500**  
HOURS OF EMPLOYEE  
VOLUNTEERISM

**TOP  
EMPLOYER**  
NATIONAL AND LOCAL  
RECOGNITION FOR  
WHERE PEOPLE  
WANT TO WORK

\*AllPoint Network and internal database





CAPITAL  
BANK

FIRST  
TENNESSEE

FTB  
ADVISORS

FTN  
FINANCIAL

## OUR CORE BUSINESSES/FAMILY OF BRANDS

### *Regional Banking*

The regional bank's business is proven, focused, and better. We have a strong economic profit and risk focus, we make decisions close to our customers, we have high return specialty banking businesses, and we have strong growth opportunities in new markets. Over the past five years, the regional bank doubled economic profit. With the Capital Bank acquisition in 2017, the regional bank added \$7 billion in loans and \$8 billion in deposits. Our loan portfolio shifted toward more economically profitable Specialty Banking businesses, and in addition, our deposit base has expanded into higher growth markets. The regional bank includes Capital Bank and First Tennessee Bank brands.

Our company promise is to be the best at serving our customers, one opportunity at a time, taking great pride in external recognition of the personal service, commitment to our communities, advanced technology, and helpful employees who set our regional banking services apart.

Our regional banking continues to be recognized by Greenwich Associates as a leader in customer experience and by the Phoenix-Hecht Quality Index.

Capital Bank offers the same superior banking services as First Tennessee Bank outside of Tennessee in Florida, North Carolina, South Carolina, and Virginia. Capital Bank joined the First Horizon family of companies in 2017, completing the largest merger in First Horizon's history. As members of the First Horizon family of companies, our customers can receive assistance and conduct business in any Capital Bank or First Tennessee Bank location.

Through our differentiated customer service, our regional banking serves communities across the state, and holds the largest deposit share in Tennessee. In addition, First Tennessee Bank includes specialty lines of business that include Asset-Based Lending, Commercial Real Estate, Corporate Banking, Correspondent Banking, Energy, Franchise Finance, Healthcare, Music, and Loans to Mortgage Companies. In 2018, regional banking deposits grew by 7%, driven by our momentum in key markets and a strategic focus on deposit growth.

### *Wealth Management*

The wealth management team, FTB Advisors, brings together a full range of financial resources to help our clients build their financial futures. Offering access to the same products available from national brokerage firms, our services are delivered by a team of professionals that provides First Horizon's differentiated customer service.

Whether customers need assistance with investments, trusts, financial planning, or more, we have relevant expertise that can be invaluable in helping customers make important decisions about their individual financial situations. Every product, every service, and every person in our organization is dedicated to helping our customers reach their financial goals.

FTB Advisors continued to grow in 2018, with assets under administration of \$30.4 billion administered by over 200 Investment Advisors, Trust Officers, Private Bankers, and Financial Planners.

### *Fixed Income*

FTN Financial is an industry leader in fixed income sales, trading, and strategies for institutional customers in the U.S. and abroad, in addition to providing a suite of other products and services, including investment advisory services, loan sales, and derivative products. FTN Financial's long-standing value proposition – providing customers with a compelling combination of fixed income products and services to support their investment needs and overall balance sheet management activities – has enabled FTN Financial to develop a fixed income distribution network of 4,700 institutional customers worldwide. This distribution network and the strength of FTN Financial's platform, comprises both depository and non-depository customers, including approximately half of all U.S. banks with portfolios over \$100 million.

In 2018, FTN Financial continued to invest in maintaining and developing customer relationships and strengthening its fixed income platform, through broadening product offerings and further enhancing the extensive services and support provided to customers by FTN Financial strategists, economists and market analysts.

Through our Regional Banking, Wealth Management, and Fixed Income businesses, our goal is to be easy to do business with and to be the best at serving customers, one opportunity at a time. We offer a full range of products, convenient locations, and hours.

Above all, our knowledgeable employees strive to be proactive and help customers manage their money and make sound financial decisions for the future. That adds up to a differentiated customer experience – our competitive advantage.

*More information is available at [www.CapitalBank-US.com](http://www.CapitalBank-US.com), [www.FirstTennessee.com](http://www.FirstTennessee.com), [www.FTNFinancial.com](http://www.FTNFinancial.com), or at any of our convenient offices.*

## SPECIALTY BUSINESSES FOR SPECIALIZED BUSINESS NEEDS

In the past five years, First Horizon has diversified its lending portfolio, shifting toward more profitable specialty and core commercial lines of business. With nine specialty businesses in total, First Horizon is able to provide lending solutions for specialized business needs across a nationwide footprint.

Led by tenured, experienced leaders and teams, our bankers understand the industries we finance as well as provide our differentiated service to customers.

Our Franchise Finance specialty line of business primarily provides capital to restaurant operators across the United States. Operators may be franchisors, franchisees, regional or national chains, or private equity sponsors that are looking to buy, build, remodel, or grow their business. Our teams' industry-leading market insights and unique access to brands, as well as significant experience, help operators, like Peterson Burge Enterprises, achieve their goals.

Co-owners and siblings Mark Peterson and Krystal Burge started with a single Taco Bell store in 1982. Today, they have more than 200 Taco Bell and Pizza Hut stores across seven states in their franchise business. Some time ago, the duo found themselves with a unique challenge. They needed a banking partner to help them, and our Franchise Finance team delivered.

"They needed a committed source of capital that is there consistently because they are regularly growing, remodeling, and making acquisitions," said Todd Jones, executive vice president of wholesale banking at First Tennessee Bank. "And because of our extensive experience in the Franchise marketplace, we understand our customers' businesses and the challenges they face. That knowledge allows us to have candid, productive conversations and find flexible, customized solutions.

The customer-focused Franchise Finance team consists of relationship managers, portfolio managers, credit analysts, and loan closing officers. Their ability to serve as trusted advisors to customers through deep industry domain expertise, combined with the ability to execute with certainty, enables this specialty team to continue to provide First Horizon's differentiated customer service to meet specialized banking needs.

"The innovation that was brought to the table with First Tennessee



*Krystal Burge and Mark Peterson, co-owners and siblings, started Peterson Burge enterprises with a single Taco Bell in 1982. Today, they operate more than 200 Taco Bell and Pizza Hut stores across their franchise business.*

Bank was being able to finance the operating companies as one unit, being able to finance the real estate as a separate entity, and also develop lines of credit that would help us continue to grow the business," said Peterson. "They are always there for us, producing value on both sides," added Burge.

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# FIRST HORIZON NATIONAL CORPORATION

## OUR CULTURE, OUR PEOPLE

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### FIRSTPOWER CULTURE

At First Horizon, our corporate culture is the “secret sauce” to our success. It is a combination of our vision and our philosophy of putting employees first, and it is called Firstpower. Introduced in 1991, our Firstpower culture has evolved with our company.

In 2018, following the close of our merger and systems integration with Capital Bank, an opportunity was presented to learn and adapt best practices to enhance the company’s culture for the merged organization. Recognizing the strength of our combined companies, the definitions of our Firstpower pillars evolved from “I” to “We” statements to highlight the power of the team approach.

### OUR PEOPLE

Our company is only as strong as the employees who make up our organization, so we seek to attract, develop, and retain the best people and empower them to serve our customers and communities in exceptional ways. First Horizon continually reviews the benefits offered to all employees and provides a Total Compensation package that touches every aspect of an employee’s health, finances, family, and career. As of 2018, the company’s Adoption Reimbursement Assistance program now provides employees with up to \$15,000 per child (up to two children)/per year for eligible adoption-related expenses, doubled from the previous year.

Employees are empowered with tools and resources to take charge of their careers and personal development through the company’s enhanced performance review system, Employee Resource Groups, and volunteerism.

### Our Firstpower Pillars:

- **Accountability** – We ask questions, raise issues, and see things to completion with a sense of urgency.
- **Adaptability** – We champion changes because we must evolve to succeed.
- **Integrity** – We do the right thing, and we do things the right way.
- **Relationships** – We work inclusively with colleagues to serve customers, strengthen communities, and reward shareholders.



## EMPLOYEE RESOURCE GROUPS

First Horizon has developed Employee Resource Groups (ERGs) to drive leader and employee engagement in our diversity and inclusion strategies and provide a support system that fosters awareness, respect, and inclusion in the workplace. Our ERGs also act as sounding boards for First Horizon's diversity and inclusion objectives.

The ERGs provide opportunities for networking, education, community outreach, professional development, and training forums about relative topics.

In 2018, our ERGs engaged employees through an array of activities. From sending care packages to servicemen and women through our Veteran Support Association ERG, to partnering with local nonprofits like Dress for Success and DeNeuville Learning Center, our ERGs provided employees with opportunities to network and serve within the organization, as well as in our communities.

## DIVERSITY & INCLUSION

First Horizon recognizes the significant role diversity and inclusion play in our organization's workforce, workplace, and marketplace, and as a result, we manage our efforts with the support of data, insights, and regular review of strategy and accountabilities.

Our formula for success is Diversity + Affinity = Inclusion. This 360-degree strategy is focused on three distinct elements of diversity and inclusion: the workforce, the workplace, and the marketplace. By

leveraging each of these, the company is focused on enhancing a culture that develops and promotes people of all types, fosters innovation, and maximizes business results.

Our approach and strategy has yielded results. From 2015 to 2018, we increased the number of women and minorities in the top three salary levels of the company from 33% to 41%. In that same time frame, the number of women and minorities hired and promoted in the top three levels of the company grew from 71% to 73%.

Our Affinity Strategy ensures we customize our approach to be more inclusive and reach more customers of all economic levels in the community. For example, through our Women and Wealth strategy, we help engage, empower, and enrich our female customers to reach their financial goals and grow wealth assets. This strategy, which began in 2016, produced more than \$100 million in closed business and, last year launched in four additional markets.

Additionally, through our supplier diversity initiative, we are promoting business opportunities at our organization for minority, women, or disabled veteran-owned business enterprises. Tracking is used to help guide and continue to build the strategy and we are meeting the goals outlined in our Community Benefits Plan.

We believe that the best way to be truly inclusive is to have diverse talent and customers, and to make sure that we teach our teams to be inclusive and find commonalities and similarities with diverse individuals.



Our diversity reflects the communities where we live and work, as well as the customers and constituencies we serve.

### **VOLUNTEERISM**

At First Horizon, our employees are volunteer champions who go above and beyond for the communities we serve, tackling challenges and changing lives every day. Our corporate volunteer program provides opportunities for our employees to reinvest in and contribute to building healthier and more sustainable communities. These programs also foster leadership, communication, and collaboration skills and serve as a strong source of company pride.

In 2018, our corporate volunteer program was rebranded to Here for Good, which was also the theme of our inaugural Corporate Social Responsibility report. Our employee volunteer champions gave nearly 20,500 hours of service and donated more than \$198,000 to organizations. The causes that matter most to our employees range from human and health services to education and the arts.

### **CORPORATE SOCIAL RESPONSIBILITY**

At First Horizon, we are committed to our communities, employees, and customers.

Corporate social responsibility is ingrained in our DNA, and providing better opportunities for our stakeholders has been our guiding principle since the company was founded. We never lose sight of why we are here or what we must do to make a difference as a good corporate citizen.

By addressing today's challenges, from providing access to financial services to striving to adhere to the highest standards of business ethics and practices, we create value and drive sustainable growth.

This past year, we released our inaugural Corporate Social Responsibility (CSR) report, Here for Good. The report, which highlighted the company's impact and outlines our commitment to our communities, employees, and customers, also details First Horizon's initiatives focused on promoting social and environmental responsibility and building stronger communities.

In addition, an internal Corporate Social Responsibility Committee was established. The Committee is responsible for guiding the organization's CSR and Environmental, Social and Governance (ESG) efforts. The cross-functional committee comprises senior leaders appointed by the organization's CEO and is led by First Horizon's chief communications officer.

### **COMMUNITY BENEFITS AGREEMENT**

In April 2018, First Horizon announced a five-year, \$3.95 billion community benefit plan to increase access to financial resources within low- to moderate-income (LMI) and under-served communities in Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Texas, and Virginia.

The plan is consistent with First Horizon's goal to drive community, economic, and small business development within our footprint and increase access to financial resources within these communities. It includes mortgage and small business lending,

community development lending and investments, philanthropy, and spending with minority-owned suppliers. It also includes innovative methods to increase the convenience and physical access to financial services in low- to moderate-income communities.

The plan consists of the following priorities and targets:

- Increasing home ownership: Fund \$515 million in home purchase and rehabilitation mortgage lending. This will translate into approximately 1,500 homes owned by low- or moderate-income people.
- Building small businesses: Fund \$1.9 billion in small business lending to businesses in low- to moderate-income areas and businesses with less than \$1 million in annual revenue.
- Fostering community development: Fund \$1.5 billion in community development and multi-family lending and investments.
- Strengthening communities: Fund \$40 million in grants and philanthropy, including supporting workforce development, small business, housing counseling, Community Development Corporations (CDCs), Community Development Financial Institutions (CDFI), and funding financial literacy and education programs for children, young adults, adults, and small business entrepreneurs.
- Supporting supplier diversity: Devote 3 to 6% of the bank's supplier spending to minority-owned businesses.

In 2018, First Horizon has made equity equivalent investments totaling \$10 million in six Community Development Financial Institutions to help build capacity, meet credit needs of small businesses and provide affordable housing in our under-served communities. In addition, \$74 million in Low Income Housing Tax Credits were invested to support the affordable multi-family housing needs of our communities. Loans totaling \$40 million to support the Low Income Housing Tax Credits project were also closed.

## **FIRST HORIZON FOUNDATION**

Founded by First Horizon in 1993, First Horizon Foundation (operating as Capital Bank Foundation in our Florida, North Carolina, South Carolina, and Virginia communities and as First Tennessee Foundation in our Tennessee and Texas communities) is a private charitable foundation that supports the nonprofit organizations in the communities we serve.

This past year marked First Horizon Foundation's 25th anniversary of partnering with nonprofit organizations to uplift our communities. Since inception, more than \$90 million has been distributed to nonprofit organizations across our footprint.

## **COMMUNITY DEVELOPMENT FUND**

In addition to our Community Benefits Plan and First Horizon Foundation, the Community Development Fund, chartered on December 18, 2015, is dedicated to investing in our low- to moderate-income communities. Contributions are targeted to improve health, affordable housing, small business development, and revitalization and stabilization of inner city areas.

In 2018, the Community Development Fund awarded \$4 million in grants to support various community needs, which included a \$100,000 commitment to a Raleigh, N.C. nonprofit to seed and increase the capacity of its homeownership down payment assistance-lending program. Other grants were directed toward financial literacy, homebuyer education and counseling, asset building, affordable healthcare and other programs or initiatives working to meet the needs of low- to moderate-income individuals and families in our communities.

Separate from First Horizon Foundation, this Fund has distributed more than \$10 million since its inception and continues to fund critical needs in our low- to moderate-income communities throughout the First Horizon footprint.

The Community Development Fund's contributions are focused on:

- Affordable Housing – Helping People Achieve Dreams of Homeownership
- Community Revitalization and Stabilization – Revitalizing Neighborhoods
- Community Services Targeted to Low- to Moderate-Income Communities and Families – Improving the Quality of Lives of the Communities We Serve
- Economic and Small Business Development – Building Up Small Businesses

## ENVIRONMENTAL INITIATIVES

First Horizon is committed to being a good steward for our customers, our shareholders, and for the environment. We are constantly seeking ways we can more efficiently and sustainably use our resources.

We are mindful of our carbon footprint and use energy management systems in the majority of our buildings to monitor, control, conserve and reduce our energy consumption. Some of our sustainability initiatives include recycling, harnessing alternative and renewable energy, and utilizing energy-efficiency efforts.

In 2018, our company's recycling program helped recycle more than 1.6 million pounds of paper, which saved\*:

- Nearly 14,000 trees
- More than 3.2 million kilowatts of energy
- More than 308,000 gallons of oil, which is the equivalence of 6,692,411 miles driven by an average passenger vehicle
- Nearly 6 million gallons of water

In addition to our recycling program, First Horizon works to reduce its carbon footprint through clean energy sources. In 2018, the solar photovoltaic system at our operations center produced more than 46,500 kilowatt hours of clean electricity. Existing First Horizon buildings have also been renovated with the goals of enhancing energy efficiency and sustainability in mind.

The 25-story corporate headquarters building's large windows feature energy-saving film, and shades to reduce heat gain on air conditioned spaces. Its HVAC system uses Building Automation Systems, which are calibrated to save energy during non-business hours, and each floor features motion-sensor lighting so energy is not wasted. Recently renovated floors have been upgraded from incandescent and fluorescent bulbs and fixtures to LED bulbs. Additionally, all bathrooms feature low-volume flush valves and auto-sensor faucets.

By 2021, we will have upgraded all parking lot lights at all of our banking centers to energy efficient, long-lasting LED bulbs. These new bulbs are not only more sustainable, they also help the bottom line by reducing maintenance costs. As other First Horizon facilities are remodeled, all incandescent and fluorescent bulbs and fixtures are updated with LED bulbs.

Our new banking centers will be built to conform with most Leadership in Energy and Environmental Design (LEED) standards. LEED is an internationally recognized green building certification system aimed at improving performance across key sustainability metrics.

During remodeling of office spaces, we recycle much of the metal products and carpet and ensure that all new products are from vendors that use recycled materials in the products they provide.

Additionally, we have ongoing efforts to maintain all of our equipment that has not yet reached end-of-life service. For example, each year internal or contracted maintenance staff clean and verify that each of our rooftop HVAC systems are fully functioning at peak performance and not using excess energy.

Source: \* Shred-it, independent recycling vendor



## OPERATION HOPE

Charles D. Hill was encouraged by his wife to launch a business after he retired from Memphis Light Gas & Water after 20 years. Initially inspired by his mother, Irene Holt, who was an entrepreneur and owned a restaurant, a sports bar, and a fish market, Hill remembers the key lessons he learned from her: how to read and count money. As he began researching small businesses, he learned of the Operation HOPE Entrepreneur Training Program, a partnership between Operation HOPE, COGIC Urban Initiatives, and First Tennessee Bank.

Meeting Operation HOPE Financial Counselor Trudy Morrison on the first day of class, Hill knew he was in for an exciting and fun challenge. "I learned how to do an elevator pitch, understand my sales strategy, and identify my target market," Hill said. "The training program helped me to shape my vision, write a business plan, conduct market research, understand credit, and access capital. The new skills in advertising, accounting, and networking will allow my business to flourish and grow."

Hill's goal is for Atina Labs to be a highly visible and reputable firm known as the leader in the substance abuse screening industry in the Mid-South area. He challenges aspiring entrepreneurs to "move past the fear of failure," and encourages them to not let their dreams go without trying.

"We are very excited about the early success and solid impact of our Entrepreneur Training Program through our partnership with Operation HOPE," said Steve Swain, manager of Operation HOPE programs for First Tennessee Bank. "We will continue our commitment to meeting the small business entrepreneur training, credit, and financial needs by expanding economic empowerment in underserved communities, enhancing dignity through financial education."

After graduating from the 12-week program in May of 2018, Hill opened the doors to Atina Labs in February 2019.



*As a result of Charles D. Hill's participation in the Operation HOPE Entrepreneur Training Program, his lifelong dream of opening his own small business came to life. Hill celebrated the grand opening of his Atina Labs' physical location in February 2019 and is joined by representatives from Operation HOPE and First Tennessee.*

# KEY ENVIRONMENTAL, SOCIAL AND GOVERNANCE HIGHLIGHTS 2018

At First Horizon, we view the consideration of Environmental, Social and Governance factors as important drivers for how we conduct our business.

## **GOVERNANCE:**

- Board of Directors (as of 3/1/19)
  - 12 Independent Directors
  - More than 20% female representation
  - More than 35% diverse representation
- Executive Management Committee
  - More than 30% are female
  - More than 20% are diverse
- Launched inaugural Corporate Social Responsibility Report in 2018
- Established internal Corporate Social Responsibility Committee in 2018 that spans 17 functional areas in organization

## **CUSTOMERS:\***

- More than 820,000 households
- More than 250 branches
- More than 43,000 ATMs
- More than 290,000 customers served via Digital Banking
- More than 67,000 Small Businesses served

## **SUSTAINABILITY:**

- More than 1.6 million pounds of paper recycled in 2018
- 46,500 kilowatt hours of clean electricity produced this year

## **EMPLOYEES:**

- Approximately 5,500 employees
  - 60% of employees are female
  - 28% are ethnically diverse
- We conduct an annual employee engagement survey
- Employees average 33 training hours annually
- Comprehensive succession planning and development programs
- Tuition Assistance programs

## **COMMUNITY:**

- \$3.95 billion, five-year, community benefit plan to increase access to financial resources within low- to moderate-income communities
- \$10 million in philanthropic dollars distributed in 2018
- \$90 million distributed by First Horizon Foundation since 1993
- Approximately 1,200 organizations reached/supported
- 21 HOPE Inside financial empowerment center locations\*\*
  - More than 114 workshops hosted in 2018
  - More than 500 Credit and Money Management Workshop participants
- Nearly 20,500 employee volunteer hours

\*AllPoint network and internal database

\*\*Commitment to host HOPE Inside locations in 10% of branch network

# FINANCIAL INFORMATION AND DISCUSSION

## TABLE OF CONTENTS

|   |     |
|---|-----|
| Selected Financial and Operating Data   | 2   |
| Management's Discussion and Analysis of Financial Condition and Results of Operations     | 3   |
| General Information   | 3   |
| Forward-Looking Statements  | 5   |
| Financial Summary – 2018 compared to 2017   | 6   |
| Business Line Review – 2018 compared to 2017  | 7   |
| Income Statement Review – 2018 compared to 2017; 2017 compared to 2016                    | 9   |
| Statement of Condition Review – 2018 compared to 2017                                     | 19  |
| Capital – 2018 compared to 2017   | 24  |
| Asset Quality – Trend Analysis of 2018 compared to 2017                                   | 28  |
| Risk Management   | 48  |
| Repurchase Obligations, Off-Balance Sheet Arrangements, and Other Contractual Obligations | 58  |
| Market Uncertainties and Prospective Trends   | 61  |
| Critical Accounting Policies  | 62  |
| Quarterly Financial Information   | 67  |
| Non-GAAP Information  | 68  |
| Glossary of Selected Financial Terms and Acronyms   | 69  |
| Report of Management on Internal Control over Financial Reporting                         | 75  |
| Reports of Independent Registered Public Accounting Firm                                  | 76  |
| Consolidated Statements of Condition  | 78  |
| Consolidated Statements of Income   | 79  |
| Consolidated Statements of Comprehensive Income   | 80  |
| Consolidated Statements of Equity   | 81  |
| Consolidated Statements of Cash Flows   | 82  |
| Notes to Consolidated Financial Statements  | 83  |
| Consolidated Historical Statements of Income  | 178 |
| Consolidated Average Balance Sheets and Related Yields and Rates                          | 180 |
| Total Shareholder Return Performance Graph  | 182 |

## SELECTED FINANCIAL AND OPERATING DATA

| <i>(Dollars in millions except per share data)</i>                | 2018              | 2017       | 2016       | 2015       | 2014       |
|---|-------------------|------------|------------|------------|------------|
| <b>Net income</b>   | <b>\$ 556.5</b>   | \$ 177.0   | \$ 238.5   | \$ 97.3    | \$ 234.0   |
| <b>Income available to common shareholders</b>                    | <b>538.8</b>      | 159.3      | 220.8      | 79.7       | 216.3      |
| <b>Common Stock Data</b>  |                   |            |            |            |            |
| Earnings per common share   | <b>\$ 1.66</b>    | \$ 0.66    | \$ 0.95    | \$ 0.34    | \$ 0.92    |
| Diluted earnings per common share                                 | <b>1.65</b>       | 0.65       | 0.94       | 0.34       | 0.91       |
| Cash dividends declared per common share                          | <b>0.48</b>       | 0.36       | 0.28       | 0.24       | 0.20       |
| Book value per common share                                       | <b>13.79</b>      | 12.82      | 9.90       | 9.42       | 9.35       |
| Closing price of common stock per share:                          |                   |            |            |            |            |
| High  | <b>20.61</b>      | 20.76      | 20.61      | 16.20      | 13.91      |
| Low   | <b>12.40</b>      | 16.05      | 11.62      | 12.31      | 11.18      |
| Year-end  | <b>13.16</b>      | 19.99      | 20.01      | 14.52      | 13.58      |
| Cash dividends per common share/year-end closing price            | <b>3.6%</b>       | 1.8%       | 1.4%       | 1.7%       | 1.5%       |
| Cash dividends per common share/diluted earnings per common share | <b>29.1%</b>      | 55.4%      | 29.8%      | 70.6%      | 22.0%      |
| Year-end price/earnings ratio                                     | <b>8.0x</b>       | 30.8x      | 21.3x      | 42.7x      | 14.9x      |
| Market capitalization   | <b>\$ 4,192.4</b> | \$ 6,531.5 | \$ 4,674.8 | \$ 3,464.3 | \$ 3,180.7 |
| Average shares (thousands)  | <b>324,375</b>    | 241,436    | 232,700    | 234,189    | 234,997    |
| Average diluted shares (thousands)                                | <b>327,445</b>    | 244,453    | 235,292    | 236,266    | 236,735    |
| Period-end shares outstanding (thousands)                         | <b>318,573</b>    | 326,736    | 233,624    | 238,587    | 234,220    |
| Volume of shares traded (thousands)                               | <b>898,276</b>    | 790,153    | 574,196    | 562,553    | 592,399    |
| <b>Selected Average Balances</b>                                  |                   |            |            |            |            |
| Total assets  | <b>\$40,225.5</b> | \$29,924.8 | \$27,427.2 | \$25,636.0 | \$23,993.0 |
| Total loans, net of unearned income                               | <b>27,213.8</b>   | 20,104.0   | 18,303.9   | 16,624.4   | 15,521.0   |
| Securities available-for-sale                                     | <b>4,718.3</b>    | 4,021.6    | 4,002.1    | 3,692.3    | 3,548.4    |
| Earning assets  | <b>35,676.6</b>   | 27,461.0   | 25,180.1   | 23,456.2   | 21,825.2   |
| Total deposits  | <b>30,903.1</b>   | 23,072.1   | 20,898.8   | 18,753.7   | 16,401.7   |
| Total term borrowings   | <b>1,211.9</b>    | 1,077.3    | 1,130.2    | 1,557.2    | 1,591.0    |
| Common equity   | <b>4,226.5</b>    | 2,579.3    | 2,300.4    | 2,190.1    | 2,200.9    |
| Total equity  | <b>4,617.5</b>    | 2,970.3    | 2,691.5    | 2,581.2    | 2,592.0    |
| <b>Selected Period-End Balances</b>                               |                   |            |            |            |            |
| Total assets  | <b>\$40,832.3</b> | \$41,423.4 | \$28,555.2 | \$26,192.6 | \$25,665.4 |
| Total loans, net of unearned income                               | <b>27,535.5</b>   | 27,658.9   | 19,589.5   | 17,686.5   | 16,230.2   |
| Securities available-for-sale                                     | <b>4,626.5</b>    | 5,170.3    | 3,943.5    | 3,929.8    | 3,556.6    |
| Earning assets  | <b>36,201.0</b>   | 36,953.5   | 26,280.2   | 23,971.5   | 23,470.9   |
| Total deposits  | <b>32,683.0</b>   | 30,620.4   | 22,672.4   | 19,967.5   | 18,068.9   |
| Total term borrowings   | <b>1,171.0</b>    | 1,218.1    | 1,040.7    | 1,312.7    | 1,877.3    |
| Common equity   | <b>4,394.3</b>    | 4,189.4    | 2,314.0    | 2,248.5    | 2,190.5    |
| Total equity  | <b>4,785.4</b>    | 4,580.5    | 2,705.1    | 2,639.6    | 2,581.6    |
| <b>Selected Ratios</b>  |                   |            |            |            |            |
| Return on average common equity (a)                               | <b>12.75%</b>     | 6.18%      | 9.60%      | 3.64%      | 9.83%      |
| Return on average tangible common equity (b) (c)                  | <b>20.28</b>      | 7.23       | 10.59      | 3.97       | 10.62      |
| Return on average assets (d)                                      | <b>1.38</b>       | 0.59       | 0.87       | 0.38       | 0.98       |
| Net interest margin (e)   | <b>3.45</b>       | 3.12       | 2.94       | 2.83       | 2.92       |
| Allowance for loan losses to loans                                | <b>0.66</b>       | 0.69       | 1.03       | 1.19       | 1.43       |
| Net charge-offs to average loans                                  | <b>0.06</b>       | 0.06       | 0.10       | 0.19       | 0.31       |
| Total period-end equity to period-end assets                      | <b>11.72</b>      | 11.06      | 9.47       | 10.08      | 10.06      |
| Tangible common equity to tangible assets (c)                     | <b>7.15</b>       | 6.57       | 7.42       | 7.82       | 7.91       |
| Common equity tier 1 ratio  | <b>9.77</b>       | 8.88       | 9.94       | 10.45      | N/A        |

See accompanying notes to consolidated financial statements.

Numbers may not add due to rounding.

N/A - Not applicable

(a) Calculated using net income/(loss) available to common shareholders divided by average common equity.

(b) Calculated using adjusted tangible common equity divided by risk weighted assets.

(c) Represents a non-GAAP measure which is reconciled in the non-GAAP to GAAP reconciliation in table 32.

(d) Calculated using net income divided by average assets.

(e) Net interest margin is computed using total net interest income adjusted to a FTE basis assuming a statutory federal income tax rate of 21 percent in 2018 and 35 percent prior to 2018, and, where applicable, state income taxes.

# FIRST HORIZON NATIONAL CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## GENERAL INFORMATION

First Horizon National Corporation ("FHN") began as a community bank chartered in 1864 and as of December 31, 2018, was one of the 30 largest publicly traded banking organizations in the United States in terms of asset size. FHN's sole class of common stock, \$.625 par value, is listed and trades on the New York Stock Exchange, Inc. under the symbol FHN. As of December 31, 2018, there were approximately 8,900 common shareholders of record.

FHN is the parent company of First Tennessee Bank National Association ("FTBNA"). FTBNA's principal divisions and subsidiaries operate under the brands of First Tennessee Bank, Capital Bank, FTB Advisors, and FTN Financial. FHN offers regional banking, wealth management and capital market services through the First Horizon family of companies. First Tennessee Bank, Capital Bank, and FTB Advisors provide consumer and commercial banking and wealth management services. FTN Financial ("FTNF"), which operates partly through a division of FTBNA and partly through subsidiaries, is an industry leader in fixed income sales, trading, and strategies for institutional clients in the U.S. and abroad. FTBNA has approximately 300 banking offices in eight southeastern U.S. states, and FTNF has 28 offices in 18 states across the U.S.

FHN is composed of the following operating segments:

- Regional banking segment offers financial products and services, including traditional lending and deposit taking, to consumer and commercial customers in Tennessee, North Carolina, South Carolina, Florida and other selected markets. Regional banking also provides investments, wealth management, financial planning, trust services and asset management, credit card, and cash management. Additionally, the regional banking segment includes correspondent banking which provides credit, depository, and other banking related services to other financial institutions nationally.
- Fixed income segment consists of fixed income securities sales, trading, underwriting, and strategies for institutional clients in the U.S. and abroad, as well as loan sales, portfolio advisory services, and derivative sales.
- Corporate segment consists of unallocated corporate expenses, expense on subordinated debt issuances, bank-owned life insurance, unallocated interest income associated with excess equity, net impact of raising incremental capital, revenue and expense associated with deferred compensation plans, funds management, tax credit investment activities, derivative valuation adjustments related to prior sales of Visa Class B shares, gain/(loss) on extinguishment of debt, and acquisition- and integration-related costs.
- Non-strategic segment consists of run-off consumer lending activities, legacy (pre-2009) mortgage banking elements, and the associated ancillary revenues and expenses related to these businesses. Non-strategic also includes the wind-down trust preferred loan portfolio and exited businesses.

On November 30, 2017, FHN completed its merger with Capital Bank Financial Corporation ("CBF") for an aggregate of 92,042,232 shares of FHN common stock and \$423.6 million in cash in a transaction valued at \$2.2 billion. In second quarter 2018, FHN canceled 2,373,220 FHN common shares which had been issued but set aside for certain CBF shareholders who have commenced a dissenter appraisal process. That process is discussed more fully in this MD&A at "Capital – Cancellation of Dissenters' Shares."

On March 23, 2018, FHN divested two branches, including approximately \$30 million of deposits and \$2 million of loans. The branches, both in Greeneville, Tennessee, were divested in connection with First Horizon's agreement with the U.S. Department of Justice and commitments to the Board of Governors of the Federal Reserve System, which were entered into in connection with a customary review of FHN's merger with CBF.

In second quarter 2018, FHN sold approximately \$120 million UPB of its subprime auto loans. These loans, originally acquired as part of the CBF acquisition, did not fit within FHN's risk profile.

In January 2019, FHN signed an agreement to sell Superior Financial Services, Inc., a subsidiary acquired as part of the CBF acquisition. The sale will result in the removal of approximately \$25 million UPB of subprime consumer loans from Loans held-for-sale on FHN's Consolidated Statements of Condition and is expected to close in the first half of 2019.

On April 3, 2017, FTNF acquired substantially all of the assets and assumed substantially all of the liabilities of Coastal Securities, Inc. ("Coastal"), a national leader in the trading, securitization, and analysis of Small Business Administration ("SBA") loans, for approximately \$131 million in cash. Coastal, which was based in Houston, TX, also traded United States Department of Agriculture ("USDA") loans and fixed income products and provided municipal underwriting and municipal advisory services to its clients. Coastal's government-guaranteed loan products were combined with FTNF's existing SBA trading activities to establish an additional major product sector for FTNF.

On September 16, 2016, FTBNA acquired \$537.4 million of unpaid principal balance ("UPB") in restaurant franchise loans from GE Capital. The acquired loans were combined with existing FTBNA relationships to establish a franchise finance specialty banking business.

In relation to all acquisitions, FHN's operating results include the operating results of the acquired assets and assumed liabilities subsequent to the acquisition date. Refer to Note 2 - Acquisitions and Divestitures for additional information.

For the purpose of this management's discussion and analysis ("MD&A"), earning assets have been expressed as averages, unless otherwise noted, and loans have been disclosed net of unearned income. The following financial discussion should be read with the accompanying audited Consolidated Financial Statements and Notes in this report.

## **ADOPTION OF ACCOUNTING UPDATES**

Effective January 1, 2018, FHN retroactively adopted the provisions of ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which resulted in the reclassification of \$1.9 million of non-service components of net periodic pension and post-retirement costs and \$.8 million of non-service components of net periodic pension and post-retirement benefits from Employee compensation, incentives, and benefits to Other expense for the years ended December 31, 2017 and 2016, respectively. All prior periods and associated narrative have been revised to reflect this change. For additional information, see Note 1 – Summary of Significant Accounting Policies in this report.

## **Non-GAAP Measures**

Certain measures are included in the narrative and tables in this MD&A that are "non-GAAP", meaning (under U.S. financial reporting rules) they are not presented in accordance with generally accepted accounting principles ("GAAP") in the U.S. and also are not codified in U.S. banking regulations currently applicable to FHN. Although other entities may use calculation methods that differ from those used by FHN for non-GAAP measures, FHN's management believes such measures are relevant to understanding the capital position or financial results of FHN. Non-GAAP measures are reported to FHN's management and Board of Directors through various internal reports.

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

deductions; tier 1 capital, generally defined as the sum of core capital (including common equity and instruments that cannot be redeemed at the option of the holder) adjusted for certain items under risk based capital regulations; and risk-weighted assets (“RWA”), which is a measure of total on- and off-balance sheet assets adjusted for credit and market risk, used to determine regulatory capital ratios.

The non-GAAP measures presented in this filing are return on average tangible common equity (“ROTCE”), tangible common equity to tangible assets and adjusted tangible common equity to risk-weighted assets. Refer to table 32 for a reconciliation of the non-GAAP to GAAP measures and presentation of the most comparable GAAP items.

## **FORWARD-LOOKING STATEMENTS**

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

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

FHN assumes no obligation to update or revise any forward-looking statements that are made in this Annual Report to Shareholders for the period ended December 31, 2018 of which this MD&A is a part or otherwise from time to time. Actual results could differ and expectations could change, possibly materially, because of one or more factors, including those presented in this Forward-Looking Statements section, in other sections of this MD&A, in other parts of this Annual Report to Shareholders, or in FHN’s Annual Report on Form 10-K for the

period ended December 31, 2018 into which this MD&A has been incorporated, and in exhibits to and documents incorporated into the Form 10-K.

## **FINANCIAL SUMMARY – 2018 COMPARED TO 2017**

FHN reported net income available to common shareholders of \$538.8 million, or \$1.65 per diluted share, compared to net income of \$159.3 million, or \$.65 per diluted share in 2017. The increase in net income available to common shareholders in 2018 was due to increases in net interest income and noninterest income, somewhat offset by higher noninterest expense. Various factors significantly impacted reported earnings in 2018 including inclusion of Capital Bank and other strategic transactions expected to boost growth, returns and profitability. Additional factors affecting reported results were the strong economic environment, increased interest rates, and prudent investments to profitably grow in key markets.

The economic environment remained strong in 2018 with GDP growth throughout the year, low unemployment rates, and muted inflation. The full-year impact of loans and deposits added through the CBF acquisition in late 2017, organic loan and deposit growth, as well as increases in short-term interest rates bolstered FHN's net interest income ("NII") and net interest margin ("NIM"). These factors favorably impacted revenues in 2018 relative to the prior year. While the economic strength positively impacted FHN's consolidated NII in 2018, higher rate expectations and a lack of interest rate volatility led to lower fixed income sales revenue in 2018, negatively impacting fee income from FTNF.

In third quarter 2018, FHN sold its remaining shares of Visa Class B shares resulting in a \$212.9 million pre-tax gain and strengthening its capital position. Noninterest income was also favorably impacted in 2018 by the inclusion of Capital Bank, as well as the accelerated execution of revenue synergies from the CBF acquisition.

During 2018, FHN executed on strategic priorities by maintaining and increasing its leading market share in Tennessee, profitably growing key markets and specialty businesses, transforming the customer experience and optimizing the expense base. FHN invested in its core businesses by focusing on higher-return specialty lending areas; making strategic hires in expansion areas; and selectively making needed investments in technology and infrastructure to enhance its competitive position. In both 2017 and 2018, FHN recognized elevated acquisition- and integration-related expenses associated with the CBF acquisition, but was able to successfully complete the integration activities on schedule during 2018, reducing the existing expense base by approximately \$50 million.

Tax legislation enacted by Congress in December 2017 reduced the federal statutory tax rate from 35 percent to 21 percent for FHN. This rate reduction favorably impacted FHN's operating results in 2018. In 2017 the enactment of the rate reduction affected FHN's deferred tax balances and negatively impacted FHN's 2017 operating results. Earlier in 2017, FHN recognized favorable effective tax rate adjustments primarily associated with the reversal of a capital loss deferred tax valuation allowance which somewhat offset the overall increase in provision for income taxes in the prior year.

Asset quality trends were stable in 2018 reflecting continued strong underwriting standards, strong economic conditions, and credit risk management. Allowance for loan losses continued to decline, decreasing 5 percent in 2018 as a result of the run-off of non-strategic loan balances, partially offset by organic loan growth. Annual net charge-offs as a percent of average loans remained at .06 percent in 2018 and 30+ delinquencies declined 19 percent over prior year.

Return on average common equity ("ROCE") and ROTCE for 2018 were 12.75 percent and 20.28 percent, respectively, compared to 6.18 percent and 7.23 percent in 2017. Return on average assets ("ROA") was 1.38 percent in 2018 compared to .59 percent in 2017. The 2018 metrics were favorably impacted by the third quarter 2018 gain on the sale of FHN's remaining Visa Class B shares previously mentioned. The tangible common equity to tangible assets ratio was 7.15 percent in 2018 compared to 6.57 percent in 2017. Common equity tier 1, Tier 1, Total capital, and Leverage ratios were 9.77 percent, 10.80 percent, 11.94 percent, and 9.09 percent on December 31, 2018, compared to 8.88 percent, 9.83 percent, 11.10 percent, and 10.31 percent, respectively, on December 31, 2017. Total period-end assets were \$40.8 billion on December 31, 2018 compared to \$41.4 billion



on December 31, 2017. Total period-end equity was \$4.8 billion on December 31, 2018, up from \$4.6 billion on December 31, 2017.

## **BUSINESS LINE REVIEW – 2018 COMPARED TO 2017**

### **Regional Banking**

Pre-tax income within the regional banking segment increased 45 percent to \$661.6 million in 2018 from \$457.6 million in 2017. The increase in pre-tax income was primarily driven by higher revenue which more than offset an increase in expenses.

Total revenue increased 37 percent, or \$406.4 million, to \$1.5 billion in 2018, from \$1.1 billion in 2017, driven by an increase in NII. NII increased to \$1.2 billion in 2018 from \$846.6 million in 2017 largely due to loans (including accretion) and deposits added through the CBF acquisition. To a much lesser extent, the favorable impact of higher interest rates on loans, higher average balances of loans to mortgage companies, and an increase in cash basis interest income also favorably impacted NII in 2018 relative to the prior year. Noninterest income was \$309.3 million and \$258.6 million in 2018 and 2017, respectively. The increase in noninterest income was largely driven by a \$21.7 million increase in deposit transactions and cash management fee income primarily as a result of higher fee income associated with the inclusion of Capital Bank. Additionally, a \$6.2 million increase in brokerage, management fees, and commission income, \$5.5 million in collections from CBF loans that were fully charged off prior to acquisition, and a \$5.1 million increase in mortgage banking activities also contributed to the increase in noninterest income in 2018. The increase in fees from brokerage, management fees, and commissions was driven by the continued growth of FHN's advisory business and favorable market conditions, coupled with an increase in the sales of structured products. To a lesser extent, bankcard income and other service charges also increased in 2018 due in large part to the inclusion of Capital Bank activity.

Provision expense was \$25.3 million in 2018 compared to \$21.3 million in 2017. The net increase in provision in 2018 compared to the prior year was primarily driven by charge-offs associated with two credits within the C&I portfolio. The provision in 2018 was favorably affected by historically lower net charge-offs which continue to drive lower loss rates.

Noninterest expense increased 32 percent to \$824.7 million in 2018 from \$626.3 million in 2017. The increase in expense was primarily driven by a full-year inclusion of Capital Bank, which led to higher personnel-related expenses, and increases in amortization expense, occupancy expense, and operations services. FDIC premium expense, advertising and public relation expense, equipment rentals, depreciation and maintenance expense, computer software and communication expenses increased in 2018 relative to the prior year also driven by the full-year inclusion of Capital Bank. Additionally, a \$15 hourly wage floor, strategic hires in expansion markets and specialty areas, and higher incentive expense associated with loan and deposit growth, also contributed to an increase in personnel expense in 2018. A \$4.3 million decrease in loss accruals for legal matters somewhat offset the overall increase in noninterest expense.

### **Fixed Income**

Pre-tax income in the fixed income segment was \$9.0 million in 2018 compared to \$26.2 million in 2017. The decline in results in 2018 was driven by lower noninterest income, somewhat offset by an increase in NII and a decrease in expenses.

NII increased from \$18.1 million in 2017 to \$35.7 million in 2018, primarily due to an increase in trading securities and loans held-for-sale largely associated with government-guaranteed loan products. Fixed income product revenue decreased 24 percent to \$132.3 million in 2018 from \$173.9 million in 2017, as average daily revenue ("ADR") declined to \$531 thousand in 2018 from \$696 thousand in 2017. This decline reflects lower activity due to challenging market conditions (expected interest rate increases, a flattening yield curve, and low levels of market volatility). Other product revenue was \$32.5 million in 2018, down from \$43.2 million in the prior year, primarily driven by lower fees from loan sales, partially offset by increases in fees from derivative sales.

Noninterest expense decreased 8 percent, or \$17.4 million, to \$191.5 million in 2018 from \$208.9 million in 2017. The expense decline during 2018 was primarily driven by lower variable compensation associated with the decrease in fixed income product revenue and a decrease in legal fees relative to 2017, somewhat offset by the full-year inclusion of Coastal.

### **Corporate**

The pre-tax loss for the corporate segment was \$2.7 million and \$194.8 million for 2018 and 2017, respectively.

Net interest expense was \$64.1 million in 2018 compared to \$59.4 million in 2017. Noninterest income (including securities gain/losses) increased to \$239.3 million in 2018, from \$8.9 million in 2017, primarily driven by a \$212.9 million pre-tax gain from the sale of FHN's remaining Visa Class B shares. To a lesser extent, a \$14.3 million loss from the repurchase of equity securities previously included in a financing transaction recognized in 2017 also contributed to the year-over-year increase in noninterest income. In 2018, FHN adopted ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" which resulted in dividend income being recognized in Other income rather than Interest income where it was recognized prior to adoption. This change, along with \$4.2 million of gains on the sales of buildings recognized in 2018 and an increase of \$3.8 million in BOLI gains also contributed to the increase in noninterest income in 2018. Deferred compensation income decreased \$9.5 million in 2018, offsetting a portion of the overall increase in noninterest income. Deferred compensation income fluctuates with changes in the market value of the underlying investments and is mirrored by changes in deferred compensation expense which is included in personnel expense.

Noninterest expense was \$177.8 million in 2018 compared to \$144.3 million in 2017. The increase in expense for 2018 was primarily driven by a \$35.8 million increase of acquisition- and integration-related expenses primarily associated with the CBF acquisition. A \$4.1 million increase in valuation adjustments associated with derivatives related to prior sales of Visa Class B shares also contributed to the increase in noninterest expense in 2018. These expense increases were somewhat offset by lower personnel expense in 2018 and \$8.8 million of charitable contributions made to the First Tennessee Foundation in 2017; a similar contribution was not made in 2018. The decrease in personnel expense was largely driven by lower deferred compensation expense and \$9.9 million of special bonuses recognized in 2017, which more than offset an increase in salary expense due to the full-year inclusion of Capital Bank.

### **Non-Strategic**

The non-strategic segment had pre-tax income of \$46.2 million in 2018 compared to \$19.8 million in 2017. The improvement in results was primarily driven by lower expenses, an increase in net interest income and an increase in noninterest income in 2018 relative to the prior year.

Total revenue increased \$13.2 million to \$55.9 million in 2018 from \$42.6 million in 2017. NII increased 25 percent to \$46.4 million in 2018, largely driven by higher rates and loans held-for-sale added through the CBF acquisition. Noninterest income increased to \$9.5 million in 2018 from \$5.6 million in 2017. The increase in noninterest income was largely due to \$4.1 million of gains on the reversals of previous valuation adjustments due to the sales and payoff of TRUPS loans.

The provision for loan losses within the non-strategic segment was a provision credit of \$18.3 million in 2018 compared to a provision credit of \$21.3 million in the prior year. Overall, the non-strategic segment continued to reflect stable performance combined with lower loan balances resulting in an \$11.1 million decline in reserves to \$24.3 on December 31, 2018. Losses remain historically low as the non-strategic segment had net recoveries of \$7.2 million in 2018 compared to net recoveries of \$8.9 million a year ago.

Noninterest expense was \$27.9 million in 2018, down from \$44.2 million in 2017. The decline in noninterest expense was primarily due to a \$35.3 million decrease in loss accruals related to legal matters and lower legal fees in 2018 compared to the prior year. In 2017, noninterest expense was favorably impacted by a \$22.5 million net expense reversal related to the settlement of certain repurchase claims, compared to a net expense reversal of \$1.0 million in 2018. Additionally, an increase in personnel expense in 2018 negatively impacted expenses, offsetting a portion of the overall expense decline in the non-strategic segment.

## **INCOME STATEMENT REVIEW – 2018 COMPARED TO 2017; 2017 COMPARED TO 2016**

Total consolidated revenue increased 46 percent, or \$610.6 million to \$1.9 billion in 2018, driven by a 45 percent increase in net interest income due to the full-year inclusion of Capital Bank and rate increases and a 47 percent increase in noninterest income primarily due to the gain on the sale of Visa Class B shares. Total consolidated expenses increased 19 percent to \$1.2 billion in 2018 from \$1.0 billion in 2017. The expense increase was primarily driven by a full-year inclusion of Capital Bank and an increase in acquisition- and integration-related expenses associated with the CBF acquisition.

In 2017, total consolidated revenue increased 4 percent, or \$51.0 million to \$1.3 billion, driven by a 16 percent increase in net interest income, which more than offset lower fee income from fixed income product revenue compared to 2016. Total consolidated expense increased 11 percent to \$1.0 billion in 2017 from \$925.2 million in 2016 primarily driven by an increase in acquisition- and integration-related expenses associated with the CBF and Coastal acquisitions, and to a lesser extent an increase in accruals related to loss contingencies and litigation matters in 2017 compared to 2016.

### **NET INTEREST INCOME**

Net interest income increased 45 percent to \$1.2 billion in 2018 from \$842.3 million in 2017. On a fully taxable equivalent (“FTE”) basis, NII increased 44 percent to \$1.2 billion in 2018 from \$855.9 million in 2017. As detailed in Table 1 – Analysis of Changes in Net Interest Income, the increase in NII was largely due to loans added through the CBF acquisition including CBF loan accretion. Additionally, the favorable impact of higher interest rates on loans, higher average balances of available-for-sale securities and trading securities also contributed to the increase in NII, but were somewhat offset by the negative impact of higher market interest rates on deposits and other funding sources. Average earning assets increased 30 percent to \$35.7 billion in 2018 from \$27.5 billion in 2017. The increase in average earning assets in 2018 was primarily due to the full-year inclusion of Capital Bank, organic loan growth within FHN’s regional banking activities, a larger securities portfolio, higher average balances of fixed income trading securities and increases in loans held-for-sale (“HFS”). These increases were somewhat offset by continued run-off of the non-strategic loan portfolios.

Net interest income was \$842.3 million in 2017, a 16 percent increase from \$729.1 million in 2016. On an FTE basis, NII increased to \$855.9 million in 2017 from \$740.7 million in 2016. The increase in NII was primarily driven by organic loan growth within the regional banking commercial loan portfolio, the positive impact of higher market rates on loans and other earning assets, and commercial and consumer loans added through the CBF acquisition, somewhat offset by lower average balances of consumer loans and loans to mortgage companies. An increase in loans HFS added through the Coastal and CBF acquisitions also improved NII in 2017 relative to 2016. The negative impact of higher market rates on deposits and other funding sources and the continued run-off of the non-strategic loan portfolios negatively impacted NII in 2017.

**Table 1 – Analysis of Changes in Net Interest Income**

| (Fully taxable equivalent (“FTE”))<br>(Dollars in thousands)    | 2018 Compared to 2017<br>Increase / (Decrease) Due to (a) |            |           | 2017 Compared to 2016<br>Increase / (Decrease) Due to (a) |            |           |
|---|---|------------|-----------|---|------------|-----------|
|   | Rate (b)  | Volume (b) | Total     | Rate (b)  | Volume (b) | Total     |
| <b>Interest income – FTE:</b>                                   |   |            |           |   |            |           |
| Loans   | \$140,951   | \$324,564  | \$465,515 | \$69,059  | \$70,022   | \$139,081 |
| Loans held-for-sale   | 6,901   | 20,690     | 27,591    | 408   | 11,603     | 12,011    |
| Investment securities:  |   |            |           |   |            |           |
| U.S. government agencies  | 5,392   | 21,921     | 27,313    | 6,167   | 230        | 6,397     |
| States and municipalities                                       | (91)  | 430        | 339       | 63  | (365)      | (302)     |
| Corporates and other debt                                       | (9)   | 2,157      | 2,148     | -   | 223        | 223       |
| Other (c)   | (3,431)   | (1,014)    | (4,445)   | 1,063   | 662        | 1,725     |
| Total investment securities                                     | 6,345   | 19,010     | 25,355    | 7,660   | 383        | 8,043     |
| Trading securities  | 8,992   | 14,014     | 23,006    | 4,559   | (507)      | 4,052     |
| Other earning assets:   |   |            |           |   |            |           |
| Federal funds sold  | 280   | 206        | 486       | 137   | 47         | 184       |
| Securities purchased under agreements to resell                 | 7,039   | (45)       | 6,994     | 4,681   | (53)       | 4,628     |
| Interest-bearing cash   | 6,685   | (4,314)    | 2,371     | 3,902   | 2,046      | 5,948     |
| Total other earning assets                                      | 13,357  | (3,506)    | 9,851     | 10,011  | 749        | 10,760    |
| Total change in interest income – earning assets – FTE          |   |            | \$551,318 |   |            | \$173,947 |
| <b>Interest expense:</b>  |   |            |           |   |            |           |
| Interest-bearing deposits:                                      |   |            |           |   |            |           |
| Savings   | \$ 53,109   | \$ 12,120  | \$ 65,229 | \$21,039  | \$ 1,872   | \$ 22,911 |
| Time Deposits   | 11,479  | 28,505     | 39,984    | 1,741   | 1,349      | 3,090     |
| Other interest-bearing deposits                                 | 22,039  | 9,187      | 31,226    | 12,891  | 1,233      | 14,124    |
| Total interest-bearing deposits                                 | 98,135  | 38,304     | 136,439   | 35,827  | 4,298      | 40,125    |
| Federal funds purchased   | 3,425   | (481)      | 2,944     | 2,536   | (884)      | 1,652     |
| Securities sold under agreements to repurchase                  | 4,693   | 1,154      | 5,847     | 3,664   | 161        | 3,825     |
| Trading liabilities   | 3,958   | (67)       | 3,891     | 2,245   | (1,777)    | 468       |
| Other short-term borrowings                                     | 3,839   | 8,118      | 11,957    | 1,958   | 3,828      | 5,786     |
| Term borrowings   | 12,103  | 4,906      | 17,009    | 8,359   | (1,424)    | 6,935     |
| Total change in interest expense - interest-bearing liabilities |   |            | \$178,087 |   |            | \$ 58,791 |
| Net interest income – FTE                                       |   |            | \$373,231 |   |            | \$115,156 |

(a) The changes in interest due to both rate and volume have been allocated to change due to rate and change due to volume in proportion to the absolute and amounts of the changes in each.

(b) Variances are computed on a line-by-line basis and are non-additive.

(c) The decrease is driven by the adoption of ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” which resulted in the reclassification of interest and dividend income on equity securities to noninterest income on a prospective basis.

For purposes of computing yields and the net interest margin, FHN adjusts net interest income to reflect tax exempt income on an equivalent pre-tax basis which provides comparability of net interest income arising from both taxable and tax-exempt sources. The consolidated net interest margin improved to 3.45 percent in 2018 from 3.12 percent in 2017. The net interest spread increased to 3.15 percent in 2018 from 2.91 percent in 2017, and the impact of free funding was 30 basis points and 21 basis points in 2018 and 2017, respectively. The improvement in NIM in 2018 relative to 2017 was largely the result of CBF loan accretion, the positive impact of higher market rates and an increase in average deposits which allowed for reduction in higher cost funding.

The consolidated net interest margin improved to 3.12 percent in 2017 from 2.94 percent in 2016, largely driven by the positive impact of higher market interest rates and an increase in average deposits, somewhat offset by an increase in average excess cash held at the Fed during 2018.

The activity levels and related funding for FHN’s fixed income activities affect the net interest margin. Generally, fixed income activities compress the margin, especially where there are elevated levels of trading inventory, because of the strategy to reduce market risk by economically hedging a portion of its inventory on the balance sheet. As a result, FHN’s consolidated margin cannot be readily compared to that of other bank holding companies. Table 2 – Net Interest Margin details the computation of the net interest margin for the past three years.

**Table 2 – Net Interest Margin**

|   | 2018         | 2017  | 2016  |
|---|--------------|-------|-------|
| <b>Assets:</b>  |              |       |       |
| Earning assets:   |              |       |       |
| Loans, net of unearned income:                              |              |       |       |
| Commercial loans  | 4.84%        | 4.08% | 3.64% |
| Consumer loans  | 4.51         | 4.23  | 4.07  |
| Total loans, net of unearned income                         | 4.76         | 4.12  | 3.77  |
| Loans held-for-sale   | 6.23         | 4.73  | 4.43  |
| Investment securities:                                      |              |       |       |
| U.S. government agencies                                    | 2.70         | 2.56  | 2.40  |
| States and municipalities                                   | 4.03         | 9.36  | 7.95  |
| Corporates and other debt                                   | 4.42         | 4.98  | 5.25  |
| Other (a)   | 31.65        | 3.49  | 2.67  |
| Total investment securities                                 | 2.77         | 2.62  | 2.43  |
| Trading securities  | 3.70         | 3.04  | 2.66  |
| Other earning assets:                                       |              |       |       |
| Federal funds sold  | 2.47         | 1.63  | 1.11  |
| Securities purchased under agreements to resell             | 1.63         | 0.69  | 0.06  |
| Interest bearing cash                                       | 1.89         | 0.96  | 0.51  |
| Total other earning assets                                  | 1.77         | 0.85  | 0.28  |
| Interest income / total earning assets                      | 4.36%        | 3.65% | 3.29% |
| <b>Liabilities:</b>   |              |       |       |
| Interest-bearing liabilities:                               |              |       |       |
| Interest-bearing deposits:                                  |              |       |       |
| Savings   | 0.95%        | 0.47% | 0.23% |
| Other interest-bearing deposits                             | 0.70         | 0.40  | 0.19  |
| Time deposits   | 1.44         | 0.90  | 0.77  |
| Total interest-bearing deposits                             | 0.95         | 0.48  | 0.26  |
| Federal funds purchased                                     | 1.89         | 1.06  | 0.52  |
| Securities sold under agreements to repurchase              | 1.40         | 0.72  | 0.08  |
| Fixed income trading liabilities                            | 2.83         | 2.26  | 1.95  |
| Other short-term borrowings                                 | 1.82         | 1.28  | 0.67  |
| Term borrowings   | 4.38         | 3.35  | 2.58  |
| Interest expense / total interest-bearing liabilities       | 1.21         | 0.74  | 0.49  |
| <b>Net interest spread</b>                                  | <b>3.15%</b> | 2.91% | 2.80% |
| Effect of interest-free sources used to fund earning assets | 0.30         | 0.21  | 0.14  |
| <b>Net interest margin (b)</b>                              | <b>3.45%</b> | 3.12% | 2.94% |

(a) 2018 increase driven by the adoption of ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" which resulted in the reclassification of interest and dividend income on equity securities to noninterest income on a prospective basis. The remaining balance is primarily comprised of higher-yielding SBA IO strips.

(b) Calculated using total net interest income adjusted for FTE assuming a statutory federal income tax rate of 21 percent in 2018 and 35 percent prior to 2018, and where applicable, state income taxes.

FHN's net interest margin is primarily impacted by its balance sheet mix including the levels of fixed and floating rate loans, rate sensitive and non-rate sensitive liabilities, cash levels, trading inventory levels as well as loan fees and cash basis income. FHN's balance sheet is positioned to benefit from a rise in short-term interest rates. For 2019, NIM will also depend on the extent of Fed interest rate increases, loan accretion levels, and the competitive pricing environment for core deposits.

### PROVISION FOR LOAN LOSSES

The provision for loan losses is the charge to earnings that management determines to be necessary to maintain the ALLL at a sufficient level reflecting management's estimate of probable incurred losses in the loan portfolio. The provision for loan losses was \$7.0 million in 2018 compared to \$0 million in 2017 and \$11.0 million in 2016. For 2018 and 2017, FHN's asset quality metrics remained strong. Year-to-date net charge-offs as a percentage of

average loans were .06 percent for the year ended December 31, 2018 and 2017. The ALLL decreased \$9.1 million from year-end 2017 to \$180.4 million as of December 31, 2018. For additional information about the provision for loan losses refer to the Regional Banking and Non-Strategic sections of the Business Line Review section in this MD&A. For additional information about general asset quality trends refer to Asset Quality – Trend Analysis of 2018 Compared to 2017 in this MD&A.

## NONINTEREST INCOME

Noninterest income (including securities gains/(losses)) was \$722.8 million in 2018, up from \$490.2 million in 2017 and \$552.4 million in 2016. Noninterest income was 37 percent of total revenue in 2018 and 2017, and 43 percent of total revenue in 2016. For 2018, the increase in noninterest income was primarily driven by a gain on the sale of FHN's remaining Visa Class B shares in third quarter 2018. To a lesser extent, the full-year inclusion of Capital Bank in 2018 and a \$14.3 million loss from the repurchase of equity securities previously included in a financing transaction recognized in 2017 also contributed to the year-over-year increase in noninterest income. These increases were partially offset by a decrease in fixed income sales revenue in 2018. The decrease in noninterest income in 2017 relative to 2016 was primarily driven by a decrease in fixed income sales revenue, as well as the \$14.3 million loss from the repurchase of equity securities previously included in a financing transaction previously mentioned. FHN's noninterest income for the last three years is provided in Table 3 - Noninterest Income. The following discussion provides additional information about various line items reported in the following table.

**Table 3 – Noninterest Income**

| <i>(Dollars in thousands)</i>                 | 2018             | 2017      | 2016      | Compound Annual Growth Rates |       |
|---|------------------|-----------|-----------|------------------------------|-------|
|   |                  |           |           | 18/17                        | 18/16 |
| <b>Noninterest income:</b>                    |                  |           |           |                              |       |
| Fixed income                                  | <b>\$167,882</b> | \$216,625 | \$268,561 | (23)%                        | (21)% |
| Deposit transactions and cash management      | <b>133,281</b>   | 110,592   | 108,553   | 21%                          | 11%   |
| Brokerage, management fees and commissions    | <b>54,803</b>    | 48,514    | 42,911    | 13%                          | 13%   |
| Trust services and investment management      | <b>29,806</b>    | 28,420    | 27,727    | 5%                           | 4%    |
| Bankcard income                               | <b>26,718</b>    | 25,467    | 24,430    | 5%                           | 5%    |
| Bank-owned life insurance                     | <b>18,955</b>    | 15,124    | 14,687    | 25%                          | 14%   |
| Debt securities gains/(losses), net           | <b>52</b>        | 483       | 1,485     | (89)%                        | (81)% |
| Equity securities gains/(losses), net (a)     | <b>212,896</b>   | 109       | (144)     | NM                           | NM    |
| All other income and commissions:             |                  |           |           |                              |       |
| Other service charges                         | <b>15,122</b>    | 12,532    | 11,731    | 21%                          | 14%   |
| ATM and interchange fees                      | <b>13,354</b>    | 12,425    | 11,965    | 7%                           | 6%    |
| Mortgage banking                              | <b>10,587</b>    | 4,649     | 10,215    | NM                           | 2%    |
| Dividend Income (b)                           | <b>10,555</b>    | -         | -         | NM                           | NM    |
| Letter of credit fees                         | <b>5,298</b>     | 4,661     | 4,103     | 14%                          | 14%   |
| Electronic banking fees                       | <b>5,134</b>     | 5,082     | 5,477     | 1%                           | (3)%  |
| Insurance commissions                         | <b>2,096</b>     | 2,514     | 2,981     | (17)%                        | (16)% |
| Gain/(loss) on extinguishment of debt (c)     | <b>(15)</b>      | (14,329)  | -         | NM                           | NM    |
| Deferred compensation (d)                     | <b>(3,224)</b>   | 6,322     | 3,025     | NM                           | NM    |
| Other   | <b>19,488</b>    | 11,029    | 14,734    | 77%                          | 15%   |
| <b>Total all other income and commissions</b> | <b>78,395</b>    | 44,885    | 64,231    | 75%                          | 10%   |
| <b>Total noninterest income</b>               | <b>\$722,788</b> | \$490,219 | \$552,441 | 47%                          | 14%   |

NM - Not meaningful

(a) Equity securities gains/(losses) for 2018 relates to the gain on the sale of FHN's remaining Visa Class B shares.

(b) Effective January 1, 2018, FHN adopted ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" and began recording dividend income from FRB and FHLB holdings in Other income. Prior to 2018, these amounts were included in Interest income on the Consolidated Statements of Income.

(c) Loss on extinguishment of debt for 2017 relates to the repurchase of equity securities previously included in a financing transaction.

(d) Amounts are driven by market conditions and are mirrored by changes in deferred compensation expense which is included in employee compensation expense.

### Fixed Income Noninterest Income

The major component of fixed income revenue is generated from the purchase and sale of fixed income securities as both principal and agent. Other noninterest revenues within this line item consist principally of fees from loan sales, portfolio advisory services, and derivative sales. Securities inventory positions are procured for distribution to customers by the sales staff. Fixed income noninterest income decreased 23 percent in 2018 to \$167.9 million from \$216.6 million in 2017, reflecting lower activity due to challenging market conditions (expected interest rate increases, a flattening yield curve, and low levels of market volatility). Revenue from other products decreased 17 percent, or \$7.1 million, to \$35.6 million from \$42.7 million in 2017, largely driven by a decline in fee income from loan sales, somewhat offset by \$4.1 million of gains on the sales and payoff of TRUPS loans in the non-strategic segment and increases in fees from derivative sales.

Fixed income noninterest income was \$216.6 million in 2017, down from \$268.6 million in 2016, reflecting lower activity due to challenging market conditions. Revenue from other products increased \$3.8 million to \$42.7 million in 2017, driven by increases in fees from loan sales, which more than offset declines in fees from derivative sales and portfolio advisory services compared to 2016.

**Table 4 – Fixed Income Noninterest Income**

| <i>(Dollars in thousands)</i>                | 2018             | 2017      | 2016      | Compound Annual Growth Rates |       |
|--|------------------|-----------|-----------|------------------------------|-------|
|  |                  |           |           | 18/17                        | 18/16 |
| <b>Noninterest income:</b>                   |                  |           |           |                              |       |
| Fixed income                                 | <b>\$132,283</b> | \$173,910 | \$229,659 | (24)%                        | (24)% |
| Other product revenue                        | <b>35,599</b>    | 42,715    | 38,902    | (17)%                        | (4)%  |
| <b>Total fixed income noninterest income</b> | <b>\$167,882</b> | \$216,625 | \$268,561 | (23)%                        | (21)% |

### Deposit Transactions and Cash Management

Fees from deposit transactions and cash management include fees for services related to consumer and commercial deposit products (such as service charges on checking accounts), cash management products and services such as electronic transaction processing (Automated Clearing House and Electronic Data Interchange), account reconciliation services, cash vault services, lockbox processing, and information reporting to large corporate clients. Deposit transactions and cash management activities increased to \$133.3 million in 2018 from \$110.6 million in 2017, largely associated with the inclusion of Capital Bank. Fees from deposit transactions and cash management activities were negatively impacted in first quarter 2017 due to changes in consumer behavior and a modification of billing practices, which further contributed to the year-over-year increase in fees from deposit transactions and cash management activities in 2018. In 2017, deposit transactions and cash management income increased to \$110.6 million from \$108.6 million in 2016, primarily related to higher fee income associated with cash management activities, which offset a decline in NSF/overdraft fees driven by changes in consumer behavior and a modification of billing practices.

### Brokerage, Management Fees and Commissions

Brokerage, management fees and commissions include fees for portfolio management, trade commissions, and annuity and mutual funds sales. Noninterest income from brokerage, management fees and commissions increased to \$54.8 million in 2018, up from \$48.5 million and \$42.9 million in 2017 and 2016, respectively. The increase was due in large part to the continued growth of FHN's advisory business and favorable market conditions. An increase in the sales of structured products also contributed to the increase in 2018.

### Bank-owned Life Insurance

Income from bank-owned life insurance ("BOLI") increased to \$19.0 million in 2018 from \$15.1 million and \$14.7 million in 2017 and 2016, respectively. The increase in 2018 was driven by higher BOLI policy gains recognized in 2018.

### **Securities Gains/(Losses)**

In 2018, FHN recognized net securities gains of \$212.9 million compared to \$.6 million and \$1.3 million in 2017 and 2016, respectively. The 2018 net gain was primarily related to FHN's sale of its remaining holdings of Visa Class B shares. The 2017 net gain was primarily the result of the call of a \$4.4 million held-to-maturity municipal bond within the regional banking segment. The 2016 net gain was largely driven by a \$1.5 million net gain from the exchanges of approximately \$736 million of AFS debt securities, partially offset by \$.2 million of other-than-temporary impairment ("OTTI") adjustments.

### **Other Noninterest Income**

All other income and commissions includes revenues from other service charges, ATM and interchange fees, mortgage banking (primarily within the non-strategic and regional banking segments), dividend income (subsequent to 2017), letter of credit fees, electronic banking fees, insurance commissions, gains/(losses) on the extinguishment of debt, revenue related to deferred compensation plans (which are mirrored by changes in noninterest expense), and various other fees.

Revenue from all other income and commissions increased to \$78.4 million in 2018 from \$44.9 million in 2017. In 2017, FHN recognized a \$14.3 million loss from the repurchase of equity securities previously included in a financing transaction which contributed to the year-over-year increase in other noninterest income in 2018. Additionally, effective January 1, 2018, FHN adopted ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" and began recording dividend income from FRB and FHLB holdings in other income which also contributed to the increase in other noninterest income in 2018 relative to the prior year, as previously these amounts were included in Interest income. Increases in mortgage banking income and other service charges related to the full-year inclusion of Capital Bank, \$5.5 million in collections from CBF loans that were fully charged off prior to acquisition, and \$5.0 million of gains on the sales of properties recognized in 2018 also contributed to the increase in other noninterest income. For 2018, all other income and commissions was unfavorably impacted by a \$9.5 million decrease in deferred compensation income. Deferred compensation income fluctuates with changes in the market value of the underlying investments and are mirrored by changes in deferred compensation expense which is included in employee compensation expense.

Revenue from all other income and commissions was \$44.9 million in 2017 compared to \$64.2 million in 2016. The decrease in all other income and commissions was primarily driven by the \$14.3 million loss from the repurchase of equity securities previously included in a financing transaction recognized previously mentioned, a \$5.6 million decrease in mortgage banking income, and a \$2.1 million decrease in gains on the sales of properties. The decline in mortgage banking income was due in large part to \$4.4 million of recoveries recognized in 2016 associated with prior legacy mortgage servicing sales and a \$1.5 million gain related to the reversal of a contingency accrual associated with prior sales of MSR, but was somewhat mitigated by a \$1.7 million increase in new originations within the regional banking segment related to CRA initiatives. For 2017, all other income and commissions was favorably impacted by a \$3.3 million increase in deferred compensation income, offsetting a portion of the overall decline in revenues from all other income and commissions.

### **NONINTEREST EXPENSE**

Total noninterest expense increased 19 percent, or \$198.3 million, to \$1.2 billion in 2018 from \$1.0 billion in 2017. The increase in noninterest expenses in 2018 is primarily due to the full-year inclusion of Capital Bank expenses compared to one month of expenses included in 2017. Higher acquisition- and integration-related expenses primarily associated with the CBF acquisition, higher personnel-related expenses, and a smaller repurchase and foreclosure provision expense reversal related to the settlement of certain repurchase claims in 2018 relative to 2017, also contributed to the expense increase in 2018. A decrease in loss accruals related to legal matters in 2018 favorably impacted expense relative to 2017, offsetting a portion of the overall expense increase.

In 2017, total noninterest expense increased 11 percent, or \$98.5 million, to \$1.0 billion in 2017 from \$925.2 million in 2016. The increase in expense was primarily driven by higher acquisition- and integration-related expense associated with the CBF and Coastal acquisitions. To a lesser extent, a smaller repurchase and foreclosure provision expense reversal related to the settlement of certain repurchase claims in 2017 relative to 2016, a net increase in loss accruals related to litigation and regulatory matters, and an increase in personnel expense also contributed to the expense increase in 2017. Legal fees decreased in 2017, favorably impacting expense relative to 2016. FHN's noninterest expense for the last three years is provided in Table 5 - Noninterest



Expense. The following discussion provides additional information about various line items reported in the following table.

**Table 5 – Noninterest Expense**

| <i>(Dollars in thousands)</i>   | 2018               | 2017               | 2016             | Compound Annual Growth Rates |            |
|---|--------------------|--------------------|------------------|------------------------------|------------|
|   |                    |                    |                  | 18/17                        | 18/16      |
| <b>Noninterest expense:</b>   |                    |                    |                  |                              |            |
| Employee compensation, incentives and benefits                          | \$ 658,223         | \$ 587,465         | \$563,791        | 12%                          | 8%         |
| Occupancy   | 85,009             | 54,646             | 50,880           | 56%                          | 29%        |
| Computer software   | 60,604             | 48,234             | 45,122           | 26%                          | 16%        |
| Operations services   | 56,280             | 43,823             | 41,852           | 28%                          | 16%        |
| Professional fees   | 45,799             | 47,929             | 19,169           | (4)%                         | 55%        |
| Equipment rentals, depreciation and maintenance                         | 39,132             | 29,543             | 27,385           | 32%                          | 20%        |
| FDIC premium expense  | 31,642             | 26,818             | 21,585           | 18%                          | 21%        |
| Communications and courier  | 30,032             | 17,624             | 14,265           | 70%                          | 45%        |
| Amortization of intangible assets                                       | 25,855             | 8,728              | 5,198            | NM                           | NM         |
| Advertising and public relations  | 24,752             | 19,214             | 21,612           | 29%                          | 7%         |
| Contract employment and outsourcing                                     | 18,522             | 14,954             | 10,061           | 24%                          | 36%        |
| Legal fees  | 11,149             | 12,076             | 21,558           | (8)%                         | (28)%      |
| Repurchase and foreclosure provision/(provision credit)                 | (1,039)            | (22,527)           | (32,722)         | 95%                          | 82%        |
| All other expense:  |                    |                    |                  |                              |            |
| Travel and entertainment  | 16,442             | 11,462             | 10,275           | 43%                          | 26%        |
| Other insurance and taxes   | 9,684              | 9,686              | 10,891           | *                            | (6)%       |
| Employee training and dues  | 7,218              | 5,551              | 5,691            | 30%                          | 13%        |
| Supplies  | 6,917              | 4,106              | 4,434            | 68%                          | 25%        |
| Customer relations  | 5,583              | 5,750              | 6,255            | (3)%                         | (6)%       |
| Non-service components of net periodic pension and post-retirement cost | 5,251              | 2,144              | (666)            | NM                           | NM         |
| Tax credit investments  | 4,712              | 3,468              | 3,349            | 36%                          | 19%        |
| Miscellaneous loan costs  | 3,732              | 2,751              | 2,586            | 36%                          | 20%        |
| OREO  | 2,630              | 1,006              | 773              | NM                           | 84%        |
| Litigation and regulatory matters                                       | 644                | 40,517             | 30,469           | (98)%                        | (85)%      |
| Other (a)   | 73,223             | 48,693             | 41,391           | 50%                          | 33%        |
| <b>Total all other expense</b>  | <b>136,036</b>     | <b>135,134</b>     | <b>115,448</b>   | <b>1%</b>                    | <b>9%</b>  |
| <b>Total noninterest expense</b>  | <b>\$1,221,996</b> | <b>\$1,023,661</b> | <b>\$925,204</b> | <b>19%</b>                   | <b>15%</b> |

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 1 – Summary of Significant Accounting Policies for additional information.

NM - Not Meaningful

\* Amount is less than one percent.

(a) Expense increase for 2018 largely attributable to an increase in acquisition- and integration-related expense primarily associated with the CBF acquisition. See Note 2 – Acquisitions and Divestitures for additional information.

### Employee Compensation, Incentives, and Benefits

Employee compensation, incentives, and benefits (personnel expense), the largest component of noninterest expense, increased 12 percent, or \$70.8 million, to \$658.2 million in 2018 from \$587.5 million in 2017. The increase in personnel expense was primarily the result of a 30 percent increase in headcount in connection with the CBF acquisition. Within the regional banking segment, personnel expense increased due to a \$15 hourly wage floor, strategic hires in expansion markets and specialty areas, and higher incentive expense associated with loan and deposit growth. Personnel expense within the fixed income segment decreased in 2018, largely driven by lower variable compensation associated with lower fixed income sales revenue relative to 2017, offsetting a portion of the overall increase in personnel expense. Additionally, a \$10.3 million decrease in deferred compensation expense in 2018, \$9.9 million of special bonuses recognized in 2017 and a \$6.4 million decrease in acquisition- and integration-related personnel expenses also offset a portion of the increase in personnel expense.

Personnel expense increased 4 percent, or \$23.7 million, to \$587.5 million in 2017 from \$563.8 million in 2016. Within the regional banking segment, personnel expense increased due to strategic hires in expansion markets and specialty areas, higher incentive expense associated with loan and deposit growth, retention initiatives, and \$19.1 million attributable to CBF activities (\$10.7 million of which relates to a 27 percent increase in headcount for one month). In 2017, FHN recognized \$9.9 million of special bonuses, \$3.0 million related to higher deferred compensation expense, and a \$2.6 million increase in pension fund expense which also contributed to the increase in personnel expense compared to 2016. Personnel expense within the fixed income segment decreased in 2017, largely driven by a decline in variable compensation associated with lower fixed income sales revenue relative to the prior year, offsetting a portion of the overall increase in personnel expense. Additionally, personnel expense was favorably impacted by \$6.5 million of deferred compensation BOLI gains recognized in 2017.

### **Occupancy**

Occupancy expense increased to \$85.0 million in 2018 from \$54.6 million in 2017, primarily driven by higher rental expense due to the full-year inclusion of Capital Bank. Additionally, FHN recognized \$5.3 million of acquisition- and integration-related expenses primarily associated with lease abandonment expenses in 2018. Occupancy expense increased to \$54.6 million in 2017 from \$50.9 in 2016, primarily driven by higher rental expense due to the CBF and Coastal acquisitions as well as an increase in depreciation expense due to the completion of space-consolidating renovations made to FHN's headquarters and other locations completed during 2017.

### **Computer Software**

Computer software expense was \$60.6 million, \$48.2 million, and \$45.1 million in 2018, 2017, and 2016, respectively. The increase in computer software expense in both periods was the result of the inclusion of Capital Bank (twelve months in 2018; one month in 2017), as well as FHN's focus on technology-related projects. To a lesser extent, acquisition- and integration-related expenses primarily associated with the CBF acquisition also contributed to the increase in computer software expense for 2018.

### **Operations Services**

Operations services expense increased 28 percent, or \$12.5 million to \$56.3 million in 2018. The increase in operations services expense was primarily related to an increase in third party fees associated with the inclusion of Capital Bank operating expenses, as well as higher acquisition- and integration-related expenses primarily related to the CBF acquisition. In 2017, expenses from operations services were \$43.8 million compared to \$41.9 million in 2016, primarily related to an increase in third party fees associated with the CBF and Coastal acquisitions.

### **Professional Fees**

Professional fees decreased to \$45.8 million in 2018 from \$47.9 million in 2017. In 2018, the decrease in professional fees was due to lower acquisition- and integration-related expenses primarily associated with the CBF acquisition relative to 2017, somewhat offset by strategic investments to analyze growth potential and product mix for new markets. Professional fees was \$47.9 million in 2017 compared to \$19.2 million in 2016. In 2017, the increase in professional fees was primarily driven by higher acquisition- and integration-related expenses primarily associated with the CBF and Coastal acquisitions.

### **Equipment Rentals, Depreciation, and Maintenance**

Equipment rentals, depreciation, and maintenance expense increased 32 percent, or \$9.6 million, to \$39.1 million in 2018. The increase in equipment rentals, depreciation, and maintenance expense in was due in large part to the full-year inclusion of Capital Bank in 2018 and higher acquisition- and integration-related expenses primarily related to the CBF acquisition. Equipment rentals, depreciation, and maintenance expense was \$29.5 million and \$27.4 million in 2017 and 2016, respectively.

**FDIC Premium Expense**

FDIC premium expense increased to \$31.6 million in 2018 from \$26.8 million in 2017 primarily due to the CBF acquisition, as well as organic growth. In fourth quarter 2018, the FDIC assessment surcharge initiated in third quarter 2016 expired offsetting a portion of the overall increase in FDIC premium expense for 2018. FDIC premium expense was \$26.8 million in 2017 and \$21.6 million in 2016. The increase in FDIC premium expense was due in large part to balance sheet growth, both organically and with the CBF and Coastal acquisitions for 2017. Additionally, the net loss recognized in fourth quarter 2017 also contributed to the increase in FDIC premium expense.

**Communication and Courier**

Expenses associated with communications and courier increased to \$30.0 million in 2018 from \$17.6 million in 2017, primarily driven by the full-year inclusion of Capital Bank in 2018. To a lesser extent, an increase in acquisition- and integration-related expenses also contributed to the expense increase in 2018. Expenses associated with communication and courier were \$17.6 million and \$14.3 million in 2017 and 2016, respectively. The increase in communication and courier expense was primarily related to acquisition- and integration- related projects primarily associated with the CBF acquisition in 2017.

**Amortization of Intangibles**

Amortization expense increased to \$25.9 million in 2018 from \$8.7 million in 2017, primarily due to the full-year inclusion of intangibles related to the Capital Bank acquisition in 2018 compared to one-month inclusion in 2017. Amortization expense was \$8.7 million in 2017 and \$5.2 million in 2016, primarily the result of the CBF and Coastal acquisitions.

**Advertising and Public Relations**

Expenses associated with advertising and public relations increased to \$24.8 million in 2018 from \$19.2 million in 2017. In 2018, FHN recognized higher advertising expense due in large part to promotional branding campaigns and targeted marketing in new markets. Expenses associated with advertising and public relations decreased to \$19.2 million in 2017 from \$21.6 million in 2016. In 2016, FHN recognized higher advertising and public relations expense due in large part to a promotional branding campaign and higher expenses associated with CRA initiatives compared to 2017.

**Contract Employment and Outsourcing**

Expenses associated with contract employment and outsourcing increased 24 percent, or \$3.6 million, to \$18.5 million in 2018, primarily driven by acquisition- and integration-related projects primarily associated with the CBF acquisition. Expenses associated with contract employment and outsourcing increased 49 percent to \$15.0 million in 2017 compared to \$10.1 million in 2016, also due in large part to acquisition- and integration-related projects primarily associated with the CBF acquisition.

**Legal Fees**

Legal fees decreased to \$11.1 million in 2018 from \$12.1 million in 2017 and \$21.6 million in 2016. Legal fees fluctuate primarily based on the status, timing, type, and composition of cases or other projects.

**Repurchase and Foreclosure Provision**

During 2018, 2017, and 2016, FHN recognized a \$1.0 million, \$22.5 million and \$32.7 million pre-tax expense reversal of mortgage repurchase and foreclosure provision, respectively, primarily as a result of the settlement/recoveries of certain repurchase claims. These expense reversals favorably impacted expenses in all periods.

**Other Noninterest Expense**

Other expense includes travel and entertainment expense, other insurance and tax expense, employee training and dues, supplies, customer relations expense, expenses associated with the non-service components of net periodic

pension and post-retirement cost, tax credit investments, miscellaneous loan costs, expenses associated with OREO, losses from litigation and regulatory matters, and various other expenses.

All other expense was \$136.0 million in 2018 compared to \$135.1 million in 2017. The increase was primarily due to a \$35.8 million increase of acquisition- and integration-related costs primarily associated with the CBF acquisition, including contract termination charges, costs of shareholder matters and asset impairments related to the integration, as well as other miscellaneous expenses. Additionally, a \$4.1 million increase in Visa derivative valuation adjustments recognized in 2018, higher expenses associated with travel and entertainment, supplies, and employee training and dues largely due to the inclusion of Capital Bank, higher pension expense and an increase in the reserve for unfunded commitments also contributed to the increase in other noninterest expense relative to the prior year. These expense increases were largely offset by a \$39.9 million net decrease in loss accruals related to legal matters and \$8.8 million of charitable contributions made to the First Tennessee Foundation in 2017.

All other expense increased 17 percent, or \$19.7 million, to \$135.1 million in 2017 from \$115.4 million in 2016. The increase was primarily driven by a \$10.0 million increase in pre-tax loss accruals related to legal matters and \$8.8 million of charitable contributions to the First Tennessee Foundation. Additionally, FHN recognized \$9.0 million in acquisition-and integration-related costs in 2017 and a \$2.0 million vendor payment adjustment which also contributed to the expense increase in 2017. Offsetting a portion of the expense increase, FHN experienced a \$2.0 million decrease in negative valuation adjustments associated with derivatives related to prior sales of Visa Class B shares, as well as a \$1.2 million decrease in other insurance and taxes driven by favorable adjustments to franchise taxes related to community reinvestment efforts.

## **INCOME TAXES**

FHN recorded an income tax provision of \$157.6 million in 2018, compared to \$131.9 million in 2017 and \$106.8 million in 2016. The effective tax rates for 2018, 2017, and 2016 were approximately 22.1 percent, 42.7 percent, and 30.9 percent, respectively.

The decrease in the effective tax rates in 2018 compared to 2017 and 2016 was primarily driven by the reduction in the federal corporate income tax rate under the Tax Cuts and Jobs Act "Tax Act," which lowered the rate to 21 percent from 35 percent effective January 1, 2018. Additionally, \$7.5 million in net discrete tax benefits were realized during 2018. The tax rate in 2017 was adversely affected by approximately \$82 million of tax expense primarily related to the revaluation of the net deferred tax asset based on a 21 percent tax rate as a result of the passage of the Tax Act in 2017. This was partially offset by the reversal of a capital loss valuation allowance which decreased federal and state taxes by \$40.4 million.

The company's effective tax rate is favorably affected by recurring items such as bank-owned life insurance, tax-exempt income, and tax credits and other tax benefits from affordable housing investments. The company's effective tax rate also may be affected by items that may occur in any given period but are not consistent from period to period, such as changes in unrecognized tax benefits.

A deferred tax asset ("DTA") or deferred tax liability ("DTL") is recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax consequence is calculated by applying enacted statutory tax rates, applicable to future years, to these temporary differences. As of December 31, 2018, FHN's net DTA was \$127.9 million compared with \$221.8 million at December 31, 2017 and \$199.6 million at December 31, 2016.

As of December 31, 2018, FHN had deferred tax asset balances related to federal and state income tax carryforwards of \$49.8 million and \$7.2 million, which will expire at various dates. Refer to Note 15 – Income Taxes for additional information.

FHN's gross DTA after valuation allowance was \$254.6 million and \$353.2 million as of December 31, 2018 and 2017, respectively. Based on current analysis, FHN believes that its ability to realize the remaining DTA is more likely than not. FHN monitors its DTA and the need for a valuation allowance on a quarterly basis. A significant adverse change in FHN's taxable earnings outlook could result in the need for a valuation allowance.

FHN and its eligible subsidiaries are included in a consolidated federal income tax return. FHN files separate returns for subsidiaries that are not eligible to be included in a consolidated federal income tax return. Based on

the laws of the applicable states where it conducts business operations, FHN either files consolidated, combined, or separate returns. The federal tax returns for Capital Bank Financial Corporation for 2010 - 2012 are under examination by the IRS. With few exceptions, FHN returns are no longer subject to federal or state and local tax examinations by tax authorities for years before 2013. FHN is currently under federal audit for 2013 - 2015 and is under examination in several states.

See also Note 15 – Income Taxes for additional information.

## **STATEMENT OF CONDITION REVIEW – 2018 COMPARED TO 2017**

Total period-end assets were \$40.8 billion and \$41.4 billion on December 31, 2018 and 2017, respectively. Average assets increased 34 percent to \$40.2 billion in 2018 from \$29.9 billion in 2017. The increase in average assets was primarily driven by the timing of the CBF acquisition on November 30, 2017; 2018 includes the full-year average impact of balances compared with one month in 2017. The increase was largely due to net increases in the loan portfolios, increases in goodwill and other intangible assets, and a larger investment securities portfolio. On a period-end basis, the decrease was primarily due to net decreases in the available-for-sale (“AFS”) securities portfolio and securities purchased under agreements to resell, offset partially by increases in federal funds sold and interest bearing cash.

Total period-end liabilities were \$36.0 billion and \$36.8 billion on December 31, 2018 and 2017, respectively. Average liabilities increased 32 percent to \$35.6 billion in 2018, from \$27.0 billion in 2017. The net increase in average liabilities relative to 2017 was also the result of the timing of the CBF acquisition in late fourth quarter 2017 and was primarily attributable to deposits. The decrease in period-end liabilities was largely due to a decrease in other short-term borrowings and trading liabilities, somewhat offset by an increase in deposits.

## **EARNING ASSETS**

Earning assets consist of loans, investment securities, other earning assets such as trading securities, interest-bearing cash, and loans HFS. Average earning assets increased to \$35.7 billion in 2018 from \$27.5 billion in 2017. A more detailed discussion of the major line items follows.

### **Loans**

Period-end loans were \$27.5 billion on December 31, 2018 compared to \$27.7 billion on December 31, 2017. Average loans for 2018 were \$27.2 billion compared to \$20.1 billion for 2017. The increase in average loan balances was primarily due to the timing of the CBF acquisition, as 2018 includes an average impact of twelve months compared to one month in 2017. The decrease in period-end loans was driven by run-off of lower spread loans within the Regional Banking portfolios, coupled with sales and run-off within the Non-Strategic portfolios, somewhat mitigated by net loan growth within several of the Regional Banking loan portfolios. The following table provides detail regarding FHN’s average loans.

**Table 6 – Average Loans**

| <i>(Dollars in thousands)</i>         | 2018                | Percent of total | 2018 Growth Rate | 2017                | Percent of total | 2017 Growth Rate | 2016                | Percent of total | 2016 Growth Rate |
|---------------------------------------|---------------------|------------------|------------------|---------------------|------------------|------------------|---------------------|------------------|------------------|
| Commercial:                           |                     |                  |                  |                     |                  |                  |                     |                  |                  |
| Commercial, financial, and industrial | <b>\$15,872,929</b> | <b>58%</b>       | <b>28%</b>       | \$12,367,420        | 61%              | 13%              | \$10,932,679        | 60%              | 15%              |
| Commercial real estate                | <b>4,206,206</b>    | <b>16</b>        | <b>78</b>        | 2,365,763           | 12               | 22               | 1,938,939           | 11               | 36               |
| <b>Total commercial</b>               | <b>20,079,135</b>   | <b>74</b>        | <b>36</b>        | <b>14,733,183</b>   | <b>73</b>        | <b>14</b>        | <b>12,871,618</b>   | <b>71</b>        | <b>18</b>        |
| Consumer:                             |                     |                  |                  |                     |                  |                  |                     |                  |                  |
| Consumer real estate (a)              | <b>6,328,936</b>    | <b>23</b>        | <b>35</b>        | 4,678,569           | 23               | -                | 4,673,517           | 25               | (4)              |
| Permanent mortgage                    | <b>253,122</b>      | <b>1</b>         | <b>(20)</b>      | 317,816             | 2                | (20)             | 399,220             | 2                | (18)             |
| Credit card and other                 | <b>552,635</b>      | <b>2</b>         | <b>48</b>        | 374,474             | 2                | 4                | 359,515             | 2                | 2                |
| <b>Total consumer</b>                 | <b>7,134,693</b>    | <b>26</b>        | <b>33</b>        | <b>5,370,859</b>    | <b>27</b>        | <b>(1)</b>       | <b>5,432,252</b>    | <b>29</b>        | <b>(5)</b>       |
| Total loans, net of unearned income   | <b>\$27,213,828</b> | <b>100%</b>      | <b>35%</b>       | <b>\$20,104,042</b> | <b>100%</b>      | <b>10%</b>       | <b>\$18,303,870</b> | <b>100%</b>      | <b>10%</b>       |

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

(a) 2018, 2017, and 2016 include \$19.3 million, \$29.3 million, and \$43.4 million of restricted and secured real estate loans, respectively.

**Table 7 – Contractual Maturities of Commercial Loans on December 31, 2018**

| <i>(Period-end)</i><br><i>(Dollars in thousands)</i> | Within 1 Year      | After 1 Year<br>Within 5 Years | After 5 Years      | Total               |
|--|--------------------|--------------------------------|--------------------|---------------------|
| Commercial, financial, and industrial                | \$3,429,206        | \$ 8,568,479                   | \$4,516,643        | \$16,514,328        |
| Commercial real estate                               | 929,617            | 2,545,330                      | 555,923            | 4,030,870           |
| <b>Total commercial loans</b>                        | <b>\$4,358,823</b> | <b>\$11,113,809</b>            | <b>\$5,072,566</b> | <b>\$20,545,198</b> |
| For maturities over one year:                        |                    |                                |                    |                     |
| Interest rates - floating                            |                    | \$ 7,803,488                   | \$3,711,130        | \$11,514,618        |
| Interest rates - fixed                               |                    | 3,310,321                      | 1,361,436          | 4,671,757           |
| <b>Total maturities over one year</b>                |                    | <b>\$11,113,809</b>            | <b>\$5,072,566</b> | <b>\$16,186,375</b> |

Because of various factors, the contractual maturities of consumer loans are not indicative of the actual lives of such loans. A significant component of FHN's loan portfolio consists of consumer real estate loans – a majority of which are home equity lines of credit and home equity installment loans. Typical home equity lines originated by FHN are variable rate 5/15, 10/10, or 10/20 lines. In a 5/15 line, a borrower may draw on the loan for 5 years and pay interest only during that period (“the draw period”), and for the next 15 years the customer pays principal and interest and may no longer draw on that line. A 10/10 loan has a 10 year draw period followed by a 10-year principal-and-interest repayment period, and a 10/20 loan has a 10 year draw period followed by a 20-year principal-and-interest repayment period. Therefore, the contractual maturity for 5/15 and 10/10 home equity lines is 20 years and the contractual maturity for 10/20 home equity lines is 30 years. Numerous factors can contribute to the actual life of a home equity line or installment loan. As a result, the actual average life of home equity lines and loans is difficult to predict and changes in any of these factors could result in changes in projections of average lives.

### **Investment Securities**

FHN's investment portfolio consists principally of debt securities including government agency issued mortgage-backed securities (“MBS”) and government agency issued collateralized mortgage obligations (“CMO”), substantially all of which are classified as AFS. FHN utilizes the securities portfolio as a source of income, liquidity and collateral for repurchase agreements, for public funds, and as a tool for managing risk of interest rate movements. Table 8 - Contractual Maturities of Investment Securities on December 31, 2018 (Amortized Cost) shows information pertaining to the composition, yields, and contractual maturities of the investment portfolio. Investment securities decreased to \$4.6 billion on December 31, 2018 from \$5.2 billion on December 31, 2017. The decrease in period-end investment securities was due in part to the adoption of ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities,” on January 1, 2018, which resulted in the reclassification of equity securities from Investment securities to Other assets. FHN moderated its reinvestment strategy in 2018 which also contributed to the decrease in the investment securities balance on December 31, 2018. Additionally, an increase in unrealized losses as a result of higher rates also contributed to the decrease in AFS securities on December 31, 2018. Average investment securities were \$4.7 billion and \$4.0 billion in 2018 and 2017, representing 13 percent and 15 percent of average earning assets in 2018 and 2017, respectively. FHN manages the size and mix of the investment portfolio to assist in asset liability management, provide liquidity, and optimize risk adjusted returns.

Government agency issued MBS, CMO, and other agencies averaged \$4.6 billion and \$3.8 billion in 2018 and 2017, respectively. U.S. treasury securities and corporate and municipal bonds averaged \$66.5 million in 2018 compared to \$16.2 million in 2017. Investments in equity securities averaged \$190.3 million in 2017, and were largely comprised of restricted investments in the Federal Home Loan Bank (“FHLB”) and Federal Reserve Bank (“FRB”). On December 31, 2018, AFS investment securities had \$100.6 million of net unrealized losses compared to \$35.7 million of net unrealized losses on December 31, 2017. See Note 3 - Investment Securities for additional detail.

**Table 8 – Contractual Maturities of Investment Securities on December 31, 2018 (Amortized Cost)**

| <i>(Period-end)</i><br><i>(Dollars in thousands)</i> | Within 1 year   |              | After 1 year<br>Within 5 years |              | After 5 years<br>Within 10 years |              | After 10 years     |              |
|--|-----------------|--------------|--------------------------------|--------------|----------------------------------|--------------|--------------------|--------------|
|  | Amount          | Yield        | Amount                         | Yield        | Amount                           | Yield        | Amount             | Yield        |
| <b>Securities available-for-sale:</b>                |                 |              |                                |              |                                  |              |                    |              |
| Government agency issued MBS and CMO (a)             | \$13,642        | 2.18%        | \$126,450                      | 2.35%        | \$305,029                        | 3.18%        | \$4,035,054        | 2.63%        |
| U.S. treasuries                                      | -               | -            | 100                            | 1.51         | -                                | -            | -                  | -            |
| Other U.S. government agencies                       | -               | -            | 149,050                        | 2.77         | -                                | -            | -                  | -            |
| States and municipalities                            | -               | -            | -                              | -            | 755                              | 3.82         | 31,718             | 3.97         |
| Corporates and other debt                            | 15,125          | 3.15         | 40,258                         | 4.61         | -                                | -            | -                  | -            |
| <b>Total securities available-for-sale</b>           | <b>\$28,767</b> | <b>2.69%</b> | <b>\$315,858</b>               | <b>2.84%</b> | <b>\$305,784</b>                 | <b>3.18%</b> | <b>\$4,066,772</b> | <b>2.64%</b> |
| <b>Securities held-to-maturity:</b>                  |                 |              |                                |              |                                  |              |                    |              |
| Corporate bonds                                      | \$ -            | -%           | \$ -                           | -%           | \$ 10,000                        | 5.25%        | \$ -               | -%           |
| <b>Total securities held-to-maturity</b>             | <b>\$ -</b>     | <b>-%</b>    | <b>\$ -</b>                    | <b>-%</b>    | <b>\$ 10,000</b>                 | <b>5.25%</b> | <b>\$ -</b>        | <b>-%</b>    |

(a) Represents government agency-issued mortgage-backed securities and collateralized mortgage obligations which, when adjusted for early pay downs, have an estimated average life of 5.3 years.

### Loans Held-for-Sale

Loans HFS consists of small business, other consumer loans, the mortgage warehouse, USDA, student, and home equity loans. The average balance of loans HFS increased to \$724.0 million in 2018 from \$370.6 million in 2017. The increase in average loans HFS was primarily due to an increase in small business loans and to a lesser extent other consumer loans acquired from the CBF acquisition. On December 31, 2018, loans HFS were \$679.1 million compared to \$699.4 million on December 31, 2017. The decrease in period-end balances is primarily related to the sale of approximately \$120 million UPB of subprime auto loans originally acquired as part of the CBF acquisition, offset partially by an increase in small business loans.

### Other Earning Assets

Other earning assets include trading securities, securities purchased under agreements to resell (“asset repos”), federal funds sold (“FFS”), and interest-bearing deposits with the Fed and other financial institutions. Other earning assets averaged \$3.0 billion in 2018 and 2017, as increases in fixed income trading securities were largely offset by a decrease in interest-bearing cash. Fixed income’s trading inventory fluctuates daily based on customer demand. Other earning assets were \$3.3 billion and \$3.4 billion on December 31, 2018 and 2017, respectively. The decline in other earning assets on a period-end basis was primarily driven by a decrease in asset repos, somewhat offset by increases in federal funds sold and interest-bearing cash. Asset repos are used in fixed income trading activity and generally fluctuate with the level of fixed income trading liabilities (short-positions) as securities collateral from asset repo transactions are used to fulfill trades.

### Non-earning assets

Period-end non-earning assets increased to \$4.6 billion on December 31, 2018 from \$4.5 billion on December 31, 2017. The increase in non-earning assets was primarily due to the adoption of ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities,” which resulted in the reclassification of equity securities from investment securities to other assets. Additionally, higher cash balances and an increase in goodwill also contributed to the increase in non-earning assets as of December 31, 2018, but were somewhat offset by a decrease in deferred tax assets.

### Deposits

Average deposits were \$30.9 billion during 2018, up 34 percent from \$23.1 billion during 2017. The increase in average deposits was largely due to the timing of the CBF acquisition late in fourth quarter 2017, as well as FHN’s strategic focus on growing deposits. FHN’s composition of deposits shifted slightly in 2018, resulting in an increase in interest-bearing deposits, comprising 74 percent of total deposits. Market-indexed deposits as a percentage of total deposits decreased from 17 percent in 2017 to 15 percent in 2018, while commercial interest deposits increased as a percentage of total deposits.



Period-end deposits were \$32.7 billion on December 31, 2018, up 7 percent from \$30.6 billion on December 31, 2017. The increase in period-end deposits was largely the result of increase in savings and time deposits as a result of FHN's strategic focus on growing deposits. The following table summarizes FHN's average deposits for 2018, 2017 and 2016.

**Table 9 – Average Deposits**

| <i>(Dollars in thousands)</i>   | 2018         | Percent of Total | 2018 Growth Rate | 2017         | Percent of Total | 2017 Growth Rate | 2016         | Percent of Total | 2016 Growth Rate |
|---------------------------------|--------------|------------------|------------------|--------------|------------------|------------------|--------------|------------------|------------------|
| Interest-bearing deposits:      |              |                  |                  |              |                  |                  |              |                  |                  |
| Consumer interest               | \$12,700,135 | 41%              | 34%              | \$ 9,467,518 | 41%              | 11%              | \$ 8,537,255 | 41%              | 5%               |
| Commercial interest             | 5,660,480    | 18               | 78               | 3,187,034    | 14               | 13               | 2,812,222    | 13               | 3                |
| Market-indexed (a)              | 4,541,835    | 15               | 14               | 3,986,095    | 17               | 5                | 3,788,420    | 18               | 48               |
| Total interest-bearing deposits | 22,902,450   | 74               | 38               | 16,640,647   | 72               | 10               | 15,137,897   | 72               | 13               |
| Noninterest-bearing deposits    | 8,000,642    | 26               | 24               | 6,431,489    | 28               | 12               | 5,760,873    | 28               | 8                |
| Total deposits                  | \$30,903,092 | 100%             | 34%              | \$23,072,136 | 100%             | 10%              | \$20,898,770 | 100%             | 11%              |

(a) Market-indexed deposits are tied to an index not administered by FHN and are comprised of insured network deposits, correspondent banking deposits, and trust/sweep deposits.

### Short-Term Borrowings

Short-term borrowings (federal funds purchased ("FFP"), securities sold under agreements to repurchase, trading liabilities, and other short-term borrowings) averaged \$2.8 billion in 2018 and \$2.3 billion in 2017. As noted in the table below, the increase in short-term borrowings was largely due to an increase in other short-term borrowings and securities sold under agreements to repurchase. Other short-term borrowings balances fluctuate largely based on the level of FHLB borrowing as a result of loan demand, deposit levels and balance sheet funding strategies. Securities sold under agreements to repurchase increased in 2018, as an additional source of wholesale funding for FHN's balance sheet activities. Period-end short-term borrowings were \$1.5 billion on December 31, 2018 and \$4.3 billion on December 31, 2017. The decrease in period-end short-term borrowings was primarily due to a decrease in FHLB borrowings. Additionally, decreases in trading liabilities and FFP also contributed to the decrease in short-term borrowings on December 31, 2018. FFP fluctuates depending on the amount of excess funding of FHN's correspondent bank customers and trading liabilities fluctuate based on levels of trading securities and hedging strategies. See Note 9 – Short-Term Borrowings for additional information. The following table summarizes FHN's average short-term borrowings for 2018, 2017, and 2016.

**Table 10 – Average Short-Term Borrowings**

| <i>(Dollars in thousands)</i>                  | 2018        | Percent of Total | 2018 Growth Rate | 2017        | Percent of Total | 2017 Growth Rate | 2016        | Percent of Total | 2016 Growth Rate |
|--|-------------|------------------|------------------|-------------|------------------|------------------|-------------|------------------|------------------|
| Short-term borrowings                          |             |                  |                  |             |                  |                  |             |                  |                  |
| Federal funds purchased                        | \$ 405,110  | 14%              | (9)%             | \$ 447,137  | 20%              | (24)%            | \$ 589,223  | 30%              | (16)%            |
| Securities sold under agreements to repurchase | 713,841     | 25               | 23               | 578,666     | 26               | 36               | 425,452     | 21               | 15               |
| Trading liabilities                            | 682,943     | 24               | *                | 685,891     | 30               | (11)             | 771,039     | 39               | 5                |
| Other short-term borrowings                    | 1,046,585   | 37               | 89               | 554,502     | 24               | NM               | 198,440     | 10               | 20               |
| Total short-term borrowings                    | \$2,848,479 | 100%             | 26%              | \$2,266,196 | 100%             | 14%              | \$1,984,154 | 100%             | 1%               |

NM – Not meaningful

\* Amount is less than one percent

### **Term Borrowings**

Term borrowings include senior and subordinated borrowings with original maturities greater than one year. Term borrowings were \$1.2 billion on December 31, 2018 and 2017. Average term borrowings increased to \$1.2 billion in 2018 from \$1.1 billion in 2017 primarily driven by a full-year of average impact of the addition of \$212.4 million junior subordinated debentures underlying trust preferred debt acquired in association with the CBF acquisition. In 2017, this balance was only included for one month due to the timing of the CBF acquisition. In 2018, FHN retired \$45.4 million of this junior subordinated debt and the related trust preferred securities. See Note 10 – Term Borrowings for additional information.

### **Other Liabilities**

Period-end other liabilities were \$.7 billion on December 31, 2018 and 2017.

### **CAPITAL – 2018 COMPARED TO 2017**

Management's objectives are to provide capital sufficient to cover the risks inherent in FHN's businesses, to maintain excess capital to well-capitalized standards, and to assure ready access to the capital markets. Period-end equity increased to \$4.8 billion on December 31, 2018 from \$4.6 billion on December 31, 2017. The increase in equity was due to net income recognized in 2018, offset by common and preferred dividends, share repurchases (discussed below), a decrease in accumulated other comprehensive income ("AOCI"), and the cancellation of 2,373,220 common shares in connection with CBF dissenting shareholders (discussed below). The decrease in AOCI was largely driven by an increase in unrealized losses on AFS debt securities as a result of higher rates.

Average equity increased to \$4.6 billion in 2018 from \$3.0 billion in 2017. The increase in average equity was due to the full-year average impact of \$1.8 billion issued in connection with the CBF acquisition on November 30, 2017, net income recognized since 2017, partially offset by common and preferred dividends paid and shares repurchased. Average equity was negatively impacted by a decline in AOCI in 2018, offsetting a portion of the increase in average equity. The decline in average AOCI was largely the result of unrealized losses recognized on the AFS securities portfolio, as well as an increase of net actuarial losses for pension and post retirement plans and results of cash flow hedges.

As previously mentioned, in February 2018 FHN elected early adoption of ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," which resulted in a reclassification of \$57.5 million out of period-end AOCI into retained earnings. This reclassification is reflected in FHN's and FTBNA's regulatory capital balances and ratios as of December 31, 2017.

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

**Table 11 – Regulatory Capital and Ratios**

| <i>(Dollars in thousands)</i>   | <b>December 31, 2018</b> | December 31, 2017 |
|---|--------------------------|-------------------|
| Shareholders' equity  | <b>\$ 4,489,949</b>      | \$ 4,285,057      |
| FHN non-cumulative perpetual preferred                                  | <b>(95,624)</b>          | (95,624)          |
| Common equity   | <b>\$ 4,394,325</b>      | \$ 4,189,433      |
| Regulatory adjustments:   |                          |                   |
| Disallowed goodwill and other intangibles                               | <b>(1,529,532)</b>       | (1,480,725)       |
| Net unrealized (gains)/losses on securities available-for-sale          | <b>75,736</b>            | 26,834            |
| Net unrealized (gains)/losses on pension and other postretirement plans | <b>288,768</b>           | 288,227           |
| Net unrealized (gains)/losses on cash flow hedges                       | <b>12,112</b>            | 7,764             |
| Disallowed deferred tax assets  | <b>(17,637)</b>          | (69,065)          |
| Other deductions from common equity tier 1                              | <b>(70)</b>              | (313)             |
| Common equity tier 1  | <b>\$ 3,223,702</b>      | \$ 2,962,155      |
| FHN non-cumulative perpetual preferred                                  | <b>95,624</b>            | 95,624            |
| Qualifying noncontrolling interest – FTBNA preferred stock              | <b>246,047</b>           | 257,080           |
| Other deductions from tier 1  | <b>-</b>                 | (33,381)          |
| Tier 1 capital  | <b>\$ 3,565,373</b>      | \$ 3,281,478      |
| Tier 2 capital (a)  | <b>374,744</b>           | 422,276           |
| Total regulatory capital  | <b>\$ 3,940,117</b>      | \$ 3,703,754      |
| <b>Risk-Weighted Assets</b>   |                          |                   |
| First Horizon National Corporation                                      | <b>\$33,002,595</b>      | \$33,373,877      |
| First Tennessee Bank National Association                               | <b>32,592,577</b>        | 32,786,547        |
| <b>Average Assets for Leverage</b>                                      |                          |                   |
| First Horizon National Corporation                                      | <b>39,221,755</b>        | 31,824,751        |
| First Tennessee Bank National Association                               | <b>38,381,985</b>        | 31,016,187        |

|   | <b>December 31, 2018</b> |                    | December 31, 2017 |             |
|---|--------------------------|--------------------|-------------------|-------------|
|   | <b>Ratio</b>             | <b>Amount</b>      | Ratio             | Amount      |
| <b>Common Equity Tier 1</b>                                 |                          |                    |                   |             |
| First Horizon National Corporation                          | <b>9.77%</b>             | <b>\$3,223,702</b> | 8.88%             | \$2,962,155 |
| First Tennessee Bank National Association                   | <b>9.81</b>              | <b>3,197,725</b>   | 9.28              | 3,041,420   |
| <b>Tier 1</b>   |                          |                    |                   |             |
| First Horizon National Corporation                          | <b>10.80</b>             | <b>3,565,373</b>   | 9.83              | 3,281,478   |
| First Tennessee Bank National Association                   | <b>10.72</b>             | <b>3,492,541</b>   | 10.12             | 3,317,684   |
| <b>Total</b>  |                          |                    |                   |             |
| First Horizon National Corporation                          | <b>11.94</b>             | <b>3,940,117</b>   | 11.10             | 3,703,754   |
| First Tennessee Bank National Association                   | <b>11.32</b>             | <b>3,689,180</b>   | 10.74             | 3,520,670   |
| <b>Tier 1 Leverage</b>                                      |                          |                    |                   |             |
| First Horizon National Corporation                          | <b>9.09</b>              | <b>3,565,373</b>   | 10.31             | 3,281,478   |
| First Tennessee Bank National Association                   | <b>9.10</b>              | <b>3,492,541</b>   | 10.70             | 3,317,684   |
| <b>Other Capital Ratios</b>                                 |                          |                    |                   |             |
| Total period-end equity to tangible assets                  | <b>11.72</b>             |                    | 11.06             |             |
| Tangible common equity to tangible assets (b)               | <b>7.15</b>              |                    | 6.57              |             |
| Adjusted tangible common equity to risk weighted assets (b) | <b>8.73</b>              |                    | 7.91              |             |

(a) 2018 reflects a reduction of \$45.4 million in Tier 2 qualifying trust preferred securities which were retired during 2018.

(b) Tangible common equity to tangible assets and Adjusted tangible common equity to risk-weighted assets are non-GAAP measures and are reconciled to Total equity to total assets (GAAP) in the Non-GAAP to GAAP Reconciliation – Table 32.

Banking regulators define minimum capital ratios for bank holding companies and their bank subsidiaries. Based on the capital rules and definitions prescribed by the banking regulators, should any depository institution's capital ratios decline below predetermined levels, it would become subject to a series of increasingly restrictive regulatory actions. The system categorizes a depository institution's capital position into one of five categories ranging from well-capitalized to critically under-capitalized. For an institution the size of FHN to qualify as well-capitalized, Common Equity Tier 1, Tier 1 Capital, Total Capital, and Leverage capital ratios must be at least 6.5 percent, 8 percent, 10 percent, and 5 percent, respectively. As of December 31, 2018, each of FHN and FTBNA had sufficient capital to qualify as a well-capitalized institution. For both FHN and FTBNA, regulatory capital ratios increased in 2018 relative to 2017 primarily due to the impact of net income, including the gain from the sale of FHN's remaining holdings of Visa Class B shares in third quarter 2018, less dividends declared. The increase in the ratios for FHN was partially offset by share repurchases and CBF dissenters' share cancellations during 2018. The Tier 1 leverage ratio declined for both FHNC and FTBNA as average assets for leverage in the fourth quarter of 2018 reflects the full impact of the CBF acquisition compared to only one month in fourth quarter 2017. During 2019, capital ratios are expected to remain above well-capitalized standards.

### **Stress Testing**

The Economic Growth, Regulatory Relief, and Consumer Protection Act, along with an interagency regulatory statement effectively exempted both FHN and FTBNA from Dodd-Frank Act ("DFA") stress testing requirements starting with 2018.

For 2018, even though no longer required, FHN and FTBNA completed a stress test using DFA scenarios and requirements previously in effect. Results of these tests indicate that both FHN and FTBNA would be able to maintain capital well in excess of Basel III Adequately Capitalized standards under the hypothetical severe global recession of the 2018 DFA Severely Adverse scenario. A summary of those results was posted in the "News & Events-Stress Testing Results" section on FHN's investor relations website on August 6, 2018. Neither FHN's stress test posting, nor any other material found on FHN's website generally, is part of this report or incorporated herein.

First Horizon will continue performing an annual enterprise wide stress test as part of its capital and risk management process. Results of this test will be presented to executive management and the board.

The disclosures in this "Stress Testing" section include forward-looking statements. Please refer to "Forward-Looking Statements" for additional information concerning the characteristics and limitations of statements of that type.

### **Common Stock Purchase Programs**

Pursuant to board authority, FHN may repurchase shares of its common stock from time to time and will evaluate the level of capital and take action designed to generate or use capital, as appropriate, for the interests of the shareholders, subject to legal and regulatory restrictions. Two common stock purchase programs currently authorized are discussed below. FHN's board has not authorized a preferred stock purchase program.

#### **Table 12a – Issuer Purchases of Common Stock - General Authority**

On January 23, 2018, FHN announced a \$250 million share purchase authority with an expiration date of January 31, 2020. The program replaced an older program that was terminated at the same time with \$189.7 million of remaining authority unused which was scheduled to expire on January 31, 2018. Purchases may be made in the open market or through privately negotiated transactions and are subject to market conditions, accumulation of excess equity, prudent capital management, and legal and regulatory restrictions. As of December 31, 2018, \$99.4 million in purchases had been made under this authority at an average price per share of \$15.47, \$15.45 excluding commissions. In January 2019, FHN's board of directors amended the 2018 share purchase authority increasing it by \$250 million to a total of \$500 million and extending the expiration date to January 31, 2021.

| <i>(Dollar values and volume in thousands, except per share data)</i> | Total number of shares purchased | Average price paid per share (a) | Total number of shares purchased as part of publicly announced programs | Maximum approximate dollar value that may yet be purchased under the programs |
|---|----------------------------------|----------------------------------|---|---|
| <b>2018</b>   |                                  |                                  |   |   |
| October 1 to October 31   | 1,799                            | \$16.00                          | 1,799   | \$202,236   |
| November 1 to November 30   | 846                              | \$16.29                          | 846   | \$188,466   |
| December 1 to December 31   | 2,717                            | \$13.95                          | 2,717   | \$150,569   |
| <b>Total</b>  | <b>5,362</b>                     | <b>\$15.00</b>                   | <b>5,362</b>  |   |

(a) Represents total costs including commissions paid

### Table 12b – Issuer Purchase of Common Stock - Compensation Authority

A consolidated compensation plan share purchase program was announced on August 6, 2004. This program consolidated into a single share purchase program all of the previously authorized compensation plan share programs as well as the renewal of the authorization to purchase shares for use in connection with two compensation plans for which the share purchase authority had expired. The total amount authorized under this consolidated compensation plan share purchase program, inclusive of a program amendment on April 24, 2006, is 29.6 million shares calculated before adjusting for stock dividends distributed through January 1, 2011. The authorization has been reduced for that portion which relates to compensation plans for which no options remain outstanding. The shares may be purchased over the option exercise period of the various compensation plans on or before December 31, 2023. Purchases may be made in the open market or through privately negotiated transactions and are subject to market conditions, accumulation of excess equity, prudent capital management, and legal and regulatory restrictions. As of December 31, 2018, the maximum number of shares that may be purchased under the program was 25.2 million shares. Management currently does not anticipate purchasing a material number of shares under this authority during 2019.

| <i>(Volume in thousands, except per share data)</i> | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced programs | Maximum number of shares that may yet be purchased under the programs |
|---|----------------------------------|------------------------------|---|---|
| <b>2018</b>   |                                  |                              |   |   |
| October 1 to October 31                             | 1                                | \$16.92                      | 1   | 25,181  |
| November 1 to November 30                           | 19                               | \$16.11                      | 19  | 25,163  |
| December 1 to December 31                           | -                                | N/A                          | -   | 25,163  |
| <b>Total</b>  | <b>20</b>                        | <b>\$16.15</b>               | <b>20</b>   |   |

N/A – Not applicable

### Cancellation of Dissenters' Shares

On November 30, 2017, FHN completed its merger with CBF, which was a Delaware corporation. Under Delaware corporate law, each CBF shareholder had the right to dissent from the terms of the merger and obtain a judicial appraisal of the pre-merger value of his, her, or its CBF shares. If the dissent and appraisal process is followed to its conclusion, FHN is required by law to pay each dissenter the appraised value, entirely in cash. In 2017 certain CBF shareholders commenced the dissent and appraisal process. When the merger closed in 2017, FHN issued a total of 2,373,220 FHN common shares for those CBF shareholders in accordance with the terms of the merger agreement, but FHN set them aside for later delivery or cancellation. In April, 2018, the process reached a point where FHN canceled those set-aside shares. Cancellation resulted in a reduction in the equity consideration recorded by FHN and an increase in cash consideration of \$46.0 million. The final appraisal or settlement amounts, as applicable, may differ from current estimates.

## **ASSET QUALITY – TREND ANALYSIS OF 2018 COMPARED TO 2017**

### **Loan Portfolio Composition**

FHN groups its loans into portfolio segments based on internal classifications reflecting the manner in which the ALLL is established and how credit risk is measured, monitored, and reported. From time to time, and if conditions are such that certain subsegments are uniquely affected by economic or market conditions or are experiencing greater deterioration than other components of the loan portfolio, management may determine the ALLL at a more granular level. Commercial loans are composed of commercial, financial, and industrial (“C&I”) and commercial real estate (“CRE”). Consumer loans are composed of consumer real estate; permanent mortgage; and credit card and other. FHN has a concentration of residential real estate loans (24 percent of total loans), the majority of which is in the consumer real estate portfolio (23 percent of total loans). Industry concentrations are discussed under the heading C&I below.

### **Underwriting Policies and Procedures**

The following sections describe each portfolio as well as general underwriting procedures for each. As economic and real estate conditions develop, enhancements to underwriting and credit policies and procedures may be necessary or desirable. Loan policies and procedures for all portfolios are reviewed by credit risk working groups and management risk committees comprised of business line managers and credit administration professionals as well as by various other reviewing bodies within FHN. Policies and procedures are approved by key executive and/or senior managers leading the applicable credit risk working groups as well as by management risk committees. The credit risk working groups and management risk committees strive to ensure that the approved policies and procedures address the associated risks and establish reasonable underwriting criteria that appropriately mitigate risk. Policies and procedures are reviewed, revised and re-issued periodically at established review dates or earlier if changes in the economic environment, portfolio performance, the size of portfolio or industry concentrations, or regulatory guidance warrant an earlier review. In 2017, FHN expanded its borrower limits in association with the expansion of its overall portfolio through the acquisition of CBF. Additionally, FHN also revised its Portfolio Concentration, Country Exposure, and Automated Clearing House limits to more appropriately align with its overall risk appetite and to provide more granularity into some of its portfolio sub segments. These changes were approved by management risk committees and the Executive and Risk Committee of the Board in order to enhance and support loan growth while also minimizing incremental credit risk.

## **COMMERCIAL LOAN PORTFOLIOS**

FHN’s commercial loan approval process grants lending authority based upon job description, experience, and performance. The lending authority is delegated to the business line (Market Managers, Departmental Managers, Regional Presidents, Relationship Managers (“RM”) and Portfolio Managers (“PM”)) and to Credit Risk Managers. While individual limits vary, the predominant amount of approval authority is vested with the Credit Risk Management function. Portfolio, industry, and borrower concentration limits for the various portfolios are established by executive management and approved by the Executive and Risk Committee of the Board.

FHN’s commercial lending process incorporates an RM and a PM for most commercial credits. The RM is primarily responsible for communications with the customer and maintaining the relationship, while the PM is responsible for assessing the credit quality of the borrower, beginning with the initial underwriting and continuing through the servicing period. Other specialists and the assigned RM/PM are organized into units called deal teams. Deal teams are constructed with specific job attributes that facilitate FHN’s ability to identify, mitigate, document, and manage ongoing risk. PMs and credit analysts provide enhanced analytical support during loan origination and servicing, including monitoring of the financial condition of the borrower and tracking compliance with loan agreements. Loan closing officers and the construction loan management unit specialize in loan documentation and the management of the construction lending process. FHN strives to identify problem assets early through comprehensive policies and guidelines, targeted portfolio reviews, more frequent servicing on lower rated borrowers, and an emphasis on frequent grading. For smaller commercial credits, generally \$3 million or less, FHN utilizes a centralized underwriting unit in order to originate and grade small business loans more efficiently and consistently.

FHN may utilize availability of guarantors/sponsors to support commercial lending decisions during the credit underwriting process and when determining the assignment of internal loan grades. Reliance on the guaranty as a viable secondary source of repayment is a function of an analysis proving capability to pay, factoring in, among other things, liquidity and direct/indirect cash flows. FHN also considers the volume and amount of guaranties provided for all global indebtedness and the likelihood of realization. FHN presumes a guarantor's willingness to perform until there is any current or prior indication or future expectation that the guarantor may not willingly and voluntarily perform under the terms of the guaranty. In FHN's risk grading approach, it is deemed that financial support becomes necessary generally at a point when the loan would otherwise be graded substandard, reflecting a well-defined weakness. At that point, provided willingness and capacity to support are appropriately demonstrated, a strong, legally enforceable guaranty can mitigate the risk of default or loss, justify a less severe rating, and consequently reduce the level of allowance or charge-off that might otherwise be deemed appropriate.

## **C&I**

The C&I portfolio was \$16.5 billion on December 31, 2018, and is comprised of loans used for general business purposes. Typical products include working capital lines of credit, term loan financing of owner-occupied real estate and fixed assets, and trade credit enhancement through letters of credit. The largest geographical concentrations of balances as of December 31, 2018, are in Tennessee (36 percent), North Carolina (11 percent), Texas (6 percent), Florida (6 percent), California (6 percent), Georgia (4 percent), and South Carolina (4 percent), with no other state representing more than 3 percent of the portfolio.

C&I loans are underwritten in accordance with a well-defined credit origination process. This process includes applying minimum underwriting standards as well as separation of origination and credit approval roles on transaction sizes over PM authorization limits. Underwriting typically includes due diligence of the borrower and the applicable industry of the borrower, analysis of the borrower's available financial information, identification and analysis of the various sources of repayment and identification of the primary risk attributes. Stress testing the borrower's financial capacity, adherence to loan documentation requirements, and assigning credit risk grades using internally developed scorecards are also used to help quantify the risk when appropriate. Underwriting parameters also include loan-to-value ratios ("LTVs") which vary depending on collateral type, use of guaranties, loan agreement requirements, and other recommended terms such as equity requirements, amortization, and maturity. Approval decisions also consider various financial ratios and performance measures of the borrowers, such as cash flow and balance sheet leverage, liquidity, coverage of fixed charges, and working capital. Additionally, approval decisions consider the capital structure of the borrower, sponsorship, and quality/value of collateral. Generally, guideline and policy exceptions are identified and mitigated during the approval process. Pricing of C&I loans is based upon the determined credit risk specific to the individual borrower. These loans typically have variable rates tied to the London Inter-Bank Offered Rate ("LIBOR") or the prime rate of interest plus or minus the appropriate margin.

The following table provides the composition of the C&I portfolio by industry as of December 31, 2018 and 2017. For purposes of this disclosure, industries are determined based on the North American Industry Classification System (“NAICS”) industry codes used by Federal statistical agencies in classifying business establishments for the collection, analysis, and publication of statistical data related to the U.S. business economy.

**Table 13 – C&I Loan Portfolio by Industry**

| <i>(Dollars in thousands)</i>                                   | <b>December 31, 2018</b> |                | December 31, 2017 |         |
|---|--------------------------|----------------|-------------------|---------|
|   | <b>Amount</b>            | <b>Percent</b> | Amount            | Percent |
| <b>Industry:</b>  |                          |                |                   |         |
| Finance & insurance   | <b>\$ 2,766,041</b>      | <b>17%</b>     | \$ 2,859,769      | 18%     |
| Loans to mortgage companies                                     | <b>2,023,746</b>         | <b>12</b>      | 2,099,961         | 13      |
| Real estate rental & leasing (a)                                | <b>1,548,903</b>         | <b>9</b>       | 1,408,299         | 9       |
| Health care & social assistance                                 | <b>1,309,983</b>         | <b>8</b>       | 1,201,285         | 7       |
| Manufacturing   | <b>1,245,230</b>         | <b>8</b>       | 1,184,861         | 7       |
| Accommodation & food service                                    | <b>1,171,333</b>         | <b>7</b>       | 1,145,944         | 7       |
| Wholesale trade   | <b>1,166,590</b>         | <b>7</b>       | 1,060,642         | 7       |
| Public administration   | <b>778,497</b>           | <b>5</b>       | 705,704           | 4       |
| Retail trade  | <b>765,254</b>           | <b>5</b>       | 831,790           | 5       |
| Other (transportation, education, arts, entertainment, etc) (b) | <b>3,738,751</b>         | <b>22</b>      | 3,559,018         | 23      |
| <b>Total C&amp;I loan portfolio</b>                             | <b>\$16,514,328</b>      | <b>100%</b>    | \$16,057,273      | 100%    |

(a) Leasing, rental of real estate, equipment, and goods.

(b) Industries in this category each comprise less than 5 percent for 2018.

### **Industry Concentrations**

Loan concentrations are considered to exist for a financial institution when there are loans to numerous borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. 29 percent of FHN’s C&I portfolio (Finance and insurance plus Loans to mortgage companies) could be affected by items that uniquely impact the financial services industry. Except “Finance and Insurance” and “Loans to Mortgage Companies”, as discussed below, on December 31, 2018, FHN did not have any other concentrations of C&I loans in any single industry of 10 percent or more of total loans.

### **Finance and Insurance**

The finance and insurance component represents 17 percent of the C&I portfolio and includes TRUPS (i.e., long-term unsecured loans to bank and insurance-related businesses), loans to bank holding companies, and asset-based lending to consumer finance companies. As of December 31, 2018, asset-based lending to consumer finance companies represents approximately \$1.2 billion of the finance and insurance component.

TRUPS lending was originally extended as a form of “bridge” financing to participants in the pooled trust preferred securitization program offered primarily to smaller banking (generally less than \$15 billion in total assets) and insurance institutions through FHN’s fixed income business. Origination of TRUPS lending ceased in early 2008. Individual TRUPS are re-graded at least quarterly as part of FHN’s commercial loan review process. During second quarter 2018, FHN revised the grading approach associated with the TRUPS portfolio to align with its scorecard grading methodologies which resulted in upgrades to a majority of this portfolio. The terms of these loans generally include a scheduled 30 year balloon payoff and include an option to defer interest for up to 20 consecutive quarters. As of December 31, 2018 and 2017, one TRUP relationship was on interest deferral.

During third quarter 2018, FHN sold three TRUP relationships with an unpaid principal balance (“UPB”) of \$55.5 million and valuation allowance of \$5.0 million. Upon sale, FHN recognized a \$3.8 million gain which is presented in the Non-Strategic segment within Fixed Income in the Consolidated Condensed Statement of Income. An additional TRUPS loan with a principal balance of \$3.0 million and a valuation allowance of \$.3 million was



paid off in fourth quarter 2018. As of December 31, 2018, the UPB of trust preferred loans totaled \$270.6 million (\$189.8 million of bank TRUPS and \$80.8 million of insurance TRUPS) with the UPB of other bank-related loans totaling \$245.3 million. Inclusive of a valuation allowance on TRUPS of \$20.2 million, total reserves (ALLL plus the valuation allowance) for TRUPS and other bank-related loans were \$21.3 million or 4 percent of outstanding UPB.

### Loans to Mortgage Companies

The balance of loans to mortgage companies was 12 percent of the C&I portfolio as of December 31, 2018, and 13 percent of the C&I portfolio as of December 31, 2017, and includes balances related to both home purchase and refinance activity. This portfolio class, which generally fluctuates with mortgage rates and seasonal factors, includes commercial lines of credit to qualified mortgage companies primarily for the temporary warehousing of eligible mortgage loans prior to the borrower's sale of those mortgage loans to third party investors. Generally, lending to mortgage lenders increases when there is a decline in mortgage rates and decreases when rates rise. In 2018, 75 percent of the loans funded were home purchases and 25 percent were refinance transactions.

### **C&I Asset Quality Trends**

Overall, the C&I portfolio trends remain strong in 2018, continuing in line with recent historical performance. The C&I ALLL increased \$0.7 million from December 31, 2017, to \$98.9 million as of December 31, 2018. The allowance as a percentage of period-end loans decreased to .60 percent as of December 31, 2018, from .61 percent as of December 31, 2017. Nonperforming C&I loans increased \$8.6 million from December 31, 2017, to \$39.8 million on December 31, 2018, primarily driven by one credit which was partially offset by payments, returns to accrual status, or other resolutions. The nonperforming loan ("NPL") ratio increased 5 basis points from December 31, 2017, to .24 percent of C&I loans as of December 31, 2018. The 30+ delinquency ratio decreased to .06 percent as of December 31, 2018, from .19 percent as of December 31, 2017, driven by one large relationship becoming current. Net charge-offs were \$11.3 million in 2018 compared to \$13.1 million in 2017. The following table shows C&I asset quality trends by segment.

**Table 14 – C&I Asset Quality Trends by Segment**

| <i>(Dollars in thousands)</i>                | <b>December 31</b>  |              |              |              |             |
|--|---------------------|--------------|--------------|--------------|-------------|
|  | <b>2018</b>         | 2017         | 2016         | 2015         | 2014        |
| <b>Regional Bank</b>                         |                     |              |              |              |             |
| Period-end loans                             | <b>\$16,151,298</b> | \$15,639,060 | \$11,728,160 | \$10,014,752 | \$8,553,080 |
| Nonperforming loans                          | <b>36,888</b>       | 28,086       | 28,619       | 22,793       | 20,627      |
| Allowance for loan losses as of January 1    | <b>\$ 96,850</b>    | \$ 88,010    | \$ 72,213    | \$ 61,998    | \$ 72,310   |
| Charge-offs                                  | <b>(15,492)</b>     | (17,657)     | (18,196)     | (17,994)     | (14,832)    |
| Recoveries                                   | <b>4,151</b>        | 4,516        | 6,719        | 11,969       | 9,003       |
| Provision/(provision credit) for loan losses | <b>12,108</b>       | 21,981       | 27,274       | 16,240       | (4,483)     |
| Allowance for loan losses as of December 31  | <b>\$ 97,617</b>    | \$ 96,850    | \$ 88,010    | \$ 72,213    | \$ 61,998   |
| Accruing restructured loans                  | <b>\$ 13,001</b>    | \$ 14,186    | \$ 20,151    | \$ 4,358     | \$ 19,214   |
| Nonaccruing restructured loans               | <b>23,738</b>       | 3,484        | 14,183       | 14,284       | 9,632       |
| Total troubled debt restructurings           | <b>\$ 36,739</b>    | \$ 17,670    | \$ 34,334    | \$ 18,642    | \$ 28,846   |
| 30+ Delinq. % (a)                            | <b>0.06%</b>        | 0.19%        | 0.08%        | 0.08%        | 0.05%       |
| NPL %  | <b>0.23</b>         | 0.18         | 0.24         | 0.23         | 0.24        |
| Net charge-offs %                            | <b>0.07</b>         | 0.11         | 0.11         | 0.07         | 0.08        |
| Allowance / loans %                          | <b>0.60%</b>        | 0.62%        | 0.75%        | 0.72%        | 0.72%       |
| Allowance / net charge-offs                  | <b>8.61x</b>        | 7.37x        | 7.67x        | 11.99x       | 10.63x      |
| <b>Non-Strategic</b>                         |                     |              |              |              |             |
| Period-end loans                             | <b>\$ 363,030</b>   | \$ 418,213   | \$ 419,927   | \$ 421,638   | \$ 454,206  |
| Nonperforming loans                          | <b>2,888</b>        | 3,067        | 4,117        | 3,520        | 11,983      |
| Allowance for loan losses as of January 1    | <b>\$ 1,361</b>     | \$ 1,388     | \$ 1,424     | \$ 5,013     | \$ 14,136   |
| Charge-offs                                  | <b>-</b>            | -            | (264)        | (4,412)      | (5,660)     |
| Recoveries                                   | <b>50</b>           | 52           | 76           | 1,370        | 663         |
| Provision/(provision credit) for loan losses | <b>(81)</b>         | (79)         | 152          | (547)        | (4,126)     |
| Allowance for loan losses as of December 31  | <b>\$ 1,330</b>     | \$ 1,361     | \$ 1,388     | \$ 1,424     | \$ 5,013    |
| 30+ Delinq. % (a)                            | <b>0.47%</b>        | -%           | -%           | 0.02%        | 0.05%       |
| NPL %  | <b>0.80</b>         | 0.73         | 0.98         | 0.83         | 2.64        |
| Net charge-offs %                            | <b>NM</b>           | NM           | 0.04         | 0.69         | 1.07        |
| Allowance / loans %                          | <b>0.37%</b>        | 0.33%        | 0.33%        | 0.34%        | 1.10%       |
| Allowance / net charge-offs                  | <b>NM</b>           | NM           | 7.39x        | 0.47x        | 1.00x       |
| <b>Consolidated</b>                          |                     |              |              |              |             |
| Period-end loans                             | <b>\$16,514,328</b> | \$16,057,273 | \$12,148,087 | \$10,436,390 | \$9,007,286 |
| Nonperforming loans                          | <b>39,776</b>       | 31,153       | 32,736       | 26,313       | 32,610      |
| Allowance for loan losses as of January 1    | <b>\$ 98,211</b>    | \$ 89,398    | \$ 73,637    | \$ 67,011    | \$ 86,446   |
| Charge-offs                                  | <b>(15,492)</b>     | (17,657)     | (18,460)     | (22,406)     | (20,492)    |
| Recoveries                                   | <b>4,201</b>        | 4,568        | 6,795        | 13,339       | 9,666       |
| Provision/(provision credit) for loan losses | <b>12,027</b>       | 21,902       | 27,426       | 15,693       | (8,609)     |
| Allowance for loan losses as of December 31  | <b>\$ 98,947</b>    | \$ 98,211    | \$ 89,398    | \$ 73,637    | \$ 67,011   |
| Accruing restructured loans                  | <b>\$ 13,001</b>    | \$ 14,186    | \$ 20,151    | \$ 4,358     | \$ 19,214   |
| Nonaccruing restructured loans               | <b>23,738</b>       | 3,484        | 14,183       | 14,284       | 9,632       |
| Total troubled debt restructurings           | <b>\$ 36,739</b>    | \$ 17,670    | \$ 34,334    | \$ 18,642    | \$ 28,846   |
| 30+ Delinq. % (a)                            | <b>0.06%</b>        | 0.19%        | 0.08%        | 0.08%        | 0.05%       |
| NPL %  | <b>0.24</b>         | 0.19         | 0.27         | 0.25         | 0.36        |
| Net charge-offs %                            | <b>0.07</b>         | 0.11         | 0.11         | 0.10         | 0.13        |
| Allowance / loans %                          | <b>0.60%</b>        | 0.61%        | 0.74%        | 0.71%        | 0.74%       |
| Allowance / net charge-offs                  | <b>8.76x</b>        | 7.50x        | 7.66x        | 8.12x        | 6.19x       |

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

NM - Not meaningful

Loans are expressed net of unearned income.

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

### Commercial Real Estate

The CRE portfolio was \$4.0 billion on December 31, 2018. The CRE portfolio includes both financings for commercial construction and nonconstruction loans. The largest geographical concentrations of balances as of December 31, 2018, are in North Carolina (31 percent), Tennessee (18 percent), Florida (14 percent), South Carolina (8 percent), Texas (6 percent), Georgia (6 percent), and Ohio (4 percent), with no other state

representing more than 3 percent of the portfolio. This portfolio is segregated between the income-producing CRE class which contains loans, draws on lines and letters of credit to commercial real estate developers for the construction and mini-permanent financing of income-producing real estate, and the residential CRE class. Subcategories of income CRE consist of multi-family (27 percent), retail (20 percent), office (18 percent), industrial (14 percent), hospitality (11 percent), land/land development (1 percent) and other (9 percent).

The residential CRE class includes loans to residential builders and developers for the purpose of constructing single-family homes, condominiums, and town homes, and on a limited basis, for developing residential subdivisions. Subsequent to the Capital Bank merger completed in 2017, active residential CRE lending is now primarily focused in certain core markets. Nearly all new originations are to “strategic” clients. FHN considers a “strategic” residential CRE borrower as a homebuilder who demonstrates the ability to withstand cyclical downturns, maintains active development and investment activities providing for regular financing opportunities, and is fundamentally sound as evidenced by a prudent loan structure, appropriate covenants and recourse, and capable and willing sponsors in markets with positive homebuilding and economic dynamics.

Income CRE loans are underwritten in accordance with credit policies and underwriting guidelines that are reviewed at least annually and revised as necessary based on market conditions. Loans are underwritten based upon project type, size, location, sponsorship, and other market-specific data. Generally, minimum requirements for equity, debt service coverage ratios (“DSCRs”), and level of pre-leasing activity are established based on perceived risk in each subcategory. Loan-to-value (value is defined as the lower of cost or market) limits are set below regulatory prescribed ceilings and generally range between 50 and 80 percent depending on underlying product set. Term and amortization requirements are set based on prudent standards for interim real estate lending. Equity requirements are established based on the quality and liquidity of the primary source of repayment. For example, more equity would be required for a speculative construction project or land loan than for a property fully leased to a credit tenant or a roster of tenants. Typically, a borrower must have at least 15 percent of cost invested in a project before FHN will fund loan dollars. Income properties are required to achieve a DSCR greater than or equal to 125 percent at inception or stabilization of the project based on loan amortization and a minimum underwriting interest rate. Some product types that possess a greater risk profile require a higher level of equity, as well as a higher DSCR threshold. A proprietary minimum underwriting interest rate is used to calculate compliance with underwriting standards. Generally, specific levels of pre-leasing must be met for construction loans on income properties. A global cash flow analysis is performed at the sponsor level. The majority of the portfolio is on a floating rate basis tied to appropriate spreads over LIBOR.

The credit administration and ongoing monitoring consists of multiple internal control processes. Construction loans are closed and administered by a centralized control unit. Underwriters and credit approval personnel stress the borrower’s/project’s financial capacity utilizing numerous attributes such as interest rates, vacancy, and discount rates. Key information is captured from the various portfolios and then stressed at the aggregate level. Results are utilized to assist with the assessment of the adequacy of the ALLL and to steer portfolio management strategies.

### **CRE Asset Quality Trends**

The CRE portfolio had continued stable performance as of December 31, 2018. The allowance increased \$2.9 million from December 31, 2017, to \$31.3 million as of December 31, 2018, driven by organic loan growth. Allowance as a percentage of loans increased 11 basis points from December 31, 2017, to .78 percent as of December 31, 2018. Nonperforming loans increased \$1.6 million from December 31, 2017, to \$3.0 million as of December 31, 2018. Nonperforming loans as a percentage of total CRE loans increased 4 basis points from 2017 to .07 percent as of December 31, 2018. Accruing delinquencies as a percentage of period-end loans decreased to .06 percent as of December 31, 2018, from .15 percent as of December 31, 2017. FHN recognized net charge-offs of \$.4 million in 2018 compared to net recoveries of \$.8 million in 2017. The following table shows commercial real estate asset quality trends by segment.

**Table 15 – Commercial Real Estate Asset Quality Trends by Segment**

|  | December 31        |             |             |             |             |
|--|--------------------|-------------|-------------|-------------|-------------|
|  | 2018               | 2017        | 2016        | 2015        | 2014        |
| <i>(Dollars in thousands)</i>                |                    |             |             |             |             |
| <b>Regional Bank</b>                         |                    |             |             |             |             |
| Period-end loans                             | <b>\$4,030,870</b> | \$4,214,695 | \$2,135,523 | \$1,674,871 | \$1,273,220 |
| Nonperforming loans                          | <b>2,991</b>       | 1,393       | 2,776       | 8,684       | 14,571      |
| Allowance for loan losses as of January 1    | <b>\$ 28,427</b>   | \$ 33,852   | \$ 25,159   | \$ 18,158   | \$ 9,873    |
| Charge-offs                                  | <b>(783)</b>       | (195)       | (1,371)     | (3,441)     | (3,331)     |
| Recoveries                                   | <b>312</b>         | 915         | 1,816       | 1,450       | 3,764       |
| Provision/(provision credit) for loan losses | <b>3,355</b>       | (6,145)     | 8,248       | 8,992       | 7,852       |
| Allowance for loan losses as of December 31  | <b>\$ 31,311</b>   | \$ 28,427   | \$ 33,852   | \$ 25,159   | \$ 18,158   |
| Accruing restructured loans                  | <b>\$ 1,076</b>    | \$ 1,125    | \$ 1,736    | \$ 5,039    | \$ 4,588    |
| Nonaccruing restructured loans               | <b>429</b>         | 1,282       | 1,388       | 3,969       | 6,947       |
| Total troubled debt restructurings           | <b>\$ 1,505</b>    | \$ 2,407    | \$ 3,124    | \$ 9,008    | \$ 11,535   |
| 30+ Delinq. % (a)                            | <b>0.06%</b>       | 0.15%       | 0.01%       | 0.27%       | 0.14%       |
| NPL %  | <b>0.07</b>        | 0.03        | 0.13        | 0.52        | 1.14        |
| Net charge-offs %                            | <b>0.01</b>        | NM          | NM          | 0.14        | NM          |
| Allowance / loans %                          | <b>0.78%</b>       | 0.67%       | 1.59%       | 1.50%       | 1.43%       |
| Allowance / net charge-offs                  | <b>66.50x</b>      | NM          | NM          | 12.63x      | NM          |
| <b>Non-Strategic</b>                         |                    |             |             |             |             |
| Period-end loans                             | <b>\$ -</b>        | \$ -        | \$ -        | \$ 64       | \$ 4,497    |
| Nonperforming loans                          | <b>-</b>           | -           | -           | -           | 785         |
| Allowance for loan losses as of January 1    | <b>\$ -</b>        | \$ -        | \$ -        | \$ 416      | \$ 730      |
| Charge-offs                                  | <b>-</b>           | -           | -           | (109)       | (410)       |
| Recoveries                                   | <b>27</b>          | 51          | 111         | 426         | 386         |
| Provision/(provision credit) for loan losses | <b>(27)</b>        | (51)        | (111)       | (733)       | (290)       |
| Allowance for loan losses as of December 31  | <b>\$ -</b>        | \$ -        | \$ -        | \$ -        | \$ 416      |
| Accruing restructured loans                  | <b>\$ -</b>        | \$ -        | \$ -        | \$ -        | \$ 3,095    |
| Nonaccruing restructured loans               | <b>-</b>           | -           | -           | -           | 568         |
| Total troubled debt restructurings           | <b>\$ -</b>        | \$ -        | \$ -        | \$ -        | \$ 3,663    |
| 30+ Delinq. % (a)                            | <b>-%</b>          | -%          | -%          | -%          | -%          |
| NPL %  | <b>-</b>           | -           | -           | -           | 17.47       |
| Net charge-offs %                            | <b>NM</b>          | NM          | NM          | NM          | 0.41        |
| Allowance / loans %                          | <b>-%</b>          | -%          | -%          | -%          | 9.25%       |
| Allowance / net charge-offs                  | <b>NM</b>          | NM          | NM          | NM          | 16.43x      |
| <b>Consolidated</b>                          |                    |             |             |             |             |
| Period-end loans                             | <b>\$4,030,870</b> | \$4,214,695 | \$2,135,523 | \$1,674,935 | \$1,277,717 |
| Nonperforming loans                          | <b>2,991</b>       | 1,393       | 2,776       | 8,684       | 15,356      |
| Allowance for loan losses as of January 1    | <b>\$ 28,427</b>   | \$ 33,852   | \$ 25,159   | \$ 18,574   | \$ 10,603   |
| Charge-offs                                  | <b>(783)</b>       | (195)       | (1,371)     | (3,550)     | (3,741)     |
| Recoveries                                   | <b>339</b>         | 966         | 1,927       | 1,876       | 4,150       |
| Provision/(provision credit) for loan losses | <b>3,328</b>       | (6,196)     | 8,137       | 8,259       | 7,562       |
| Allowance for loan losses as of December 31  | <b>\$ 31,311</b>   | \$ 28,427   | \$ 33,852   | \$ 25,159   | \$ 18,574   |
| Accruing restructured loans                  | <b>\$ 1,076</b>    | \$ 1,125    | \$ 1,736    | \$ 5,039    | \$ 7,683    |
| Nonaccruing restructured loans               | <b>429</b>         | 1,282       | 1,388       | 3,969       | 7,515       |
| Total troubled debt restructurings           | <b>\$ 1,505</b>    | \$ 2,407    | \$ 3,124    | \$ 9,008    | \$ 15,198   |
| 30+ Delinq. % (a)                            | <b>0.06%</b>       | 0.15%       | 0.01%       | 0.27%       | 0.14%       |
| NPL %  | <b>0.07</b>        | 0.03        | 0.13        | 0.52        | 1.20        |
| Net charge-offs %                            | <b>0.01</b>        | NM          | NM          | 0.12        | NM          |
| Allowance / loans %                          | <b>0.78%</b>       | 0.67%       | 1.59%       | 1.50%       | 1.45%       |
| Allowance / net charge-offs                  | <b>70.47x</b>      | NM          | NM          | 15.03x      | NM          |

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

NM–Not meaningful

Loans are expressed net of unearned income.

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

## CONSUMER LOAN PORTFOLIOS

### Consumer Real Estate

The consumer real estate portfolio was \$6.2 billion on December 31, 2018, and is primarily composed of home equity lines and installment loans including restricted balances (loans consolidated under ASC 810). The largest geographical concentrations of balances as of December 31, 2018, are in Tennessee (54 percent), North Carolina (15 percent), Florida (13 percent), and California (3 percent), with no other state representing more than 3 percent of the portfolio. As of December 31, 2018, approximately 80 percent of the consumer real estate portfolio was in a first lien position. At origination, weighted average FICO score of this portfolio was 753 and refreshed FICO scores averaged 752 as of December 31, 2018, compared to 752 and 756, respectively, as of December 31, 2017. As of December 31, 2018, approximately \$1.1 billion, or 17 percent, of the consumer real estate portfolio consisted of stand-alone second liens while \$.2 billion, or 3 percent, were second liens whose first liens are owned or serviced by FHN. We obtain first lien performance information from third parties and through loss mitigation activities, and we place a stand-alone second lien loan on nonaccrual if we discover that there are performance issues with the first lien loan. Generally, performance of this portfolio is affected by life events that affect borrowers' finances, the level of unemployment, and home prices.

Home equity lines of credit ("HELOCs") comprise \$1.5 billion of the consumer real estate portfolio as of December 31, 2018. FHN's HELOCs typically have a 5 or 10 year draw period followed by a 10 or 20 year repayment period, respectively. During the draw period, a borrower is able to draw on the line and is only required to make interest payments. The line is automatically frozen if a borrower becomes 45 days or more past due on payments. Once the draw period has concluded, the line is closed and the borrower is required to make both principal and interest payments monthly until the loan matures. The principal payment generally is fully amortizing, but payment amounts will adjust when variable rates reset to reflect changes in the prime rate.

Approximately 72 percent of FHN's HELOCs were in the draw period as of December 31, 2018 and 2017. Based on when draw periods are scheduled to end per the line agreement, it is expected that \$388.0 million, or 35 percent of HELOCs currently in the draw period, will enter the repayment period during the next 60 months. Delinquencies for HELOCs that have entered the repayment period are initially higher than HELOCs still in the draw period because of the increased minimum payment requirement; however, after some seasoning, performance of these loans usually begins to stabilize. The home equity lines of the consumer real estate portfolio are monitored closely for those nearing the end of the draw period and borrowers are initially being contacted at least 24 months before the repayment period begins to remind the customer of the terms of their agreement and to inform them of options. The following table shows the HELOCs currently in the draw period and expected timing of conversion to the repayment period.

**Table 16 – HELOC Draw To Repayment Schedule**

|   | December 31, 2018  |             | December 31, 2017  |             |
|---|--------------------|-------------|--------------------|-------------|
|   | Repayment Amount   | Percent     | Repayment Amount   | Percent     |
| <i>(Dollars in thousands)</i>           |                    |             |                    |             |
| <b>Months remaining in draw period:</b> |                    |             |                    |             |
| 0-12                                    | \$ 67,523          | 6%          | \$ 138,333         | 10%         |
| 13-24                                   | 69,154             | 6           | 88,188             | 7           |
| 25-36                                   | 75,074             | 7           | 99,109             | 8           |
| 37-48                                   | 86,308             | 8           | 96,997             | 7           |
| 49-60                                   | 90,018             | 8           | 105,753            | 8           |
| >60                                     | 715,390            | 65          | 792,723            | 60          |
| <b>Total</b>                            | <b>\$1,103,467</b> | <b>100%</b> | <b>\$1,321,103</b> | <b>100%</b> |

### Underwriting

For the majority of loans in this portfolio, underwriting decisions are made through a centralized loan underwriting center. To obtain a consumer real estate loan, the loan applicant(s) in most cases must first meet a minimum

qualifying FICO score. Minimum FICO score requirements are established by management for both loans secured by real estate as well as non-real estate loans. Management also establishes maximum loan amounts, loan-to-value ratios, and Debt-to-Income (“DTI”) ratios for each consumer real estate product. Applicants must have the financial capacity (or available income) to service the debt by not exceeding a calculated DTI ratio. The amount of the loan is limited to a percentage of the lesser of the current value or sales price of the collateral. Identified guideline and policy exceptions require established mitigating factors that have been approved for use by Credit Risk Management.

HELOC interest rates are variable and adjust with movements in the index rate stated in the loan agreement. Such loans can have elevated risks of default, particularly in a rising interest rate environment, potentially stressing borrower capacity to repay the loan at the higher interest rate. FHN’s current underwriting practice requires HELOC borrowers to qualify based on a fully indexed, fully amortized payment methodology. FHN’s underwriting guidelines require borrowers to qualify at an interest rate that is 200 basis points above the note rate. This mitigates risk to FHN in the event of a sharp rise in interest rates over a relatively short time horizon.

#### HELOC Portfolio Risk Management

FHN performs continuous HELOC account review processes in order to identify higher-risk home equity lines and initiate preventative and corrective actions. The reviews consider a number of account activity patterns and characteristics such as the number of times delinquent within recent periods, changes in credit bureau score since origination, score degradation, performance of the first lien, and account utilization. In accordance with FHN’s interpretation of regulatory guidance, FHN may block future draws on accounts in order to mitigate risk of loss to FHN.

#### **Consumer Real Estate Asset Quality Trends**

Overall, performance of the consumer real estate portfolio remained strong in 2018 despite deterioration of some metrics compared to prior year. The non-strategic segment is a run-off portfolio and while the absolute dollars of delinquencies and nonaccruals declined compared to December 31, 2017, 30+ accruing delinquencies and nonperforming loans ratios deteriorated. That trend of increasing deterioration of ratios in the non-strategic segment is likely to continue and may become more skewed as the portfolio shrinks unevenly, with stronger borrowers exiting the portfolio more rapidly than others. The ALLL decreased \$13.4 million from December 31, 2017, to \$26.4 million as of December 31, 2018, with the majority of the decline attributable to the non-strategic segment. The balance of nonperforming loans increased \$11.2 million to \$82.6 million on December 31, 2018. Loans delinquent 30 or more days and still accruing increased from \$41.5 million as of December 31, 2017, to \$46.5 million as of December 31, 2018. The portfolio realized net recoveries of \$10.3 million in 2018 compared to net recoveries of \$9.6 million in 2017. The following table shows consumer real estate asset quality trends by segment.

**Table 17 – Consumer Real Estate Asset Quality Trends by Segment**

| <i>(Dollars in thousands)</i>                | <b>December 31</b> |             |             |             |             |
|--|--------------------|-------------|-------------|-------------|-------------|
|  | <b>2018</b>        | 2017        | 2016        | 2015        | 2014        |
| <b>Regional Bank</b>                         |                    |             |             |             |             |
| Period-end loans                             | <b>\$5,844,778</b> | \$5,885,953 | \$3,713,321 | \$3,528,126 | \$3,384,746 |
| Nonperforming loans                          | <b>39,080</b>      | 22,678      | 18,865      | 23,935      | 28,953      |
| Allowance for loan losses as of January 1    | <b>\$ 18,859</b>   | \$ 20,077   | \$ 29,156   | \$ 32,180   | \$ 31,474   |
| Charge-offs                                  | <b>(4,609)</b>     | (3,491)     | (5,346)     | (8,414)     | (10,780)    |
| Recoveries                                   | <b>4,026</b>       | 4,342       | 4,863       | 4,660       | 3,551       |
| Provision/(provision credit) for loan losses | <b>(3,797)</b>     | (2,069)     | (8,596)     | 730         | 7,935       |
| Allowance for loan losses as of December 31  | <b>\$ 14,479</b>   | \$ 18,859   | \$ 20,077   | \$ 29,156   | \$ 32,180   |
| Accruing restructured loans                  | <b>\$ 30,146</b>   | \$ 31,970   | \$ 36,784   | \$ 36,912   | \$ 40,841   |
| Nonaccruing restructured loans               | <b>17,334</b>      | 12,405      | 10,694      | 13,723      | 14,229      |
| Total troubled debt restructurings           | <b>\$ 47,480</b>   | \$ 44,375   | \$ 47,478   | \$ 50,635   | \$ 55,070   |
| 30+ Delinq. % (a)                            | <b>0.58%</b>       | 0.40%       | 0.48%       | 0.52%       | 0.57%       |
| NPL %  | <b>0.67</b>        | 0.39        | 0.51        | 0.68        | 0.86        |
| Net charge-offs %                            | <b>0.01</b>        | NM          | 0.01        | 0.11        | 0.22        |
| Allowance / loans %                          | <b>0.25%</b>       | 0.32%       | 0.54%       | 0.83%       | 0.95%       |
| Allowance / net charge-offs                  | <b>24.77x</b>      | NM          | 41.63x      | 7.77x       | 4.45x       |
| <b>Non-Strategic</b>                         |                    |             |             |             |             |
| Period-end loans                             | <b>\$ 404,738</b>  | \$ 593,289  | \$ 880,858  | \$1,251,059 | \$1,663,325 |
| Nonperforming loans                          | <b>43,568</b>      | 48,809      | 63,947      | 87,157      | 91,679      |
| Allowance for loan losses as of January 1    | <b>\$ 20,964</b>   | \$ 31,347   | \$ 51,506   | \$ 80,831   | \$ 95,311   |
| Charge-offs                                  | <b>(4,748)</b>     | (9,665)     | (16,647)    | (21,654)    | (34,611)    |
| Recoveries                                   | <b>15,640</b>      | 18,381      | 18,856      | 19,235      | 19,273      |
| Provision/(provision credit) for loan losses | <b>(19,896)</b>    | (19,099)    | (22,368)    | (26,906)    | 858         |
| Allowance for loan losses as of December 31  | <b>\$ 11,960</b>   | \$ 20,964   | \$ 31,347   | \$ 51,506   | \$ 80,831   |
| Accruing restructured loans                  | <b>\$ 41,125</b>   | \$ 54,702   | \$ 68,217   | \$ 67,942   | \$ 71,389   |
| Nonaccruing restructured loans               | <b>29,829</b>      | 29,818      | 37,765      | 47,107      | 46,766      |
| Total troubled debt restructurings           | <b>\$ 70,954</b>   | \$ 84,520   | \$ 105,982  | \$ 115,049  | \$ 118,155  |
| 30+ Delinq. % (a)                            | <b>3.07%</b>       | 3.06%       | 2.76%       | 2.34%       | 2.17%       |
| NPL %  | <b>10.76</b>       | 8.23        | 7.26        | 6.97        | 5.51        |
| Net charge-offs %                            | <b>NM</b>          | NM          | NM          | 0.17        | 0.82        |
| Allowance / loans %                          | <b>2.95%</b>       | 3.53%       | 3.56%       | 4.12%       | 4.86%       |
| Allowance / net charge-offs                  | <b>NM</b>          | NM          | NM          | 21.29x      | 5.27x       |
| <b>Consolidated</b>                          |                    |             |             |             |             |
| Period-end loans                             | <b>\$6,249,516</b> | \$6,479,242 | \$4,594,179 | \$4,779,185 | \$5,048,071 |
| Nonperforming loans                          | <b>82,648</b>      | 71,487      | 82,812      | 111,092     | 120,632     |
| Allowance for loan losses as of January 1    | <b>\$ 39,823</b>   | \$ 51,424   | \$ 80,662   | \$ 113,011  | \$ 126,785  |
| Charge-offs                                  | <b>(9,357)</b>     | (13,156)    | (21,993)    | (30,068)    | (45,391)    |
| Recoveries                                   | <b>19,666</b>      | 22,723      | 23,719      | 23,895      | 22,824      |
| Provision/(provision credit) for loan losses | <b>(23,693)</b>    | (21,168)    | (30,964)    | (26,176)    | 8,793       |
| Allowance for loan losses as of December 31  | <b>\$ 26,439</b>   | \$ 39,823   | \$ 51,424   | \$ 80,662   | \$ 113,011  |
| Accruing restructured loans                  | <b>\$ 71,271</b>   | \$ 86,672   | \$ 105,001  | \$ 104,854  | \$ 112,230  |
| Nonaccruing restructured loans               | <b>47,163</b>      | 42,223      | 48,459      | 60,830      | 60,995      |
| Total troubled debt restructurings           | <b>\$ 118,434</b>  | \$ 128,895  | \$ 153,460  | \$ 165,684  | \$ 173,225  |
| 30+ Delinq. % (a)                            | <b>0.74%</b>       | 0.64%       | 0.92%       | 1.00%       | 1.10%       |
| NPL %  | <b>1.32</b>        | 1.10        | 1.80        | 2.32        | 2.39        |
| Net charge-offs %                            | <b>NM</b>          | NM          | NM          | 0.13        | 0.43        |
| Allowance / loans %                          | <b>0.42%</b>       | 0.61%       | 1.12%       | 1.69%       | 2.24%       |
| Allowance / net charge-offs                  | <b>NM</b>          | NM          | NM          | 13.07x      | 5.01x       |

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

NM - Not meaningful

Loans are expressed net of unearned income.

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

### **Permanent Mortgage**

The permanent mortgage portfolio was \$.2 billion on December 31, 2018. This portfolio is primarily composed of jumbo mortgages and one-time-close (“OTC”) completed construction loans in the non-strategic segment that were originated through legacy businesses. The corporate segment includes loans that were previously included in off-balance sheet proprietary securitization trusts. These loans were brought back into the loan portfolios at fair value through the execution of cleanup calls due to the relatively small balances left in the securitization and should continue to run-off. Approximately 27 percent of loan balances as of December 31, 2018, are in California, but the remainder of the portfolio is somewhat geographically diverse. Non-strategic and corporate segment run-off primarily contributed to the \$65.4 million decrease in permanent mortgage period-end balances from December 31, 2017, to December 31, 2018.

### **Permanent Mortgage Asset Quality Trends**

The permanent mortgage portfolios within the non-strategic and corporate segments are run-off portfolios. As a result, asset quality metrics are becoming skewed as the portfolio shrinks and some of the stronger borrowers payoff or refinance elsewhere. The ALLL decreased \$2.1 million as of December 31, 2018, from \$13.1 million as of December 31, 2017. TDR reserves (which are estimates of losses for the expected life of the loan) comprise 86 percent of the ALLL for the permanent mortgage portfolio as of December 31, 2018. Consolidated accruing delinquencies decreased \$.2 million from December 31, 2017 to \$7.1 million as of December 31, 2018. Nonperforming loans decreased \$4.7 million from December 31, 2017, to \$21.7 million as of December 31, 2018. The portfolio experienced net recoveries of \$.9 million in 2018 compared to net recoveries of \$.3 million in 2017. The following table shows permanent mortgage asset quality trends by segment.



**Table 18 – Permanent Mortgage Asset Quality Trends by Segment**

|   | December 31 |            |            |            |            |
|---|-------------|------------|------------|------------|------------|
|   | 2018        | 2017       | 2016       | 2015       | 2014       |
| <i>(Dollars in thousands)</i>                   |             |            |            |            |            |
| <b>Regional Bank</b>                            |             |            |            |            |            |
| Period-end loans                                | \$ 3,988    | \$ 5,427   | \$ 6,546   | \$ 8,495   | \$ 10,852  |
| Nonperforming loans                             | 346         | 427        | 393        | 443        | 503        |
| Allowance for loan losses as of January 1       | \$ 80       | \$ 148     | \$ 92      | \$ 167     | \$ 245     |
| Charge-offs                                     | -           | -          | -          | (14)       | (19)       |
| Recoveries                                      | -           | -          | -          | -          | -          |
| Provision/(provision credit) for loan losses    | (4)         | (68)       | 56         | (61)       | (59)       |
| Allowance for loan losses as of December 31     | \$ 76       | \$ 80      | \$ 148     | \$ 92      | \$ 167     |
| Accruing restructured loans                     | \$ 684      | \$ 615     | \$ 563     | \$ 720     | \$ 1,254   |
| Nonaccruing restructured loans                  | 249         | 326        | 315        | 364        | -          |
| Total troubled debt restructurings              | \$ 933      | \$ 941     | \$ 878     | \$ 1,084   | \$ 1,254   |
| 30+ Delinq. % (a)                               | 7.32%       | 7.62%      | 8.43%      | 5.17%      | 5.75%      |
| NPL %   | 8.69        | 7.86       | 6.00       | 5.21       | 4.64       |
| Net charge-offs %                               | -           | -          | -          | 0.15       | 0.16       |
| Allowance / loans %                             | 1.90%       | 1.48%      | 2.25%      | 1.08%      | 1.54%      |
| Allowance / net charge-offs                     | NM          | NM         | NM         | 6.54x      | 8.88x      |
| <b>Corporate</b>                                |             |            |            |            |            |
| Period-end loans                                | \$ 39,221   | \$ 53,556  | \$ 71,380  | \$ 97,450  | \$ 135,538 |
| Nonperforming loans                             | 1,707       | 2,157      | 1,186      | 1,677      | 3,045      |
| Allowance for loan losses as of December 31 (b) | N/A         | N/A        | N/A        | N/A        | N/A        |
| Accruing restructured loans                     | \$ 2,557    | \$ 3,637   | \$ 3,792   | \$ 3,992   | \$ 5,494   |
| Nonaccruing restructured loans                  | -           | -          | -          | -          | -          |
| Total troubled debt restructurings              | \$ 2,557    | \$ 3,637   | \$ 3,792   | \$ 3,992   | \$ 5,494   |
| 30+ Delinq. % (a)                               | 4.37%       | 3.98%      | 4.37%      | 2.92%      | 2.32%      |
| NPL %   | 4.35        | 4.03       | 1.66       | 1.72       | 2.25       |
| Allowance / loans % (b)                         | N/A         | N/A        | N/A        | N/A        | N/A        |
| <b>Non-Strategic</b>                            |             |            |            |            |            |
| Period-end loans                                | \$ 179,239  | \$ 228,837 | \$ 274,772 | \$ 335,511 | \$ 392,571 |
| Nonperforming loans                             | 19,657      | 23,806     | 25,602     | 29,532     | 30,530     |
| Allowance for loan losses as of January 1       | \$ 13,033   | \$ 15,074  | \$ 18,807  | \$ 18,955  | \$ 22,246  |
| Charge-offs                                     | (477)       | (2,179)    | (1,591)    | (3,127)    | (5,872)    |
| Recoveries                                      | 1,421       | 2,509      | 2,403      | 1,687      | 2,314      |
| Provision/(provision credit) for loan losses    | (3,053)     | (2,371)    | (4,545)    | 1,292      | 267        |
| Allowance for loan losses as of December 31     | \$ 10,924   | \$ 13,033  | \$ 15,074  | \$ 18,807  | \$ 18,955  |
| Accruing restructured loans                     | \$ 53,240   | \$ 64,102  | \$ 71,896  | \$ 78,719  | \$ 84,701  |
| Nonaccruing restructured loans                  | 14,116      | 16,114     | 17,360     | 18,666     | 22,010     |
| Total troubled debt restructurings              | \$ 67,356   | \$ 80,216  | \$ 89,256  | \$ 97,385  | \$ 106,711 |
| 30+ Delinq. % (a)                               | 2.87%       | 2.12%      | 2.29%      | 1.88%      | 1.40%      |
| NPL %   | 10.97       | 10.40      | 9.32       | 8.80       | 7.78       |
| Net charge-offs %                               | NM          | NM         | NM         | 0.40       | 0.83       |
| Allowance / loans %                             | 6.10%       | 5.70%      | 5.49%      | 5.61%      | 4.83%      |
| Allowance / net charge-offs                     | NM          | NM         | NM         | 13.07x     | 5.32x      |
| <b>Consolidated</b>                             |             |            |            |            |            |
| Period-end loans                                | \$ 222,448  | \$ 287,820 | \$ 352,698 | \$ 441,456 | \$ 538,961 |
| Nonperforming loans                             | 21,710      | 26,390     | 27,181     | 31,652     | 34,078     |
| Allowance for loan losses as of January 1       | \$ 13,113   | \$ 15,222  | \$ 18,899  | \$ 19,122  | \$ 22,491  |
| Charge-offs                                     | (477)       | (2,179)    | (1,591)    | (3,141)    | (5,891)    |
| Recoveries                                      | 1,421       | 2,509      | 2,403      | 1,687      | 2,314      |
| Provision/(provision credit) for loan losses    | (3,057)     | (2,439)    | (4,489)    | 1,231      | 208        |
| Allowance for loan losses as of December 31     | \$ 11,000   | \$ 13,113  | \$ 15,222  | \$ 18,899  | \$ 19,122  |
| Accruing restructured loans                     | \$ 56,481   | \$ 68,354  | \$ 76,251  | \$ 83,431  | \$ 91,449  |
| Nonaccruing restructured loans                  | 14,365      | 16,440     | 17,675     | 19,030     | 22,010     |
| Total troubled debt restructurings              | \$ 70,846   | \$ 84,794  | \$ 93,926  | \$ 102,461 | \$ 113,459 |
| 30+ Delinq. % (a)                               | 3.21%       | 2.57%      | 2.83%      | 2.17%      | 1.72%      |
| NPL %   | 9.76        | 9.17       | 7.71       | 7.17       | 6.32       |
| Net charge-offs %                               | NM          | NM         | NM         | 0.30       | 0.60       |
| Allowance / loans %                             | 4.95%       | 4.56%      | 4.32%      | 4.28%      | 3.55%      |
| Allowance / net charge-offs                     | NM          | NM         | NM         | 13.00x     | 5.34x      |

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

NM - Not meaningful

Loans are expressed net of unearned income.

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

(b) An allowance has not been established for these loans as the valuation adjustment taken upon exercise of clean-up calls included expected losses.

## Credit Card and Other

The credit card and other portfolio, which is primarily within the regional banking segment, was \$.5 billion as of December 31, 2018, and primarily includes automobile loans, credit card receivables, and other consumer-related credits. The automobile loans, presented in the non-strategic segment, are a run-off portfolio of indirect auto loans acquired through the CBF acquisition. As a result, asset quality metrics within this portfolio may become skewed as the auto loan portfolio continues to shrink. The allowance increased to \$12.7 million as of December 31, 2018, from \$10.0 million as of December 31, 2017. Loans 30 days or more delinquent and accruing increased \$.7 million from December 31, 2017, to \$8.4 million as of December 31, 2018. In 2018, FHN recognized \$15.6 million of net charge-offs in the credit card and other portfolio, compared to net charge-offs of \$10.1 million in 2017. The following table shows credit card and other asset quality trends by segment.

**Table 19 – Credit Card and Other Asset Quality Trends by Segment**

| <i>(Dollars in thousands)</i>                | <b>December 31</b> |           |           |           |           |
|--|--------------------|-----------|-----------|-----------|-----------|
|  | <b>2018</b>        | 2017 (b)  | 2016      | 2015      | 2014      |
| <b>Regional Bank</b>                         |                    |           |           |           |           |
| Period-end loans                             | <b>\$432,531</b>   | \$439,745 | \$351,198 | \$344,405 | \$345,859 |
| Nonperforming loans                          | <b>34</b>          | 75        | -         | 620       | -         |
| Allowance for loan losses as of January 1    | <b>\$ 9,894</b>    | \$ 11,995 | \$ 10,966 | \$ 14,310 | \$ 7,125  |
| Charge-offs                                  | <b>(14,143)</b>    | (12,736)  | (13,983)  | (15,542)  | (13,781)  |
| Recoveries                                   | <b>3,227</b>       | 2,905     | 3,297     | 3,555     | 3,026     |
| Provision/(provision credit) for loan losses | <b>13,617</b>      | 7,730     | 11,715    | 8,643     | 17,940    |
| Allowance for loan losses as of December 31  | <b>\$ 12,595</b>   | \$ 9,894  | \$ 11,995 | \$ 10,966 | \$ 14,310 |
| Accruing restructured loans                  | <b>\$ 658</b>      | \$ 564    | \$ 274    | \$ 314    | \$ 406    |
| Nonaccruing restructured loans               | -                  | -         | -         | -         | -         |
| Total troubled debt restructurings           | <b>\$ 658</b>      | \$ 564    | \$ 274    | \$ 314    | \$ 406    |
| 30+ Delinq. % (a)                            | <b>0.89%</b>       | 0.76%     | 1.16%     | 1.07%     | 1.38%     |
| NPL %  | <b>0.01</b>        | 0.02      | -         | 0.18      | -         |
| Net charge-offs %                            | <b>2.55</b>        | 2.67      | 3.05      | 3.51      | 3.22      |
| Allowance / loans %                          | <b>2.91%</b>       | 2.25%     | 3.42%     | 3.18%     | 4.14%     |
| Allowance / net charge-offs                  | <b>1.15x</b>       | 1.01x     | 1.12x     | 0.91x     | 1.33x     |
| <b>Non-Strategic</b>                         |                    |           |           |           |           |
| Period-end loans                             | <b>\$ 85,839</b>   | \$180,154 | \$ 7,835  | \$ 10,131 | \$ 12,272 |
| Nonperforming loans                          | <b>590</b>         | 121       | 142       | 737       | 763       |
| Allowance for loan losses as of January 1    | <b>\$ 87</b>       | \$ 177    | \$ 919    | \$ 420    | \$ 359    |
| Charge-offs                                  | <b>(5,545)</b>     | (471)     | (241)     | (1,149)   | (1,150)   |
| Recoveries                                   | <b>812</b>         | 210       | 324       | 298       | 105       |
| Provision/(provision credit) for loan losses | <b>4,778</b>       | 171       | (825)     | 1,350     | 1,106     |
| Allowance for loan losses as of December 31  | <b>\$ 132</b>      | \$ 87     | \$ 177    | \$ 919    | \$ 420    |
| Accruing restructured loans                  | <b>\$ 37</b>       | \$ 29     | \$ 32     | \$ 63     | \$ 127    |
| Nonaccruing restructured loans               | -                  | -         | -         | -         | -         |
| Total troubled debt restructurings           | <b>\$ 37</b>       | \$ 29     | \$ 32     | \$ 63     | \$ 127    |
| 30+ Delinq. % (a)                            | <b>5.35%</b>       | 2.41%     | 1.73%     | 1.47%     | 2.48%     |
| NPL %  | <b>0.69</b>        | 0.07      | 1.82      | 7.28      | 6.22      |
| Net charge-offs %                            | <b>3.78</b>        | 3.82      | NM        | 7.75      | 7.37      |
| Allowance / loans %                          | <b>0.15%</b>       | 0.05%     | 2.26%     | 9.07%     | 3.43%     |
| Allowance / net charge-offs                  | <b>0.03x</b>       | 0.33x     | NM        | 1.08x     | 0.40x     |
| <b>Consolidated</b>                          |                    |           |           |           |           |
| Period-end loans                             | <b>\$518,370</b>   | \$619,899 | \$359,033 | \$354,536 | \$358,131 |
| Nonperforming loans                          | <b>624</b>         | 196       | 142       | 1,357     | 763       |
| Allowance for loan losses as of January 1    | <b>\$ 9,981</b>    | \$ 12,172 | \$ 11,885 | \$ 14,730 | \$ 7,484  |
| Charge-offs                                  | <b>(19,688)</b>    | (13,207)  | (14,224)  | (16,691)  | (14,931)  |
| Recoveries                                   | <b>4,039</b>       | 3,115     | 3,621     | 3,853     | 3,131     |
| Provision/(provision credit) for loan losses | <b>18,395</b>      | 7,901     | 10,890    | 9,993     | 19,046    |
| Allowance for loan losses as of December 31  | <b>\$ 12,727</b>   | \$ 9,981  | \$ 12,172 | \$ 11,885 | \$ 14,730 |
| Accruing restructured loans                  | <b>\$ 695</b>      | \$ 593    | \$ 306    | \$ 377    | \$ 533    |
| Nonaccruing restructured loans               | -                  | -         | -         | -         | -         |
| Total troubled debt restructurings           | <b>\$ 695</b>      | \$ 593    | \$ 306    | \$ 377    | \$ 533    |
| 30+ Delinq. % (a)                            | <b>1.63%</b>       | 1.24%     | 1.17%     | 1.08%     | 1.42%     |
| NPL %  | <b>0.12</b>        | 0.03      | 0.04      | 0.38      | 0.21      |
| Net charge-offs %                            | <b>2.83</b>        | 2.69      | 2.95      | 3.64      | 3.39      |
| Allowance / loans %                          | <b>2.46%</b>       | 1.61%     | 3.39%     | 3.35%     | 4.11%     |
| Allowance / net charge-offs                  | <b>0.81x</b>       | 0.99x     | 1.15x     | 0.93x     | 1.25x     |

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

NM - Not meaningful

Loans are expressed net of unearned income.

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

(b) In 3Q18, the acquired CBF indirect auto portfolio was retrospectively re-classed through 4Q17 from the Regional Banking segment to the Non-Strategic segment.

### **Allowance for Loan Losses**

Management's policy is to maintain the ALLL at a level sufficient to absorb estimated probable incurred losses in the loan portfolio. The total allowance for loan losses decreased to \$180.4 million on December 31, 2018, from \$189.6 million on December 31, 2017. The ALLL as of December 31, 2018, reflects strong asset quality with the consumer real estate portfolio continuing to stabilize, historically low levels of net charge-offs, and declining non-strategic balances. The ratio of allowance for loan losses to total loans, net of unearned income, decreased to .66 percent on December 31, 2018, from .69 percent on December 31, 2017.

The provision for loan losses is the charge to or release of earnings necessary to maintain the ALLL at a sufficient level reflecting management's estimate of probable incurred losses in the loan portfolio. Provision expense was \$7.0 million in 2018, which was primarily driven by charge-offs associated with two credits within the C&I portfolio, partially offset by a release in reserves, compared to zero in 2017. The provision in 2018 was favorably affected by historically lower net charge-offs which continue to drive lower loss rates.

FHN expects asset quality trends to remain relatively stable for the near term if the growth of the economy continues. The C&I portfolio is expected to continue to show stable trends but short-term variability (both positive and negative) is possible, primarily due to the size of the credits within this portfolio. The CRE portfolio metrics should be relatively consistent as FHN expects stable property values over the near term; however, oversupply of any CRE product type, changes in the lending environment, or economic uncertainty could result in decreased property values (which could happen abruptly). The remaining non-strategic consumer real estate and permanent mortgage portfolios should continue to steadily wind down. Asset quality metrics within non-strategic are becoming skewed as the portfolio continues to shrink, with stronger credits exiting the portfolio more rapidly than others. Continued stabilization in performance of the consumer real estate portfolio assumes an ongoing positive economic outlook as consumer delinquency and loss rates are correlated with life events that affect borrowers' finances, unemployment trends, and strength of the housing market.

### **Consolidated Net Charge-offs**

Overall, net charge-offs continue to be at historical lows. Net charge-offs were \$16.1 million in 2018 compared to \$12.5 million in 2017.

The commercial portfolio experienced \$11.7 million of net charge-offs in 2018 compared to \$12.3 million in 2017. In addition, the consumer portfolio experienced \$4.4 million of net charge-offs in 2018 compared to \$.2 million in 2017. The net increase in consumer portfolio net charge-offs was driven by the credit card and other portfolio.

The following table provides consolidated asset quality information for the years 2014 through 2018:

**Table 20 – Analysis of Allowance for Loan Losses and Charge-offs**

| <i>(Dollars in thousands)</i>  | 2018                | 2017                | 2016                | 2015                | 2014                |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Allowance for loan losses:</b>  |                     |                     |                     |                     |                     |
| Beginning balance  | \$ 189,555          | \$ 202,068          | \$ 210,242          | \$ 232,448          | \$ 253,809          |
| Provision for loan losses  | 7,000               | -                   | 11,000              | 9,000               | 27,000              |
| Charge-offs:   |                     |                     |                     |                     |                     |
| Commercial, financial, and industrial  | 15,492              | 17,657              | 18,460              | 22,406              | 20,492              |
| Commercial real estate   | 783                 | 195                 | 1,371               | 3,550               | 3,741               |
| Consumer real estate   | 9,357               | 13,156              | 21,993              | 30,068              | 45,391              |
| Permanent mortgage   | 477                 | 2,179               | 1,591               | 3,141               | 5,891               |
| Credit card and other  | 19,688              | 13,207              | 14,224              | 16,691              | 14,931              |
| <b>Total charge-offs</b>   | <b>45,797</b>       | <b>46,394</b>       | <b>57,639</b>       | <b>75,856</b>       | <b>90,446</b>       |
| Recoveries:  |                     |                     |                     |                     |                     |
| Commercial, financial, and industrial  | 4,201               | 4,568               | 6,795               | 13,339              | 9,666               |
| Commercial real estate   | 339                 | 966                 | 1,927               | 1,876               | 4,150               |
| Consumer real estate   | 19,666              | 22,723              | 23,719              | 23,895              | 22,824              |
| Permanent mortgage   | 1,421               | 2,509               | 2,403               | 1,687               | 2,314               |
| Credit card and other  | 4,039               | 3,115               | 3,621               | 3,853               | 3,131               |
| <b>Total recoveries</b>  | <b>29,666</b>       | <b>33,881</b>       | <b>38,465</b>       | <b>44,650</b>       | <b>42,085</b>       |
| <b>Net charge-offs</b>   | <b>16,131</b>       | <b>12,513</b>       | <b>19,174</b>       | <b>31,206</b>       | <b>48,361</b>       |
| Ending balance   | \$ 180,424          | \$ 189,555          | \$ 202,068          | \$ 210,242          | \$ 232,448          |
| Reserve for unfunded commitments   | 7,618               | 5,079               | 5,312               | 5,926               | 4,770               |
| <b>Total of allowance for loan losses and reserve for unfunded commitments</b> | <b>\$ 188,042</b>   | <b>\$ 194,634</b>   | <b>\$ 207,380</b>   | <b>\$ 216,168</b>   | <b>\$ 237,218</b>   |
| <b>Loans and commitments:</b>  |                     |                     |                     |                     |                     |
| Total period end loans, net of unearned income                                 | \$27,535,532        | \$27,658,929        | \$19,589,520        | \$17,686,502        | \$16,230,166        |
| Remaining unfunded commitments   | \$10,884,975        | \$10,678,485        | \$ 8,744,649        | \$ 7,903,294        | \$ 7,231,879        |
| <b>Average loans, net of unearned income</b>                                   | <b>\$27,213,828</b> | <b>\$20,104,042</b> | <b>\$18,303,870</b> | <b>\$16,624,439</b> | <b>\$15,520,972</b> |
| <b>Reserve Rates</b>   |                     |                     |                     |                     |                     |
| Total commercial loans   |                     |                     |                     |                     |                     |
| Allowance/loans % (a)  | 0.63%               | 0.62%               | 0.86%               | 0.82%               | 0.83%               |
| Period end loans % of total loans  | 74                  | 73                  | 73                  | 68                  | 63                  |
| Consumer real estate   |                     |                     |                     |                     |                     |
| Allowance/loans % (a)  | 0.42                | 0.61                | 1.12                | 1.69                | 2.24                |
| Period end loans % of total loans  | 23                  | 23                  | 23                  | 27                  | 31                  |
| Permanent mortgage   |                     |                     |                     |                     |                     |
| Allowance/loans %  | 4.95                | 4.56                | 4.32                | 4.28                | 3.55                |
| Period end loans % of total loans  | 1                   | 1                   | 2                   | 2                   | 3                   |
| Credit card and other  |                     |                     |                     |                     |                     |
| Allowance/loans % (a)  | 2.46                | 1.61                | 3.39                | 3.35                | 4.11                |
| Period end loans % of total loans  | 2                   | 2                   | 2                   | 2                   | 2                   |
| <b>Allowance and net charge-off ratios</b>                                     |                     |                     |                     |                     |                     |
| Allowance to total loans % (a)   | 0.66                | 0.69                | 1.03                | 1.19                | 1.43                |
| Net charge-offs to average loans %   | 0.06                | 0.06                | 0.10                | 0.19                | 0.31                |
| <b>Allowance to net charge-offs</b>  | <b>11.18x</b>       | <b>15.15x</b>       | <b>10.54x</b>       | <b>6.74x</b>        | <b>4.81x</b>        |

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

(a) 2017 decrease in allowance to loans reflects the addition of loans acquired from CBF at fair value which includes an estimate of life of loan credit losses.

### Nonperforming Assets

Nonperforming loans are loans placed on nonaccrual if it becomes evident that full collection of principal and interest is at risk, impairment has been recognized as a partial charge-off of principal balance due to insufficient collateral value and past due status, or on a case-by-case basis if FHN continues to receive payments but there are other borrower-specific issues. Included in nonaccruals are loans that FHN continues to receive payments including residential real estate loans where the borrower has been discharged of personal obligation through bankruptcy, and second liens, regardless of delinquency status, behind first liens that are 90 or more days past

due, are bankruptcies, or are TDRs. These, along with OREO, excluding OREO from government insured mortgages, represent nonperforming assets (“NPAs”).

Total nonperforming assets (including NPLs HFS) decreased to \$175.5 million on December 31, 2018, from \$177.2 million on December 31, 2017. The nonperforming assets ratio (nonperforming assets excluding NPLs HFS to total period-end loans plus OREO and other assets) was .62 percent as of December 31, 2018, compared to .61 percent as of December 31, 2017.

The ratio of the ALLL to NPLs in the loan portfolio was 1.22 times as of December 31, 2018, compared to 1.45 times as of December 31, 2017. Certain nonperforming loans in both the commercial and consumer portfolios are deemed collateral-dependent and are charged down to an estimate of collateral value less costs to sell. Because loss content has been recognized through a partial charge-off, typically reserves are not recorded.

**Table 21 – Nonaccrual/Nonperforming Loans, Foreclosed Assets, and Other Disclosures (a)**

| <i>(Dollars in thousands)</i>                              | December 31 |           |           |           |           |
|--|-------------|-----------|-----------|-----------|-----------|
|  | 2018        | 2017      | 2016      | 2015      | 2014      |
| Commercial:  |             |           |           |           |           |
| Commercial, financial, and industrial                      | \$ 39,776   | \$ 31,153 | \$ 32,736 | \$ 26,313 | \$ 32,610 |
| Commercial real estate                                     | 2,991       | 1,393     | 2,776     | 8,684     | 15,356    |
| Total commercial   | 42,767      | 32,546    | 35,512    | 34,997    | 47,966    |
| Consumer:  |             |           |           |           |           |
| Consumer real estate                                       | 82,648      | 71,487    | 82,812    | 111,092   | 120,632   |
| Permanent mortgage   | 21,710      | 26,390    | 27,181    | 31,652    | 34,078    |
| Credit card & other  | 624         | 196       | 142       | 1,357     | 763       |
| Total consumer   | 104,982     | 98,073    | 110,135   | 144,101   | 155,473   |
| Total nonperforming loans (b) (c)                          | 147,749     | 130,619   | 145,647   | 179,098   | 203,439   |
| Nonperforming loans held-for-sale (c)                      | 5,328       | 6,971     | 7,741     | 7,846     | 7,643     |
| Foreclosed real estate and other assets                    | 22,387      | 39,566    | 11,235    | 24,977    | 30,430    |
| Foreclosed real estate from GNMA loans                     | 2,903       | 3,816     | 5,002     | 8,086     | 9,492     |
| Total foreclosed real estate and other assets              | 25,290      | 43,382    | 16,237    | 33,063    | 39,922    |
| Total nonperforming assets (c) (d)                         | \$175,464   | \$177,156 | \$164,623 | \$211,921 | \$241,512 |
| Troubled debt restructurings (e):                          |             |           |           |           |           |
| Accruing restructured loans                                | \$142,524   | \$170,930 | \$203,445 | \$198,059 | \$231,109 |
| Nonaccruing restructured loans (c) (f)                     | 85,695      | 63,429    | 81,705    | 98,113    | 100,152   |
| Total troubled debt restructurings (e)                     | \$228,219   | \$234,359 | \$285,150 | \$296,172 | \$331,261 |
| Ratios:  |             |           |           |           |           |
| Allowance to nonperforming loans in the loan portfolio (c) | 1.22x       | 1.45x     | 1.39x     | 1.17x     | 1.14x     |

(a) Balances do not include PCI loans even though the customer may be contractually past due. PCI loans were recorded at fair value upon acquisition and accrete interest income over the remaining life of the loan.

(b) Under the original terms of the loans, estimated interest income would have been approximately \$9 million, \$10 million, and \$8 million during 2018, 2017 and 2016, respectively.

(c) Excludes loans that are 90 or more days past due and still accruing interest.

(d) Balances do not include PCI loans or government-insured foreclosed real estate.

(e) Excludes TDRs that are classified as held-for-sale nearly all of which are accounted for under the fair value option.

(f) Amounts also included in nonperforming loans above.

The following table provides nonperforming assets by business segment:

**Table 22 – Nonperforming Assets by Segment**

| <i>(Dollars in thousands)</i>           | December 31 |           |           |           |           |
|---|-------------|-----------|-----------|-----------|-----------|
|   | 2018        | 2017      | 2016      | 2015      | 2014      |
| <b>Nonperforming loans (a) (b)</b>      |             |           |           |           |           |
| Regional bank                           | \$ 81,046   | \$ 54,816 | \$ 51,839 | \$ 58,152 | \$ 67,699 |
| Non-strategic                           | 66,703      | 75,803    | 93,808    | 120,946   | 135,740   |
| Consolidated                            | \$147,749   | \$130,619 | \$145,647 | \$179,098 | \$203,439 |
| <b>Foreclosed real estate (c)</b>       |             |           |           |           |           |
| Regional bank                           | \$ 18,535   | \$ 34,679 | \$ 5,081  | \$ 16,298 | \$ 20,451 |
| Non-strategic                           | 3,852       | 4,887     | 6,154     | 8,679     | 9,979     |
| Consolidated                            | \$ 22,387   | \$ 39,566 | \$ 11,235 | \$ 24,977 | \$ 30,430 |
| <b>Nonperforming Assets (a) (b) (c)</b> |             |           |           |           |           |
| Regional bank                           | \$ 99,581   | \$ 89,495 | \$ 56,920 | \$ 74,450 | \$ 88,150 |
| Non-strategic                           | 70,555      | 80,690    | 99,962    | 129,625   | 145,719   |
| Consolidated                            | \$170,136   | \$170,185 | \$156,882 | \$204,075 | \$233,869 |
| <b>NPL %</b>                            |             |           |           |           |           |
| Regional bank                           | 0.31%       | 0.21%     | 0.29%     | 0.36%     | 0.48%     |
| Non-strategic                           | 6.46%       | 5.34%     | 5.92%     | 5.99%     | 5.37%     |
| Consolidated                            | 0.54%       | 0.47%     | 0.74%     | 1.01%     | 1.25%     |
| <b>NPA % (d)</b>                        |             |           |           |           |           |
| Regional bank                           | 0.38%       | 0.34%     | 0.32%     | 0.47%     | 0.64%     |
| Non-strategic                           | 6.81%       | 5.66%     | 6.29%     | 6.39%     | 5.74%     |
| Consolidated                            | 0.62%       | 0.61%     | 0.80%     | 1.15%     | 1.44%     |

(a) Excludes loans that are 90 or more days past due and still accruing interest.

(b) Excludes loans classified as held-for-sale.

(c) Excludes foreclosed real estate and receivables related to government insured mortgages of \$3.1 million, \$5.2 million, \$6.6 million, \$9.0 million, and \$9.5 million during 2018, 2017, 2016, 2015, and 2014, respectively.

(d) Ratio is non-performing assets related to the loan portfolio to total loans plus foreclosed real estate and other assets.

The following table provides an activity rollforward of OREO balances for December 31, 2018 and 2017. The balance of OREO, exclusive of inventory from government insured mortgages, decreased to \$22.4 million as of December 31, 2018, from \$39.6 million as of December 31, 2017, driven by the sale of OREO, primarily those acquired from CBF. Moreover, property values have stabilized which also affects the balance of OREO.

**Table 23 – Rollforward of OREO**

| <i>(Dollars in thousands)</i>   | 2018      | 2017      |
|---------------------------------|-----------|-----------|
| Beginning balance, January 1    | \$ 39,566 | \$ 11,235 |
| Valuation adjustments           | (2,599)   | (996)     |
| New foreclosed property         | 12,148    | 6,340     |
| Acquired foreclosed property    | -         | 33,928    |
| Disposals                       | (26,728)  | (10,941)  |
| Ending balance, December 31 (a) | \$ 22,387 | \$ 39,566 |

(a) Excludes OREO and receivables related to government insured mortgages of \$3.1 million and \$5.2 million as of December 31, 2018 and 2017, respectively.

### Past Due Loans and Potential Problem Assets

Past due loans are loans contractually past due as to interest or principal payments, but which have not yet been put on nonaccrual status. Loans in the portfolio that are 90 days or more past due and still accruing were \$32.5 million on December 31, 2018, compared to \$41.6 million on December 31, 2017. The decrease was due

in large part to one relationship, which is a purchased credit-impaired loan. Loans 30 to 89 days past due decreased to \$42.7 million on December 31, 2018, from \$50.9 million on December 31, 2017.

Potential problem assets represent those assets where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms and includes loans past due 90 days or more and still accruing. This definition is believed to be substantially consistent with the standards established by the OCC for loans classified as substandard. Potential problem assets in the loan portfolio were \$317.0 million on December 31, 2018, compared to \$327.2 million on December 31, 2017. The decrease year-over-year in potential problem assets was due to a net decrease in classified commercial loans within the C&I portfolio. The current expectation of losses from potential problem assets has been included in management's analysis for assessing the adequacy of the allowance for loan losses.

**Table 24 – Accruing Delinquencies and Other Credit Disclosures**

| <i>(Dollars in thousands)</i>   | December 31      |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|------------------|
|   | 2018             | 2017             | 2016             | 2015             | 2014             |
| <b>Loans past due 90 days or more and still accruing (a) (b):</b>       |                  |                  |                  |                  |                  |
| Commercial:   |                  |                  |                  |                  |                  |
| Commercial, financial, and industrial                                   | \$ 1,775         | \$ 19,654        | \$ 257           | \$ 1,083         | \$ 770           |
| Commercial real estate  | 1,752            | 2,051            | -                | 161              | 115              |
| <b>Total commercial</b>   | <b>3,527</b>     | <b>21,705</b>    | <b>257</b>       | <b>1,244</b>     | <b>885</b>       |
| Consumer:   |                  |                  |                  |                  |                  |
| Consumer real estate  | 22,246           | 14,433           | 16,110           | 16,668           | 16,695           |
| Permanent mortgage  | 4,562            | 3,460            | 5,428            | 3,991            | 5,640            |
| Credit card & other   | 2,126            | 1,970            | 1,590            | 1,398            | 2,025            |
| <b>Total consumer</b>   | <b>28,934</b>    | <b>19,863</b>    | <b>23,128</b>    | <b>22,057</b>    | <b>24,360</b>    |
| <b>Total loans past due 90 days or more and still accruing (a) (b)</b>  | <b>\$ 32,461</b> | <b>\$ 41,568</b> | <b>\$ 23,385</b> | <b>\$ 23,301</b> | <b>\$ 25,245</b> |
| Loans 30 to 89 days past due  | \$ 42,703        | \$ 50,884        | \$ 42,570        | \$ 50,896        | \$ 50,531        |
| Loans 30 to 89 days past due – guaranteed (c)                           | 82               | 85               | 89               | -                | 175              |
| Loans held-for-sale 30 to 89 days past due (b)                          | 5,790            | 13,419           | 6,462            | 7,133            | 6,895            |
| Loans held-for-sale 30 to 89 days past due – guaranteed portion (b) (c) | 4,848            | 5,975            | 6,248            | 7,133            | 6,013            |
| Loans held-for-sale 90 days past due (b)                                | 7,368            | 10,885           | 14,868           | 17,230           | 25,455           |
| Loans held-for-sale 90 days past due – guaranteed portion (b) (c)       | 7,237            | 9,451            | 14,657           | 17,131           | 24,255           |
| Potential problem assets (d)  | \$316,952        | \$327,214        | \$290,354        | \$208,706        | \$267,797        |

(a) Excludes loans classified as held-for-sale.

(b) Amounts are not included in nonperforming/nonaccrual loans.

(c) Guaranteed loans include FHA, VA, and GNMA loans repurchased through the GNMA buyout program.

(d) Includes past due loans.

### **Troubled Debt Restructuring and Loan Modifications**

As part of FHN's ongoing risk management practices, FHN attempts to work with borrowers when appropriate to extend or modify loan terms to better align with their current ability to repay. Extensions and modifications to loans are made in accordance with internal policies and guidelines which conform to regulatory guidance. Each occurrence is unique to the borrower and is evaluated separately. In a situation where an economic concession has been granted to a borrower that is experiencing financial difficulty, FHN identifies and reports that loan as a Troubled Debt Restructuring ("TDR"). See Note 4–Loans for further discussion regarding TDRs and loan modifications.

### **Commercial Loan Modifications**

As part of FHN's credit risk management governance processes, the Loan Rehab and Recovery Department ("LRRD") is responsible for managing most commercial relationships with borrowers whose financial condition has deteriorated to such an extent that the credits are being considered for impairment, classified as substandard or worse, placed on nonaccrual status, foreclosed or in process of foreclosure, or in active or contemplated litigation. LRRD has the authority and responsibility to enter into workout and/or rehabilitation agreements with troubled

commercial borrowers in order to mitigate and/or minimize the amount of credit losses recognized from these problem assets. While every circumstance is different, LRRD will generally use forbearance agreements (generally 6-12 months) as an element of commercial loan workouts, which include reduced interest rates, reduced payments, release of guarantor, or entering into short sale agreements.

The individual impairment assessments completed on commercial loans in accordance with the Accounting Standards Codification Topic related to Troubled Debt Restructurings (“ASC 310-40”) include loans classified as TDRs as well as loans that may have been modified yet not classified as TDRs by management. For example, a modification of loan terms that management would generally not consider to be a TDR could be a temporary extension of maturity to allow a borrower to complete an asset sale whereby the proceeds of such transaction are to be paid to satisfy the outstanding debt. Additionally, a modification that extends the term of a loan but does not involve reduction of principal or accrued interest, in which the interest rate is adjusted to reflect current market rates for similarly situated borrowers, is not considered a TDR. Nevertheless, each assessment will take into account any modified terms and will be comprehensive to ensure appropriate impairment assessment. If individual impairment is identified, management will either hold specific reserves on the amount of impairment, or, if the loan is collateral dependent, write down the carrying amount of the asset to the net realizable value of the collateral.

### Consumer Loan Modifications

FHN does not currently participate in any of the loan modification programs sponsored by the U.S. government but does generally structure modified consumer loans using the parameters of the former Home Affordable Modification Program (“HAMP”). Generally, a majority of loans modified under any such proprietary programs are classified as TDRs.

Within the HELOC and R/E installment loans classes of the consumer portfolio segment, TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 1 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt-to-income ratio. After 5 years, the interest rate generally returns to the original interest rate prior to modification; for certain modifications, the modified interest rate increases 2 percent per year until the original interest rate prior to modification is achieved. Permanent mortgage TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 2 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt-to-income ratio. After 5 years, the interest rate steps up 1 percent every year until it reaches the Federal Home Loan Mortgage Corporation Weekly Survey Rate cap. Contractual maturities may be extended to 40 years on permanent mortgages and to 30 years for consumer real estate loans. Within the credit card class of the consumer portfolio segment, TDRs are typically modified through either a short-term credit card hardship program or a longer-term credit card workout program. In the credit card hardship program, borrowers may be granted rate and payment reductions for 6 months to 1 year. In the credit card workout program, customers are granted a rate reduction to 0 percent and term extensions for up to 5 years to pay off the remaining balance.

Following classification as a TDR, modified loans within the consumer portfolio, which were previously evaluated for impairment on a collective basis determined by their smaller balances and homogenous nature, become subject to the impairment guidance in ASC 310-10-35, which requires individual evaluation of the debt for impairment. However, as applicable accounting guidance allows, FHN may aggregate certain smaller-balance homogeneous TDRs and use historical statistics, such as aggregated charge-off amounts and average amounts recovered, along with a composite effective interest rate to measure impairment when such impaired loans have risk characteristics in common.

On December 31, 2018 and December 31, 2017, FHN had \$228.2 million and \$234.4 million portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of \$27.7 million and \$37.3 million, or 12 and 16 percent of TDR balances, as of December 31, 2018 and December 31, 2017, respectively. Additionally, FHN had \$57.8 million and \$63.2 million of HFS loans classified as TDRs as of December 31, 2018 and December 31, 2017, respectively. Total held-to-maturity TDRs decreased by \$6.1 million with the decline attributable to permanent mortgage and consumer real estate partially offset by an increase in commercial.



The following table provides a summary of TDRs for the periods ended December 31, 2018 and 2017:

**Table 25 – Troubled Debt Restructurings**

| <i>(Dollars in thousands)</i>      | As of<br>December 31, 2018 | As of<br>December 31, 2017 |
|------------------------------------|----------------------------|----------------------------|
| Held-to-maturity:                  |                            |                            |
| Permanent mortgage:                |                            |                            |
| Current                            | \$ 54,114                  | \$ 63,891                  |
| Delinquent                         | 2,367                      | 4,463                      |
| Non-accrual (a)                    | 14,365                     | 16,440                     |
| Total permanent mortgage           | <u>70,846</u>              | <u>84,794</u>              |
| Consumer real estate:              |                            |                            |
| Current                            | 68,960                     | 84,697                     |
| Delinquent                         | 2,311                      | 1,975                      |
| Non-accrual (b)                    | 47,163                     | 42,223                     |
| Total consumer real estate         | <u>118,434</u>             | <u>128,895</u>             |
| Credit card and other:             |                            |                            |
| Current                            | 665                        | 544                        |
| Delinquent                         | 30                         | 49                         |
| Non-accrual                        | -                          | -                          |
| Total credit card and other        | <u>695</u>                 | <u>593</u>                 |
| Commercial loans:                  |                            |                            |
| Current                            | 13,246                     | 15,311                     |
| Delinquent                         | 831                        | -                          |
| Non-accrual                        | 24,167                     | 4,766                      |
| Total commercial loans             | <u>38,244</u>              | <u>20,077</u>              |
| Total held-to-maturity             | <u>\$228,219</u>           | <u>\$234,359</u>           |
| Held-for-sale:                     |                            |                            |
| Current                            | \$ 42,574                  | \$ 43,455                  |
| Delinquent                         | 10,041                     | 13,269                     |
| Non-accrual                        | 5,209                      | 6,515                      |
| Total held-for-sale                | <u>57,824</u>              | <u>63,239</u>              |
| Total troubled debt restructurings | <u>\$286,043</u>           | <u>\$297,598</u>           |

(a) Balances as of December 31, 2018 and 2017, include \$3.6 million and \$5.1 million, respectively, of discharged bankruptcies.

(b) Balances as of December 31, 2018 and 2017, include \$13.0 million and \$13.4 million, respectively, of discharged bankruptcies.

## **RISK MANAGEMENT**

FHN derives revenue from providing services and, in many cases, assuming and managing risk for profit which exposes the Company to business strategy and reputational, interest rate, liquidity, market, capital adequacy, operational, compliance, and credit risks that require ongoing oversight and management. FHN has an enterprise-wide approach to risk governance, measurement, management, and reporting including an economic capital allocation process that is tied to risk profiles used to measure risk-adjusted returns. Through an enterprise-wide risk governance structure and a statement of risk tolerance approved by the Board, management continually evaluates the balance of risk/return and earnings volatility with shareholder value.

FHN's enterprise-wide risk governance structure begins with the Board. The Board, working with the Executive & Risk Committee of the Board, establishes the Company's risk tolerance by approving policies and limits that provide standards for the nature and the level of risk the Company is willing to assume. The Board regularly receives reports on management's performance against the Company's risk tolerance primarily through the Board's Executive & Risk and Audit Committees.

To further support the risk governance provided by the Board, FHN has established accountabilities, control processes, procedures, and a management governance structure designed to align risk management with risk-taking throughout the Company. The control procedures are aligned with FHN's four components of risk governance: (1) Specific Risk Committees; (2) the Risk Management Organization; (3) Business Unit Risk Management; and (4) Independent Assurance Functions.

1. **Specific Risk Committees:** The Board has delegated authority to the Chief Executive Officer ("CEO") to manage Business Strategy and Reputation Risk, and the general business affairs of the Company under the Board's oversight. The CEO utilizes the executive management team and the Executive Risk Management Committee to carry out these duties and to analyze existing and emerging strategic and reputation risks and determines the appropriate course of action. The Executive Risk Management Committee is comprised of the CEO and certain officers designated by the CEO. The Executive Risk Management Committee is supported by a set of specific risk committees focused on unique risk types (e.g. liquidity, credit, operational, etc). These risk committees provide a mechanism that assembles the necessary expertise and perspectives of the management team to discuss emerging risk issues, monitor the Company's risk-taking activities, and evaluate specific transactions and exposures. These committees also monitor the direction and trend of risks relative to business strategies and market conditions and direct management to respond to risk issues.
2. **The Risk Management Organization:** The Company's risk management organization, led by the Chief Risk Officer and Chief Credit Officer, provides objective oversight of risk-taking activities. The risk management organization translates FHN's overall risk tolerance into approved limits and formal policies and is supported by corporate staff functions, including the Corporate Secretary, Legal, Finance, Human Resources, and Technology. Risk management also works with business units and functional experts to establish appropriate operating standards and monitor business practices in relation to those standards. Additionally, risk management proactively works with business units and senior management to focus management on key risks in the Company and emerging trends that may change FHN's risk profile. The Chief Risk Officer has overall responsibility and accountability for enterprise risk management and aggregate risk reporting.
3. **Business Unit Risk Management:** The Company's business units are responsible for identifying, acknowledging, quantifying, mitigating, and managing all risks arising within their respective units. They determine and execute their business strategies, which puts them closest to the changing nature of risks and they are best able to take the needed actions to manage and mitigate those risks. The business units are supported by the risk management organization that helps identify and consider risks when making business decisions. Management processes, structure, and policies are designed to help ensure compliance with laws and regulations as well as provide organizational clarity for authority, decision-making, and accountability. The risk governance structure supports and promotes the escalation of material items to executive management and the Board.

4. Independent Assurance Functions: Internal Audit, Credit Assurance Services (“CAS”), and Model Validation provide an independent and objective assessment of the design and execution of the Company’s internal control system, including management processes, risk governance, and policies and procedures. These groups’ activities are designed to provide reasonable assurance that risks are appropriately identified and communicated; resources are safeguarded; significant financial, managerial, and operating information is complete, accurate, and reliable; and employee actions are in compliance with the Company’s policies and applicable laws and regulations. Internal Audit and CAS report to the Chief Audit Executive, who is appointed by and reports to the Audit Committee of the Board. Internal Audit reports quarterly to the Audit Committee of the Board, while CAS reports quarterly to the Executive & Risk Committee of the Board. Model Validation reports to the Chief Risk Officer and reports annually to the Audit Committee of the Board.

## MARKET RISK MANAGEMENT

Market risk is the risk that changes in market conditions will adversely impact the value of assets or liabilities, or otherwise negatively impact FHN’s earnings. Market risk is inherent in the financial instruments associated with FHN’s operations, primarily trading activities within FHN’s fixed income segment, but also through non-trading activities which are primarily affected by interest rate risk that is managed by the Asset Liability Committee (“ALCO”) within FHN.

FHN is exposed to market risk related to the trading securities inventory and loans held-for-sale maintained by its Fixed Income division in connection with its fixed income distribution activities. Various types of securities inventory positions are procured for distribution to customers by the sales staff. When these securities settle on a delayed basis, they are considered forward contracts. Refer to the “Determination of Fair Value - Trading securities and trading liabilities” section of Note 24 - Fair Value of Assets and Liabilities beginning on page 170 of this report, which section is incorporated into this MD&A by this reference.

FHN’s market risk appetite is approved by the Executive & Risk Committee of the Board of Directors and executed through management policies and procedures of ALCO and the FTN Financial Risk Committee. These policies contain various market risk limits including, for example, overall balance sheet size limits for Fixed Income, VaR limits for the trading securities inventory, and individual position limits and sector limits for products with credit risk, among others. Risk measures are computed and reviewed on a daily basis to ensure compliance with market risk management policies.

### VaR and Stress Testing

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

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

**Table 26 – VaR and SVaR Measures**

|                               | Year Ended<br>December 31, 2018 |          |          | As of<br>December 31, 2018 |
|-------------------------------|---------------------------------|----------|----------|----------------------------|
|                               | Mean                            | High     | Low      |                            |
| <i>(Dollars in thousands)</i> |                                 |          |          |                            |
| <b>1-day</b>                  |                                 |          |          |                            |
| VaR                           | \$ 1,728                        | \$ 2,660 | \$ 1,148 | \$ 1,878                   |
| SVaR                          | 9,191                           | 11,918   | 6,576    | 8,881                      |
| <b>10-day</b>                 |                                 |          |          |                            |
| VaR                           | 3,735                           | 5,124    | 2,601    | 3,258                      |
| SVaR                          | 24,762                          | 32,343   | 16,257   | 21,621                     |

| <i>(Dollars in thousands)</i> | Year Ended<br>December 31, 2017 |          |        | As of             |
|-------------------------------|---------------------------------|----------|--------|-------------------|
|                               | Mean                            | High     | Low    | December 31, 2017 |
| <b>1-day</b>                  |                                 |          |        |                   |
| VaR                           | \$ 1,529                        | \$ 3,310 | \$ 521 | \$ 1,287          |
| SVaR                          | 4,704                           | 8,301    | 1,775  | 6,230             |
| <b>10-day</b>                 |                                 |          |        |                   |
| VaR                           | 3,560                           | 8,039    | 870    | 3,059             |
| SVaR                          | 15,511                          | 28,232   | 4,916  | 19,813            |

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

**Table 27 – Schedule of Risks Included in VaR**

| <i>(Dollars in thousands)</i> | As of<br>December 31, 2018 |                | As of<br>December 31, 2017 |         |
|-------------------------------|----------------------------|----------------|----------------------------|---------|
|                               | 1-day                      | 10-day         | 1-day                      | 10-day  |
| Interest rate risk            | <b>\$618</b>               | <b>\$1,514</b> | \$930                      | \$2,084 |
| Credit spread risk            | <b>394</b>                 | <b>596</b>     | 305                        | 471     |

The potential risk of loss reflected by FHN's VaR measures assumes the trading securities inventory is static. Because FHN's Fixed Income division procures fixed income securities for purposes of distribution to customers, its trading securities inventory turns over regularly. Additionally, Fixed Income traders actively manage the trading securities inventory continuously throughout each trading day. Accordingly, FHN's trading securities inventory is highly dynamic, rather than static. As a result, it would be rare for Fixed Income to incur a negative revenue day in its fixed income activities of the level indicated by its VaR measurements.

In addition to being used in FHN's daily market risk management process, the VaR and SVaR measures are also used by FHN in computing its regulatory market risk capital requirements in accordance with the Market Risk Capital rules. For additional information regarding FHN's capital adequacy refer to the "Capital" section of this MD&A.

FHN also performs stress tests on its trading securities portfolio to calculate the potential loss under various assumed market scenarios. Key assumed stresses used in those tests are:

*Down 25 bps* – assumes an instantaneous downward move in interest rates of 25 basis points at all points on the interest rate yield curve.

*Up 25 bps* – assumes an instantaneous upward move in interest rates of 25 basis points at all points on the interest rate yield curve.

*Curve flattening* – assumes an instantaneous flattening of the interest rate yield curve through an increase in short-term rates and a decrease in long-term rates. The 2-year point on the Treasury yield curve is assumed to increase 15 basis points and the 10-year point on the Treasury yield curve is assumed to decrease 15 basis points. Shifts in other points on the yield curve are predicted based on their correlation to the 2-year and 10-year points.

*Curve steepening* – assumes an instantaneous steepening of the interest rate yield curve through a decrease in short-term rates and an increase in long-term rates. The 2-year point on the Treasury yield curve is assumed to decrease 15 basis points and the 10-year point on the Treasury yield curve is assumed to increase 15 basis points. Shifts in other points on the yield curve are predicted based on their correlation to the 2-year and 10-year points.

*Credit spread widening* – assumes an instantaneous increase in credit spreads (the difference between yields on Treasury securities and non-Treasury securities) of 25 basis points.

## **Model Validation**

Trading risk management personnel within Fixed Income have primary responsibility for model risk management with respect to the model used by FHN to compute its VaR measures and perform stress testing on the trading inventory. Among other procedures, these personnel monitor model results and perform periodic backtesting as part of an ongoing process of validating the accuracy of the model. These model risk management activities are subject to annual review by FHN's Model Validation Group, an independent assurance group charged with oversight responsibility for FHN's model risk management.

## **INTEREST RATE RISK MANAGEMENT**

Interest rate risk is the risk to earnings or capital arising from movement in interest rates. ALCO is responsible for overseeing the management of existing and emerging interest rate risk in the company within risk tolerances established by the Board. FHN primarily manages interest rate risk by structuring the balance sheet to maintain a desired level of associated earnings and to protect the economic value of FHN's capital.

Net interest income and the value of equity are affected by changes in the level of market interest rates because of the differing repricing characteristics of assets and liabilities, the exercise of prepayment options held by loan customers, the early withdrawal options held by deposit customers, and changes in the basis between and changing shapes of the various yield curves used to price assets and liabilities. To isolate the repricing, basis, option, and yield curve components of overall interest rate risk, FHN employs Gap, Earnings at Risk, and Economic Value of Equity analyses generated by a balance sheet simulation model.

### **Net Interest Income Simulation Analysis**

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

Management uses a simulation model to measure interest rate risk and to formulate strategies to improve balance sheet positioning, earnings, or both, within FHN's interest rate risk, liquidity, and capital guidelines. Interest rate exposure is measured by forecasting 12 months of NII under various interest rate scenarios and comparing the percentage change in NII for each scenario to a base case scenario where interest rates remain unchanged. Assumptions are made regarding future balance sheet composition, interest rate movements, and loan and deposit pricing. In addition, assumptions are made about the magnitude of asset prepayments and earlier than anticipated deposit withdrawals. The results of these scenarios help FHN develop strategies for managing exposure to interest rate risk. While management believes the assumptions used and scenarios selected in its simulations are reasonable, simulation modeling provides only an estimate, not a precise calculation, of exposure to any given change in interest rates.

Based on a static balance sheet as of December 31, 2018, NII exposures over the next 12 months assuming rate shocks of plus 25 basis points, 50 basis points, 100 basis points, and 200 basis points are estimated to have favorable variances of .6 percent, 1.1 percent, 2.5 percent, and 4.5 percent, respectively compared to base NII. A steepening yield curve scenario where long-term rates increase by 50 basis points and short-term rates are static, results in a favorable NII variance of 1.2 percent. A flattening yield curve scenario where long-term rates decrease by 50 basis points and short-term rates are static, results in an unfavorable NII variance of .5 percent. Rate shocks of minus 25 basis points and 50 basis points result in unfavorable NII variances of .5 percent and 1.6 percent. These hypothetical scenarios are used to create a risk measurement framework, and do not necessarily represent management's current view of future interest rates or market developments.

During the past few years, the movement of short-term interest rates higher after a prolonged period of very low interest rates has had an overall positive effect on FHN's NII and NIM. More recently however, competitive pressures have caused FHN's deposit costs to rise faster than the long-term "through the cycle" assumptions made in its simulation model. Of the many assumptions made in its simulation model, deposit pricing and deposit mix are two that can have a meaningful impact on measured results. For example, in the analysis presented above, interest bearing deposit rates are assumed to increase by 65 basis points in the +100 basis point scenario.

If interest bearing deposit costs were to increase 5 percent more than currently assumed in the +100 basis point scenario, the 2.5 percent favorable variance in NII disclosed above for that scenario would decline to a 1.5 percent favorable variance. Similarly, in each interest rate scenario, management makes assumptions about the balance sheet's deposit mix. In the +100 basis point scenario it is assumed that an additional \$750 million moves from non-interest bearing accounts to market rate accounts as compared to the migration assumed in the base case scenario. If that amount were to increase to \$1 billion, the 2.5 percent favorable variance in NII disclosed above for that scenario would decline to 2.0 percent.

### **Fair Value Shock Analysis**

Interest rate risk and the slope of the yield curve also affect the fair value of Fixed Income's trading inventory that is reflected in Fixed Income's noninterest income.

Generally, low or declining interest rates with a positively sloped yield curve tend to increase Fixed Income's income through higher demand for fixed income products. Additionally, the fair value of Fixed Income's trading inventory can fluctuate as a result of differences between current interest rates and the interest rates of fixed income securities in the trading inventory.

### **Derivatives**

In the normal course of business, FHN utilizes various financial instruments (including derivative contracts and credit-related agreements) to manage interest rate risk of certain term borrowings, and certain loans. The Fixed Income segment utilizes various financial instruments (including derivative contracts and credit-related agreements) to manage the risk of loss arising from adverse changes in the fair value of certain financial instruments generally caused by changes in interest rates including Fixed Income's securities inventory, certain term borrowings, and certain loans. Additionally, Fixed Income or Regional Banking may enter into derivative contracts in order to meet customers' needs. However, such derivative contracts are typically offset with a derivative contract entered into with an upstream counterparty in order to mitigate risk associated with changes in interest rates.

The simulation models and related hedging strategies discussed above exclude the dynamics related to how fee income and noninterest expense may be affected by actual changes in interest rates or expectations of changes. See Note 22 – Derivatives for additional discussion of these instruments.

### **CAPITAL RISK MANAGEMENT AND ADEQUACY**

The capital management objectives of FHN are to provide capital sufficient to cover the risks inherent in FHN's businesses, to maintain excess capital to well-capitalized standards, and to assure ready access to the capital markets. The Capital Management Committee, chaired by the Senior Vice President and Corporate Treasurer, reports to ALCO and is responsible for capital management oversight and provides a forum for addressing management issues related to capital adequacy. This committee reviews sources and uses of capital, key capital ratios, segment economic capital allocation methodologies, and other factors in monitoring and managing current capital levels, as well as potential future sources and uses of capital. The Capital Management Committee also recommends capital management policies, which are submitted for approval to ALCO and the Executive & Risk Committee and the Board as necessary.

### **OPERATIONAL RISK MANAGEMENT**

Operational risk is the risk of loss from inadequate or failed internal processes, people, or systems or from external events including data or network security breaches of FHN or of third parties affecting FHN or its customers. This risk is inherent in all businesses. Operational risk is divided into the following risk areas, which have been established at the corporate level to address these risks across the entire organization:

- Business Continuity Planning/Records Management
- Compliance/Legal

- Program Governance
- Fiduciary
- Financial Crimes (including Bank Secrecy Act, know your customer, security, and fraud)
- Financial (including disclosure controls and procedures)
- Information Technology (including cybersecurity)
- Vendor

Management, measurement, and reporting of operational risk are overseen by the Operational Risk, Fiduciary, Financial Governance, FTN Financial Risk, and Investment Rationalization Board Committees. Key representatives from the business segments, operating units, and supporting units are represented on these committees as appropriate. These governance committees manage the individual operational risk types across the Company by setting standards, monitoring activity, initiating actions, and reporting exposures and results. Key Committee activities and decisions are reported to the appropriate governance committee or included in the Enterprise Risk Report, a quarterly analysis of risk within the organization that is provided to the Executive and Risk Committee. Emphasis is dedicated to refinement of processes and tools to aid in measuring and managing material operational risks and providing for a culture of awareness and accountability.

### **COMPLIANCE RISK MANAGEMENT**

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation as a result of failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to FHN's activities. Management, measurement, and reporting of compliance risk are overseen by the Operational Risk Committee. Key executives from the business segments, legal, risk management, and service functions are represented on the Committee. Summary reports of Committee activities and decisions are provided to the appropriate governance committees. Reports include the status of regulatory activities, internal compliance program initiatives, and evaluation of emerging compliance risk areas.

### **CREDIT RISK MANAGEMENT**

Credit risk is the risk of loss due to adverse changes in a borrower's or counterparty's ability to meet its financial obligations under agreed upon terms. FHN is subject to credit risk in lending, trading, investing, liquidity/funding, and asset management activities although lending activities have the most exposure to credit risk. The nature and amount of credit risk depends on the types of transactions, the structure of those transactions, collateral received, the use of guarantors and the parties involved.

FHN assesses and manages credit risk through a series of policies, processes, measurement systems, and controls. The Credit Risk Management Committee ("CRMC") is responsible for overseeing the management of existing and emerging credit risks in the company within the broad risk tolerances established by the Board. The CRMC reports through the Executive Risk Management Committee. The Credit Risk Management function, led by the Chief Credit Officer, provides strategic and tactical credit leadership by maintaining policies, overseeing credit approval, assessing new credit products, strategies and processes, and managing portfolio composition and performance.

While the Credit Risk function oversees FHN's credit risk management, there is significant coordination between the business lines and the Credit Risk function in order to manage FHN's credit risk and maintain strong asset quality. The Credit Risk function recommends portfolio, industry/sector, and individual customer limits to the Executive & Risk Committee of the Board for approval. Adherence to these approved limits is vigorously monitored by Credit Risk which provides recommendations to slow or cease lending to the business lines as commitments near established lending limits. Credit Risk also ensures subject matter experts are providing oversight, support and credit approvals, particularly in the specialty lending areas where industry-specific knowledge is required.

Management emphasizes general portfolio servicing such that emerging risks are able to be spotted early enough to correct potential deficiencies, prevent further credit deterioration, and mitigate credit losses.

The Credit Risk Management function assesses the asset quality trends and results, as well as lending processes, adherence to underwriting guidelines (portfolio-specific underwriting guidelines are discussed further in the Asset Quality Trends section), and utilizes this information to inform management regarding the current state of credit quality and as a factor of the estimation process for determining the allowance for loan losses. The CRMC reviews on a periodic basis various reports issued by assurance functions which provide an independent assessment of the adequacy of loan servicing, grading accuracy, and other key functions. Additionally, CRMC is presented with and discusses various portfolios, lending activity and lending-related projects.

All of the above activities are subject to independent review by FHN's Credit Assurance Services Group. CAS reports to the Chief Audit Executive, who is appointed by and reports to the Audit Committee of the Board, and provides quarterly reports to the Executive & Risk Committee of the Board. CAS is charged with providing the Executive & Risk Committee of the Board and executive management with independent, objective, and timely assessments of FHN's portfolio quality, credit policies, and credit risk management processes.



## LIQUIDITY RISK MANAGEMENT

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

In accordance with the Liquidity Policy, ALCO manages FHN's exposure to liquidity risk through a dynamic, real time forecasting methodology. Base liquidity forecasts are reviewed by ALCO and are updated as financial conditions dictate. In addition to the baseline liquidity reports, robust stress testing of assumptions and funds availability are periodically reviewed. FHN maintains a contingency funding plan that may be executed, should unexpected difficulties arise in accessing funding that affects FHN, the industry as a whole, or both. Subject to market conditions and compliance with applicable regulatory requirements from time to time, funds are available from a number of sources including the available-for-sale securities portfolio, dealer and commercial customer repurchase agreements, access to the overnight and term Federal Funds markets, incremental borrowing capacity at the FHLB (\$3.1 billion was available at December 31, 2018), brokered deposits, loan sales, syndications, and access to the Federal Reserve Banks.

Core deposits are a significant source of funding and have historically been a stable source of liquidity for banks. Generally, core deposits represent funding from a financial institution's customer base which provide inexpensive, predictable pricing. The Federal Deposit Insurance Corporation insures these deposits to the extent authorized by law. Generally, these limits are \$250 thousand per account owner for interest bearing and non-interest bearing accounts. The ratio of total loans, excluding loans HFS and restricted real estate loans, to core deposits was 100 percent on December 31, 2018 compared to 101 percent on December 31, 2017.

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

Both FHN and FTBNA may access the debt markets in order to provide funding through the issuance of senior or subordinated unsecured debt subject to market conditions and compliance with applicable regulatory requirements. In 2014, FTBNA issued \$400 million of fixed rate senior notes due in December 2019. In October 2015, FHN issued \$500 million of fixed rate senior notes due in December 2020.

Both FHN and FTBNA have the ability to generate liquidity by issuing preferred equity, and (for FHN) by issuing common equity, subject to market conditions and compliance with applicable regulatory requirements. In January 2013, FHN issued \$100 million of Non-Cumulative Perpetual Preferred Stock, Series A. As of December 31, 2018, FTBNA and subsidiaries had outstanding preferred shares of \$295.4 million, which are reflected as noncontrolling interest on the Consolidated Statements of Condition.

Parent company liquidity is primarily provided by cash flows stemming from dividends and interest payments collected from subsidiaries. These sources of cash represent the primary sources of funds to pay cash dividends to shareholders and principal and interest to debt holders of FHN. The amount paid to the parent company through FTBNA common dividends is managed as part of FHN's overall cash management process, subject to applicable regulatory restrictions. Certain regulatory restrictions exist regarding the ability of FTBNA to transfer funds to FHN in the form of cash, common dividends, loans, or advances. At any given time, the pertinent portions of those regulatory restrictions allow FTBNA to declare preferred or common dividends without prior regulatory approval in an aggregate amount equal to FTBNA's retained net income for the two most recent completed years plus the current year to date. For any period, FTBNA's 'retained net income' generally is equal to FTBNA's regulatory net income reduced by the preferred and common dividends declared by FTBNA. Excess dividends in either of the two most recent completed years may be offset with available retained net income in the two years immediately

preceding it. Applying the dividend restrictions imposed under applicable federal rules as outlined above, the Bank's total amount available for dividends was \$156.2 million as of January 1, 2019. Consequently, on that date the Bank could pay common dividends up to that amount to its sole common stockholder, FHN, or to its preferred shareholders without prior regulatory approval. FTBNA declared and paid common dividends to the parent company in the amount of \$420.0 million in 2018 and \$250.0 million in 2017, with OCC approval as necessary. In January 2019, FTBNA declared and paid a common dividend to the parent company in the amount of \$110 million. During 2018 and 2017, FTBNA declared and paid dividends on its preferred stock quarterly, with OCC approval as necessary. Additionally, FTBNA declared preferred dividends in first quarter 2019 payable in April 2019.

Payment of a dividend to shareholders of FHN is dependent on several factors which are considered by the Board. These factors include FHN's current and prospective capital, liquidity, and other needs, applicable regulatory restrictions, and also availability of funds to FHN through a dividend from FTBNA. Additionally, the Federal Reserve and the OCC generally require insured banks and bank holding companies to pay cash dividends only out of current operating earnings. Consequently, the decision of whether FHN will pay future dividends and the amount of dividends will be affected by current operating results. FHN paid a cash dividend of \$.12 per common share on January 2, 2019, and in January 2019 the Board approved a \$.14 per common share cash dividend payable on April 1, 2019, to shareholders of record on March 15, 2019. FHN paid a cash dividend of \$1,550.00 per preferred share on January 10, 2019, and in January 2019 the Board approved a \$1,550.00 per preferred share cash dividend payable on April 10, 2019, to shareholders of record on March 26, 2019.

## CREDIT RATINGS

FHN is currently able to fund a majority of the balance sheet through core deposits, which are generally not as sensitive to FHN's credit ratings as other types of funding. However, maintaining adequate credit ratings on debt issues and preferred stock is critical to liquidity should FHN need to access funding from other sources, including from long-term debt issuances and certain brokered deposits, at an attractive rate. The availability and cost of funds other than core deposits is also dependent upon marketplace perceptions of the financial soundness of FHN, which include such factors as capital levels, asset quality, and reputation. The availability of core deposit funding is stabilized by federal deposit insurance, which can be removed only in extraordinary circumstances, but may also be influenced to some extent by the same factors that affect other funding sources. FHN's credit ratings are also referenced in various respects in agreements with certain derivative counterparties as discussed in Note 22 – Derivatives.

The following table provides FHN's most recent credit ratings:

**Table 28 – Credit Ratings**

|   | Moody's (a)     | Fitch (b)     |
|---|-----------------|---------------|
| <b>First Horizon National Corporation</b>           |                 |               |
| Overall credit rating: Long-term/Short-term/Outlook | Baa3/Stable     | BBB/F3/Stable |
| Long-term senior debt                               | Baa3            | BBB           |
| Subordinated debt (c)                               | Baa3            | BBB-          |
| Junior subordinated debt (c)                        | Ba1             | BB-           |
| Preferred stock                                     | Ba2             | B+            |
| <b>First Tennessee Bank National Association</b>    |                 |               |
| Overall credit rating: Long-term/Short-term/Outlook | Baa3/P-2/Stable | BBB/F3/Stable |
| Long-term/short-term deposits                       | A3/P-2          | BBB+/F3       |
| Long-term/short-term senior debt                    | Baa3/P-2        | BBB/F3        |
| Subordinated debt (c)                               | Baa3            | BBB-          |
| Preferred stock                                     | Ba2             | B+            |
| <b>FT Real Estate Securities Company, Inc.</b>      |                 |               |
| Preferred stock                                     | Ba1             |               |

A rating is not a recommendation to buy, sell, or hold securities and is subject to revision or withdrawal at any time and should be evaluated independently of any other rating.

(a) Last change in ratings was on May 14, 2015; ratings/outlook affirmed on February 7, 2019.

(b) Last change in ratings/outlook was on January 23, 2019.

(c) Ratings are preliminary/implied.

## CASH FLOWS

The Consolidated Statements of Cash Flows provide information on cash flows from operating, investing, and financing activities for the years ended December 31, 2018, 2017, and 2016. The level of cash and cash equivalents decreased \$46.7 million during 2018 compared to increases of \$414.3 million in 2017 and \$6.7 million in 2016. During 2018, cash used in financing activities was greater than cash provided by investing and operating activities, whereas in 2017 cash provided by financing activities was greater than cash used in investing and operating activities, and in 2016 the cash provided by financing and operating activities was more than cash used in investing activities.

Net cash used in financing activities was \$761.4 million in 2018, driven by a decrease in short-term borrowings and to a lesser extent cash dividends paid and share repurchases, somewhat offset by an increase in deposits. The decrease in short-term borrowings was primarily the result of a decline in FHLB borrowings, which fluctuate largely based on loan demand, deposit levels, and balance sheet funding strategies. The increase in deposits was due in large part to increases in savings and time deposits as a result of FHN's strategic focus on growing deposits. Net cash provided by investing activities was \$480.4 million in 2018, driven by proceeds from the sales of FHN's remaining Visa Class B shares and net decreases in the AFS and loan portfolios. Proceeds from the sales and payoffs of TRUPS loans and OREO during 2018 also favorably impacted cash flows in 2018. A decrease in interest-bearing cash, cash paid associated with the cancellation of common shares in connection with CBF dissenting shareholders, and cash paid related to the divestiture of two branches negatively impacted investing cash flows during 2018. Net cash provided by operating cash flows was \$234.3 million in 2018. A \$1.0 billion net decrease in fixed income trading activities and favorably driven cash-related net income items positively impacted operating cash flows in 2018, but were somewhat offset by cash outflows of \$1.4 billion related to a net increase in loans HFS, as purchases of government guaranteed loans outpaced sales, including the sale of approximately \$120 million of subprime auto loans.

Net cash provided by financing activities was \$1.8 billion in 2017, largely driven by cash inflows of \$2.1 billion related to an increase in short-term borrowings, primarily FHLB borrowings used to fund loan growth; however these were somewhat offset by a decrease in deposit balances and cash dividends. Net cash used by investing activities was \$1.3 billion in 2017 primarily driven by increases in loan balances and interest-bearing cash of \$808.4 million and \$121.4 million, respectively, as well as \$336.6 million of net cash payments associated with the CBF and Coastal acquisitions. Net cash used by operating activities was \$28.8 million in 2017 as operating cash flows were negatively impacted by a net increase in loans HFS within the fixed income segment as well as cash outflows of \$384.2 million related to fixed income activities, but were favorably impacted by cash-related net income items and a \$223.8 million net decrease in operating assets and liabilities.

Net cash provided by financing activities was \$2.3 billion in 2016. Financing cash inflows were positively affected by a \$2.7 billion increase in deposits, due in large part to increases in insured network deposits and commercial customer deposits, but were somewhat offset by \$267.5 million in payments of long-term borrowings, which included the maturity of \$250 million of subordinated notes. Additionally, share repurchases and dividend payments negatively affected financing cash flows in 2016, offsetting a portion of the increase in cash provided by financing activities. Net cash provided by operating activities was \$180.0 million in 2016, favorably driven by cash-related net income items, but were negatively affected by a \$165.0 million cash contribution to the qualified pension plan in third quarter and net changes in operating assets and liabilities of \$44.5 million. Net cash used by investing activities was \$2.5 billion in 2016. Investing cash outflows in 2016 were primarily attributable to loan growth within the regional bank, including the purchase of \$537.4 million UPB of franchise finance loans in third quarter. Additionally, a \$457.2 million increase in interest-bearing cash, as well as net cash outflows related to the purchases of AFS securities and premises and equipment also negatively impacted investing cash flows in 2016.

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

### **Obligations from Legacy Mortgage Businesses**

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

For non-recourse loan sales, FHN has exposure: to indemnify underwriters of FH securitizations who are defending claims that they assert are based, at least in part, on FHN’s breach of its representations and warranties made at closing to underwriters, the purchasers, and the trustee of FH proprietary securitizations; and to indemnify purchasers of other whole loans sold, or their assignees, asserting that FHN breached representations and warranties made in connection with the sales of those loans.

### *Repurchase and Make-Whole Obligations*

To date, FHN has resolved a substantial number of GSE claims through definitive resolution agreements (“DRAs”) with the GSEs, while the remainder have been resolved on a loan-by-loan basis. Under each DRA, FHN remains responsible for repurchase obligations related to certain excluded defects (such as title defects and violations of the GSE’s Charter Act) and FHN continues to have loan repurchase or monetary compensation obligations under the DRAs related to private mortgage insurance rescissions, cancellations, and denials (with certain exceptions). FHN also has exposure related to loans where there has been a prior bulk sale of servicing, as well as certain other whole-loan sales. With respect to loans where there has been a prior bulk sale of servicing, FHN is not responsible for MI cancellations and denials to the extent attributable to the acts of the current servicer.

While large portions of repurchase claims from the GSEs were settled with the DRAs, comprehensive settlement of repurchase, make-whole, and indemnity claims with non-Agency claimants is not practical. Such claims that are not resolved by the parties can, and sometimes have, become litigation.

### *FH Proprietary Securitization Actions*

FHN has potential financial exposure from FH proprietary securitizations outside of the repurchase/make-whole process. Several investors in certificates sued FHN and others starting in 2009, and several underwriters or other counterparties have demanded that FHN indemnify and defend them in securitization lawsuits. The pending suits generally assert that disclosures made to investors in the offering and sale of certificates were legally deficient. A number of those matters have settled or otherwise been resolved. See Note 17 – Contingencies and Other Disclosures for a discussion of certain actions pending in relation to FH proprietary securitizations.

### *Servicing Obligations*

FHN's national servicing business was sold as part of the platform sale in 2008. A significant amount of mortgage servicing rights ("MSR") was sold at that time, and a significant amount was retained. The related servicing activities, including foreclosure and loss mitigation practices, not sold in 2008 were outsourced including a subservicing arrangement initiated in 2011 (the "2011 subservicer"). In fourth quarter 2013 and first quarter 2014, FHN sold and transferred a substantial majority of its remaining servicing obligations and servicing assets (including advances) to the 2011 subservicer. The servicing still retained by FHN is not significant and continues to be subserviced.

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

As mentioned in Note 17 – Contingencies and Other Disclosures – FHN has received a notice of indemnification claims from its 2011 subservicer, Nationstar Mortgage LLC, currently doing business as "Mr. Cooper." The notice asserts several categories of indemnity obligations by FHN to Nationstar in connection with mortgage loans under the subservicing arrangement and under the purchase transaction. This matter currently is not in formal litigation, but litigation in the future is possible.

### **Active Pipeline**

FHN accumulates the amount of repurchase requests, make-whole claims, and certain other related claims into the "active pipeline." The active pipeline includes the amount of claims for loan repurchase, make-whole payments, loans as to which MI has been canceled, and information requests from purchasers of loans originated and sold through FHN's legacy mortgage banking business. Additionally, FHN is responsible for covering losses for purchasers to the extent there is a shortfall in MI insurance coverage (MI curtailment). MI curtailment requests are the largest portion of the active pipeline and are intended only to cover the shortfall in MI insurance proceeds; as a result, FHN's currently accrued loss from MI curtailments as a percentage of UPB is significantly lower than that of a repurchase or make-whole claim. On December 31, 2018, the active pipeline was \$9.4 million, compared to \$44.1 million on December 31, 2017.

## Repurchase Accrual Methodology

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

### Repurchase Accrual Approach

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

### Repurchase and Foreclosure Liability

The repurchase and foreclosure liability is comprised of accruals to cover estimated loss content in the active pipeline (consisting of mortgage loan repurchase, make-whole, foreclosure/servicing demands and certain related exposures), estimated future inflows, and estimated loss content related to certain known claims not currently included in the active pipeline. The liability contemplates repurchase/make-whole and damages obligations and estimates for probable incurred losses associated with loan populations excluded from the DRAs, as well as other whole loans sold, MI rescissions, and loans included in bulk servicing sales effected prior to the DRAs. FHN compares the estimated probable incurred losses determined under the applicable loss estimation approaches for the respective periods with current reserve levels. Changes in the estimated required liability levels are recorded as necessary through the repurchase and foreclosure provision.

The following table provides a rollforward of the legacy mortgage repurchase liability during 2018 and 2017:

**Table 29 – Reserves for Repurchase and Foreclosure Losses**

| <i>(Dollars in thousands)</i>  | 2018            | 2017      |
|--|-----------------|-----------|
| <b>Legacy Mortgage</b>   |                 |           |
| Beginning balance  | <b>\$33,556</b> | \$ 65,309 |
| Provision/(provision credit) for repurchase and foreclosure losses (a) | <b>(1,039)</b>  | (22,527)  |
| Net realized losses  | <b>(894)</b>    | (9,226)   |
| Balance on December 31   | <b>\$31,623</b> | \$ 33,556 |

(a) Year ended December 31, 2017 includes \$20.0 million related to the settlement of certain repurchase claims.

### Other Contractual Obligations

Pension obligations are funded by FHN to provide current and future benefits to participants in FHN's noncontributory, defined benefit pension plan. On December 31, 2018, the annual measurement date, pension obligations (representing the present value of estimated future benefit payments), including obligations of the unfunded plans, were \$765.3 million with \$731.0 million of assets (measured at current fair value) in the qualified plan's trust to fund the qualified plan's obligations. The discount rate for 2018 of 4.43 percent for the qualified pension plan and 4.26 percent for the nonqualified supplemental executive retirement plan was determined by using a hypothetical AA yield curve represented by a series of annualized individual discount rates from one-half to

thirty years. The discount rates for the pension and nonqualified supplemental executive retirement plans are selected based on data specific to FHN's plans and participant populations. See Note 18 - Pension, Savings, and Other Employee Benefits for additional information. As of December 31, 2018, the plan assets exceeded the projected benefit obligation and the accumulated benefit obligation for the qualified pension plan. Decisions to contribute to the plan are based upon pension funding requirements under the Pension Protection Act, the maximum amount deductible under the Internal Revenue Code, the actual performance of plan assets, and trends in the regulatory environment. FHN contributed \$165 million to the qualified pension plan in third quarter 2016. FHN did not make any contributions to the qualified pension plan in 2017 and made an insignificant contribution to the qualified pension plan in 2018. Management does not currently anticipate that FHN will make a contribution to the qualified pension plan in 2019.

In December 2017 FHN contributed \$5.1 million to pension plans acquired from CBF, resulting in those plans being almost fully funded. Both legacy CBF plans are frozen. FHN did not make any contributions to these plans in 2018. Additional funding amounts to these plans are dependent upon the potential settlement of the plans.

The nonqualified pension plans and other postretirement benefit plans, excluding the retiree medical plan, are unfunded. Benefit payments under the non-qualified plans were \$5.8 million in 2018. FHN anticipates 2019 benefit payments to be \$5.2 million.

FHN has various other financial obligations which may require future cash payments. The following table sets forth contractual obligations representing required and potential cash outflows as of December 31, 2018. Purchase obligations represent obligations under agreements to purchase goods or services that are enforceable and legally binding on FHN and that specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. In addition, FHN enters into commitments to extend credit to borrowers, including loan commitments, standby letters of credit, and commercial letters of credit. These commitments do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon and are not included in the table.

**Table 30 – Contractual Obligations**

| <i>(Dollars in thousands)</i>                                | Payments due by period (a) |                       |                        |                  | Total              |
|--|----------------------------|-----------------------|------------------------|------------------|--------------------|
|  | Less than<br>1 year        | 1 year -<br>< 3 years | 3 years -<br>< 5 years | After 5<br>years |                    |
| <b>Contractual obligations:</b>                              |                            |                       |                        |                  |                    |
| Time deposit maturities (b) (c)                              | \$2,794,861                | \$ 820,573            | \$471,610              | \$ 18,733        | \$4,105,777        |
| Term borrowings (b) (d)                                      | 400,000                    | 500,000               | 369                    | 312,574          | 1,212,943          |
| Annual rental commitments under noncancelable leases (b) (e) | 27,524                     | 45,676                | 29,692                 | 42,370           | 145,262            |
| Purchase obligations   | 99,484                     | 70,975                | 30,425                 | 6,647            | 207,531            |
| <b>Total contractual obligations</b>                         | <b>\$3,321,869</b>         | <b>\$1,437,224</b>    | <b>\$532,096</b>       | <b>\$380,324</b> | <b>\$5,671,513</b> |

(a) Excludes a \$20.2 million liability for unrecognized tax benefits as the timing of payment cannot be reasonably estimated.

(b) Amounts do not include interest.

(c) See Note 8 – Time Deposit Maturities for further details.

(d) See Note 10 – Term Borrowings for further details.

(e) See Note 6 – Premises, Equipment and Leases for further details.

## **MARKET UNCERTAINTIES AND PROSPECTIVE TRENDS**

FHN's future results could be affected both positively and negatively by several known trends. Key among those are FHN's strategic initiatives, changes in the U.S. economy and outlook, government actions affecting interest rates, and potential changes in federal policies including changes to the government's approach to tariffs and the potential impact to our customers. In addition, legacy matters in the non-strategic segment could continue to impact FHN's quarterly results in ways which are both difficult to predict and unrelated to current operations.

FHN has prioritized expense discipline to include reducing or controlling certain expenses including realization of expense efficiencies from the merger with CBF and investing in revenue-producing activities and critical

infrastructure. FHN remains committed to organic growth through customer retention, key hires, targeted incentives, and other traditional means.

Performance by FHN, and the entire U.S. financial services industry, is affected considerably by the overall health of the U.S. economy. The most recent recession ended in 2009. Growth during the economic expansion since 2009 for many years was muted, compared to earlier recoveries, and somewhat inconsistent from one quarter to the next. The economic expansion is over 8 years old and many aspects of the economy have strengthened.

The Federal Reserve raised short-term interest rates by .25 percent four times in 2018 following similar, but less frequent, raises starting in 2015. These actions have flattened the yield curve as short-term rates rose somewhat faster than long-term rates. Early in 2019, the Federal Reserve signaled the possibility that 2019 could represent a pause in rate changes while economic trends are evaluated. If rates in fact remain stable, the yield curve eventually may steepen, which should benefit FHN; however, in the meantime, various effects on FHN have been and may remain uneven for some time. Moreover, if future economic data shows a risk of lower growth or recession, interest rates may fall, which likely would adversely impact FHN's net interest margin. Falling and/or moderately volatile interest rates, however, should enhance activity within FHN's Fixed Income business.

In 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates the London InterBank Offered Rate ("LIBOR"), announced that it intends to halt persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. As a result, LIBOR as currently operated may not continue after 2021. FHN is not currently able to predict the impact that the transition from LIBOR will have on the Company; however, because FHN has instruments with floating rate terms based on LIBOR, FHN may experience increases in interest, dividends, and other costs relative to these instruments subsequent to 2021. Additionally, the transition from LIBOR could impact or change FHN's hedge accounting practices.

Lastly, while FHN has made significant progress in resolving matters from the legacy mortgage business, some matters remain unresolved. The timing or financial impact of resolution of these matters cannot be predicted with accuracy. Accordingly, the non-strategic segment is expected to occasionally and unexpectedly impact FHN's overall quarterly results negatively or positively with reserve accruals or releases. Also, although new legacy matters of significance arise at a much slower pace than in years past and some formerly common legal claims no longer can be made due to the passage of time, potential for new legacy matters remains.

### **Foreclosure Practices**

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

## **CRITICAL ACCOUNTING POLICIES**

### **ALLOWANCE FOR LOAN LOSSES**

Management's policy is to maintain the ALLL at a level sufficient to absorb estimated probable incurred losses in the loan portfolio. Management performs periodic and systematic detailed reviews of its loan portfolio to identify trends and to assess the overall collectability of the loan portfolio. Accounting standards require that loan losses be recorded when management determines it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Management believes the accounting estimate related to the ALLL is a "critical accounting estimate" as: (1) changes in it can materially affect the provision for loan losses and net income, (2) it requires management to predict borrowers' likelihood or capacity to repay, often under uncertain economic conditions, and (3) it requires management to distinguish between losses incurred as of a balance sheet date and losses expected to be incurred in the future. Accordingly, this is a highly subjective process and requires significant judgment since it is often difficult to determine when specific loss events may actually occur. The ALLL is increased by the provision for loan losses and recoveries and is decreased by charged-off loans. Principal loan amounts are charged off against the ALLL in the period in which the loan or any portion of the loan is deemed to be uncollectible. This critical accounting estimate applies to the regional banking, non-strategic, and corporate segments. A management committee comprised of representatives from Risk Management, Finance, Credit, and Treasury performs a quarterly review of the assumptions used in FHN's ALLL analytical models, makes qualitative



assessments of the loan portfolio, and determines if qualitative adjustments should be recommended to the modeled results. On a quarterly basis, as a part of Enterprise Risk reporting and discussion, management addresses credit reserve adequacy and credit losses with the Executive and Risk Committee of FHN's Board of Directors.

FHN believes that the critical assumptions underlying the accounting estimates made by management include: (1) the commercial loan portfolio has been properly risk graded based on information about borrowers in specific industries and specific issues with respect to single borrowers; (2) borrower specific information made available to FHN is current and accurate; (3) the loan portfolio has been segmented properly and individual loans have similar credit risk characteristics and will behave similarly; (4) known significant loss events that have occurred were considered by management at the time of assessing the adequacy of the ALLL; (5) the adjustments for economic conditions utilized in the allowance for loan losses estimate represent actual incurred losses; (6) the period of history used for historical loss factors are most reflective of the current environment; (7) the estimate of the time it takes for a loss event to occur and loss to be recognized (the loss emergence period) is most reflective of the current environment; and (8) the reserve rates, as well as other adjustments estimated by management for current events, trends, and conditions, utilized in the process reflect an estimate of losses that have been incurred as of the date of the financial statements.

While management uses the best information available to establish the ALLL, future adjustments to the ALLL and methodology may be necessary if economic or other conditions differ substantially from the assumptions used in making the estimates. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels vary from previous estimates.

See Note 1 – Summary of Significant Accounting Policies and Note 5 – Allowance for Loan Losses for detail regarding FHN's processes, models, and methodology for determining the ALLL.

## **REPURCHASE AND FORECLOSURE LIABILITY**

### **Repurchase Accrual Methodology**

FHN has established a liability for loan repurchase, make-whole payments, indemnity, and certain other monetary obligations related to national mortgage loan origination and servicing businesses which FHN sold in 2008. The information contained in "Obligations from Legacy Mortgage Businesses" under "Repurchase Obligations, Off-Balance Sheet Arrangements, and Other Contractual Obligations" above should be reviewed before reading this section.

Estimating probable losses associated with FHN's repurchase obligations for alleged breaches of representations and warranties related to prior Agency and other whole loan sales requires significant management judgment and assumptions. The loss estimation process relies on historical observed trends that may or may not be representative of future actual results. Those trends include observed loss severities, resolution statistics, delinquency trends, and historical average loan sizes. Additionally, the level of repurchase/make-whole request and associated losses are affected by external factors such as GSE review practices and selection criteria (for loans sold to GSEs excluded from the DRAs), housing prices, actions of purchasers and/or servicers of previously sold loans, actions of MI companies, and economic conditions, all of which could change in the future.

In making these estimates and assumptions FHN has contemplated, among other things, the DRAs, estimates of FHN's repurchase or monetary exposure related to loans excluded from the DRAs, and estimates of FHN's repurchase or monetary exposure related to certain other whole loan sales. Additionally, FHN continues to monitor claims included in the active pipeline, claims from other parties for which loans are not identified, historical repurchase rates, and loss severities.

Based on currently available information and experience to date, FHN has evaluated its exposure under these obligations and accordingly had reserved for losses of \$32.3 million and \$34.2 million as of December 31, 2018 and 2017, respectively, including a smaller amount related to equity-lending junior lien loan sales. Accrued liabilities for FHN's estimate of these obligations are reflected in Other liabilities on the Consolidated Statements of Condition. Charges to increase/(decrease) the liability are included within Repurchase and foreclosure provision/(provision credit) on the Consolidated Statements of Income. The estimate is based upon currently available information and fact patterns that exist as of the balance sheet date and could be subject to future changes. Changes to any one of these factors could significantly impact the estimate of FHN's liability. FHN

continues to monitor trends in claims activity, loss severities, success rates, GSE review practices, MI cancellations, and the status of other claims in order to assess the adequacy of the repurchase liability.

## **GOODWILL AND ASSESSMENT OF IMPAIRMENT**

FHN's policy is to assess goodwill for impairment at the reporting unit level on an annual basis or between annual assessments if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value. FHN also allocates goodwill to the disposal of portions of reporting units in accordance with applicable accounting standards. FHN performs impairment analysis when these disposal actions indicate that an impairment of goodwill may exist. Reporting units have been defined as the same level as the operating business segments.

Companies are permitted to make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill, when determining whether the quantitative assessment should be performed. If FHN concludes that it is more likely than not that a reporting unit's fair value is less than its carrying value, or if management elects, the quantitative analysis is performed. FHN elected to perform the quantitative analysis in 2018.

FHN engaged an independent valuation expert to assist in the computation of the fair value estimates of each reporting unit as part of its annual assessment. The 2018 assessment for the regional banking reporting unit utilized three separate methodologies: a discounted cash flow model, a comparison to similar public companies' trading values, and a comparison to recent acquisition values. A weighted average calculation was performed to determine the estimated fair value of the regional banking reporting unit. A discounted cash flow methodology was utilized in determining the fair value of the fixed income reporting unit. The most recent valuations as of October 1, 2018, indicated no goodwill impairment in either of the reporting units with goodwill. As of the most recent quantitative assessment, the fair values of regional banking and fixed income substantially exceeded their carrying values.

Management believes the accounting estimates associated with determining fair value as part of the goodwill impairment test is a "critical accounting estimate" because estimates and assumptions are made about FHN's future performance and cash flows, as well as other prevailing market factors (e.g., interest rates, economic trends, etc.). FHN's policy allows management to make the determination of fair value using appropriate valuation methodologies and inputs, including utilization of market observable data and internal cash flow models. If a charge to operations for impairment results, this amount would be reported separately as a component of noninterest expense. This critical accounting estimate applies to the regional banking and fixed income business reporting units. As of December 31, 2018, the corporate and non-strategic reporting units had no associated goodwill.

The quantitative impairment testing process conducted by FHN begins by assigning net assets and goodwill to each reporting unit. FHN then completes "step one" of the impairment test by comparing the fair value of each reporting unit with the value (carrying amount) of its net assets, with goodwill included in the computation of the carrying amount. The carrying value of a reporting unit is based on the amount of allocated equity as determined by FHN's internal management methodologies. FHN does not maintain a record of equity consistent with GAAP at the reporting unit level. Allocated equity is utilized in certain internal performance measures for segments, including return on tangible common equity. In determining the amount of equity allocated to each reporting unit, FHN utilizes a risk-adjusted methodology that incorporates each reporting unit's credit, market, interest rate, operational, legal, and compliance risks. Unallocated equity is retained in the corporate reporting unit, which has no goodwill. As of the most recent measurement date unallocated equity primarily related to FHN's capital deployment initiatives, including potential share buybacks, potential dividend increases, and potential acquisitions.

If the fair value of a reporting unit exceeds its carrying amount, goodwill of that reporting unit is not considered impaired, and "step two" of the impairment test is not necessary. If the carrying amount of a reporting unit exceeds its fair value, step two of the impairment test would be performed to determine the amount of impairment. Step two of the impairment test requires a comparison of the carrying amount of the reporting unit's goodwill to the "implied fair value" of that goodwill. The implied fair value of goodwill is computed by assuming all assets and liabilities of the reporting unit would be adjusted to the current fair value, with the offset as an adjustment to

goodwill. This adjusted goodwill balance would be the implied fair value used in step two. An impairment charge would be recognized for the amount by which the carrying amount of goodwill exceeds its implied fair value.

In connection with obtaining the independent valuation in 2018, management provided certain data and information that was utilized in the estimation of fair value. This information included budgeted and forecasted earnings of FHN at the reporting unit level. Management believes that this information is a critical assumption underlying the estimate of fair value. Other assumptions critical to the process were also made, including discount rates, interest rate changes, asset and liability growth rates, and other income and expense estimates.

While management uses the best information available to estimate future performance for each reporting unit, future adjustments to management's projections may be necessary if conditions differ substantially from the assumptions used in making the estimates.

## **INCOME TAXES**

FHN is subject to the income tax laws of the U.S. and the states and jurisdictions in which it operates. FHN accounts for income taxes in accordance with ASC 740, Income Taxes. Significant judgments and estimates are required in the determination of the consolidated income tax expense. FHN income tax expense, deferred tax assets and liabilities, and liabilities for unrecognized tax benefits reflect management's best estimate of current and future taxes to be paid.

Income tax expense consists of both current and deferred taxes. Current income tax expense is an estimate of taxes to be paid or refunded for the current period and includes income tax expense related to uncertain tax positions. A DTA or a DTL is recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred taxes can be affected by changes in tax rates applicable to future years, either as a result of statutory changes or business changes that may change the jurisdictions in which taxes are paid. Additionally, DTAs are subject to a "more likely than not" test to determine whether the full amount of the DTAs should be realized in the financial statements. FHN evaluates the likelihood of realization of the DTA based on both positive and negative evidence available at the time, including (as appropriate) scheduled reversals of DTLs, projected future taxable income, tax planning strategies, and recent financial performance. Realization is dependent on generating sufficient taxable income prior to the expiration of the carryforwards attributable to or generated with respect to the DTA. In projecting future taxable income, FHN incorporates assumptions including the amount of future state and federal pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates used to manage the underlying business. If the "more likely than not" test is not met, a valuation allowance must be established against the DTA.

The income tax laws of the jurisdictions in which FHN operate are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. In establishing a provision for income tax expense, FHN must make judgments and interpretations about the application of these inherently complex tax laws. Interpretations may be subjected to review during examination by taxing authorities and disputes may arise over the respective tax positions. FHN attempts to resolve disputes that may arise during the tax examination and audit process. However, certain disputes may ultimately be resolved through the federal and state court systems.

FHN monitors relevant tax authorities and revises estimates of accrued income taxes on a quarterly basis. Changes in estimates may occur due to changes in income tax laws and their interpretation by the courts and regulatory authorities. Revisions of estimates may also result from income tax planning and from the resolution of income tax controversies. Such revisions in estimates may be material to operating results for any given period.

See also Note 15 – Income Taxes for additional information.

## **CONTINGENT LIABILITIES**

A liability is contingent if the amount or outcome is not presently known, but may become known in the future as a result of the occurrence of some uncertain future event. FHN estimates its contingent liabilities based on management's estimates about the probability of outcomes and their ability to estimate the range of exposure. Accounting standards require that a liability be recorded if management determines that it is probable that a loss has occurred and the loss can be reasonably estimated. In addition, it must be probable that the loss will be

confirmed by some future event. As part of the estimation process, management is required to make assumptions about matters that are by their nature highly uncertain.

The assessment of contingent liabilities, including legal contingencies, involves the use of critical estimates, assumptions, and judgments. Management's estimates are based on their belief that future events will validate the current assumptions regarding the ultimate outcome of these exposures. However, there can be no assurance that future events, such as court decisions or decisions of arbitrators, will not differ from management's assessments. Whenever practicable, management consults with third-party experts (e.g., attorneys, accountants, claims administrators, etc.) to assist with the gathering and evaluation of information related to contingent liabilities. Based on internally and/or externally prepared evaluations, management makes a determination whether the potential exposure requires accrual in the financial statements.

See Note 17 – Contingencies and Other Disclosures for additional information.

#### **ACCOUNTING CHANGES ISSUED BUT NOT CURRENTLY EFFECTIVE**

Refer to Note 1–Summary of Significant Accounting Policies for a detail of accounting standards that have been issued but are not currently effective, which section is incorporated into this MD&A by this reference.

**Table 31 – Summary of Quarterly Financial Information**

|  | 2018              |                  |                   |                  | 2017              |                  |                   |                  |
|--|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|  | Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter | Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter |
| <i>(Dollars in millions except per share data)</i> |                   |                  |                   |                  |                   |                  |                   |                  |
| <b>Summary income information:</b>                 |                   |                  |                   |                  |                   |                  |                   |                  |
| Interest income                                    | \$401.2           | \$393.7          | \$387.8           | \$363.4          | \$287.6           | \$248.1          | \$235.3           | \$218.8          |
| Interest expense                                   | 98.7              | 88.0             | 76.9              | 62.2             | 45.5              | 38.3             | 34.6              | 29.1             |
| Provision/(provision credit) for loan losses       | 6.0               | 2.0              | -                 | (1.0)            | 3.0               | -                | (2.0)             | (1.0)            |
| Noninterest income                                 | 110.3             | 349.0            | 127.5             | 136.0            | 133.2             | 112.4            | 127.7             | 116.9            |
| Noninterest expense                                | 281.9             | 294.0            | 332.8             | 313.3            | 346.7             | 236.9            | 217.9             | 222.2            |
| Net income/(loss)                                  | 100.8             | 274.7            | 86.0              | 95.0             | (48.4)            | 71.8             | 95.2              | 58.4             |
| Income/(loss) available to common shareholders     | \$ 96.3           | \$270.3          | \$ 81.6           | \$ 90.6          | \$ (52.8)         | \$ 67.3          | \$ 90.8           | \$ 54.0          |
| Earnings/(loss) per common share                   | \$ 0.30           | \$ 0.83          | \$ 0.25           | \$ 0.28          | \$ (0.20)         | \$ 0.29          | \$ 0.39           | \$ 0.23          |
| Diluted earnings/(loss) per common share           | 0.30              | 0.83             | 0.25              | 0.27             | (0.20)            | 0.28             | 0.38              | 0.23             |
| <b>Common stock information:</b>                   |                   |                  |                   |                  |                   |                  |                   |                  |
| Closing price per share:                           |                   |                  |                   |                  |                   |                  |                   |                  |
| High   | \$17.51           | \$18.85          | \$19.56           | \$20.61          | \$20.55           | \$19.15          | \$19.06           | \$20.76          |
| Low  | 12.40             | 17.03            | 17.84             | 18.35            | 18.02             | 16.05            | 16.91             | 17.90            |
| Period-end   | 13.16             | 17.26            | 17.84             | 18.83            | 19.99             | 19.15            | 17.42             | 18.50            |
| Cash dividends declared per share                  | 0.12              | 0.12             | 0.12              | 0.12             | 0.09              | 0.09             | 0.09              | 0.09             |

## NON-GAAP INFORMATION

The following table provides a reconciliation of non-GAAP items presented in this MD&A to the most comparable GAAP presentation:

**Table 32 – Non-GAAP to GAAP Reconciliation**

| <i>(Dollars in thousands)</i>  | 2018         | 2017         | 2016         | 2015         | 2014         |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Tangible Common Equity (Non-GAAP)</b>   |              |              |              |              |              |
| (A) Total equity (GAAP)  | \$ 4,785,380 | \$ 4,580,488 | \$ 2,705,084 | \$ 2,639,586 | \$ 2,581,590 |
| Less: Noncontrolling interest (a)  | 295,431      | 295,431      | 295,431      | 295,431      | 295,431      |
| Less: Preferred stock (a)  | 95,624       | 95,624       | 95,624       | 95,624       | 95,624       |
| Total common equity  | 4,394,325    | 4,189,433    | 2,314,029    | 2,248,531    | 2,190,535    |
| Less: Intangible assets (GAAP) (b)   | 1,587,821    | 1,571,242    | 212,388      | 217,522      | 175,450      |
| (B) Tangible common equity (Non-GAAP)  | 2,806,504    | 2,618,191    | 2,101,641    | 2,031,009    | 2,015,085    |
| Less: Unrealized gains/(losses) on AFS securities, net of tax                              | (75,736)     | (21,997)     | (17,232)     | 3,394        | 18,581       |
| (C) Adjusted tangible common equity (Non-GAAP)   | \$ 2,882,240 | \$ 2,640,188 | \$ 2,118,873 | \$ 2,027,615 | \$ 1,996,504 |
| <b>Tangible Assets (Non-GAAP)</b>  |              |              |              |              |              |
| (D) Total assets (GAAP)  | \$40,832,258 | \$41,423,388 | \$28,555,231 | \$26,192,637 | \$25,665,423 |
| Less: Intangible assets (GAAP) (b)   | 1,587,821    | 1,571,242    | 212,388      | 217,522      | 175,450      |
| (E) Tangible assets (Non-GAAP)   | \$39,244,437 | \$39,852,146 | \$28,342,843 | \$25,975,115 | \$25,489,973 |
| <b>Average Tangible Common Equity (Non-GAAP)</b>   |              |              |              |              |              |
| Average total equity (GAAP)  | \$ 4,617,529 | \$ 2,970,308 | \$ 2,691,478 | \$ 2,581,187 | \$ 2,591,967 |
| Less: Average noncontrolling interest (a)  | 295,431      | 295,431      | 295,431      | 295,431      | 295,431      |
| Less: Average preferred stock (a)  | 95,624       | 95,624       | 95,624       | 95,624       | 95,624       |
| (F) Total average common equity  | \$ 4,226,474 | \$ 2,579,253 | \$ 2,300,423 | \$ 2,190,132 | \$ 2,200,912 |
| Less: Average intangible assets (GAAP) (b)   | 1,569,987    | 376,306      | 214,915      | 183,127      | 163,282      |
| (G) Average tangible common equity (Non-GAAP)  | \$ 2,656,487 | \$ 2,202,947 | \$ 2,085,508 | \$ 2,007,005 | \$ 2,037,630 |
| <b>Net Income Available to Common Shareholders</b>   |              |              |              |              |              |
| (H) Net income available to common shareholders  | \$ 538,842   | \$ 159,315   | \$ 220,846   | \$ 79,679    | \$ 216,319   |
| <b>Risk Weighted Assets</b>  |              |              |              |              |              |
| (I) Risk weighted assets (c)   | \$33,002,595 | \$33,373,877 | \$23,914,158 | \$21,812,015 | \$19,452,656 |
| <b>Ratios</b>  |              |              |              |              |              |
| (A)/(D) Total period-end equity to period-end assets (GAAP)                                | 11.72%       | 11.06%       | 9.47%        | 10.08%       | 10.06%       |
| (B)/(E) Tangible common equity to tangible assets ("TCE/TA") (Non-GAAP) (d)                | 7.15         | 6.57         | 7.42         | 7.82         | 7.91         |
| (C)/(I) Adjusted tangible common equity to risk weighted assets ("TCE/RWA") (Non-GAAP) (d) | 8.73         | 7.91         | 8.86         | 9.30         | 10.26        |
| (H)/(F) Return on average common equity ("ROCE") (GAAP) (d)                                | 12.75        | 6.18         | 9.60         | 3.64         | 9.83         |
| (H)/(G) Return on average tangible common equity ("ROTCE") (Non-GAAP) (d)                  | 20.28        | 7.23         | 10.59        | 3.97         | 10.62        |

(a) Included in Total equity on the Consolidated Statements of Condition.

(b) Includes Goodwill and other intangible assets, net of amortization.

(c) Defined by and calculated in conformity with bank regulations applicable to FHN.

(d) See Glossary of Terms for definition of ratio.

## GLOSSARY OF SELECTED FINANCIAL TERMS

**Adjusted Tangible Common Equity to Risk Weighted Assets (“TCE/RWA”)** – Common equity excluding intangible assets and unrealized gains/(losses) on available-for-sale securities divided by risk weighted assets.

**Allowance for Loan Losses (“ALL”)** – Valuation reserve representing the amount considered by management to be adequate to cover estimated probable incurred losses in the loan portfolio.

**Agencies** – In this annual report, Agencies are collectively GSEs plus GNMA.

**Basis Point** – The equivalent of one-hundredth of one percent. One hundred basis points equals one percent. This unit is generally used to measure spreads and movements in interest yields and rates and in measures based on interest yields and rates.

**Book Value Per Common Share** – A ratio determined by dividing common equity at the end of a period by the number of common shares outstanding at the end of that period.

**Commercial and Standby Letters of Credit** – Commercial letters of credit are issued or confirmed by an entity to ensure the payment of its customers’ payables and receivables. Standby letters of credit are issued by an entity to ensure its customers’ performance in dealing with others.

**Commitment to Extend Credit (“Unfunded Commitments”)** – Agreements to make or acquire a loan or lease as long as agreed-upon terms (e.g., expiration date, covenants, or notice) are met. Generally these commitments have fixed expiration dates or other termination clauses and may require payment of a fee.

**Common Equity Tier 1** – A measure of a company’s capital position under U.S. Basel III capital rules, which includes common equity less goodwill, other intangibles and certain other required regulatory deductions as defined in those rules.

**Core Businesses** – Management treats regional banking, fixed income, and corporate as FHN’s core businesses. Non-strategic has significant legacy assets and operations that are being wound down.

**Core Deposits** – Core deposits consist of all interest-bearing and noninterest-bearing deposits, except brokered deposits and certificates of deposit over \$250,000. They include checking interest deposits, money market deposit accounts, time and other savings, plus demand deposits.

**Derivative Financial Instrument** – A contract or agreement whose value is derived from changes in interest rates, foreign exchange rates, prices of securities or commodities, or financial or commodity indices.

**Diluted Earnings/(Loss) Per Common Share (“Diluted EPS”)** – Net income/(loss) available to common shareholders, divided by weighted average shares outstanding plus the effect of common stock equivalents that have the potential to be converted into common shares.

**Discharged Bankruptcies** – Residential real estate secured loans where the borrower has been discharged from personal liability through bankruptcy proceedings. Such loans that have not been reaffirmed by the borrower are charged down to estimated collateral value less disposition costs (net realizable value) and are reported as nonaccruing TDRs.

**Discounted Cash Flow (“DCF Method”)** – A valuation method based on the present value of expected future payments discounted at the loan’s effective interest rate.

**Earning Assets** – Assets that generate interest or dividend income or yield-related fee income, such as loans and investment securities.

**Earnings/(Loss) Per Common Share (“EPS”)** – Net income/(loss) available to common shareholders, divided by the weighted average number of common shares outstanding.

**Fully Taxable Equivalent (“FTE”)** – Reflects the amount of tax-exempt income adjusted to a level that would yield the same after-tax income had that income been subject to taxation.

## **GLOSSARY OF SELECTED FINANCIAL TERMS (continued)**

**Forward Contracts** – Contracts representing commitments either to purchase or sell at a specified future date a specified security or financial instrument at a specified price, and may be settled in cash or through delivery.

**Government Sponsored Entities (“GSEs”)** – In this annual report, the term “GSEs” includes Fannie Mae and Freddie Mac.

**Individually Impaired Loans** – Generally, commercial loans over \$1 million that are not expected to pay all contractually due principal and interest, and consumer loans that have experienced a troubled debt restructuring and are individually evaluated for impairment.

**Interest Rate Caps and Floors** – Contracts with notional principal amounts that require the seller, in exchange for a fee, to make payments to the purchaser if a specified market interest rate exceeds a fixed upper “capped” level or falls below a fixed lower “floor” level on specified future dates.

**Interest Rate Option** – A contract that grants the holder (purchaser), for a fee, the right to either purchase or sell a financial instrument at a specified price within a specified period of time or on a specified date from or to the writer (seller) of the option.

**Interest Rate Swap** – An agreement in which two entities agree to exchange, at specified intervals, interest payment streams calculated on an agreed-upon notional principal amount with at least one stream based on a floating rate index.

**Interest Rate Swaptions** – 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.

**Leverage Ratio** – Ratio consisting of Tier 1 capital divided by quarterly average assets adjusted for certain unrealized gains/(losses) on available-for-sale securities less certain regulatory disallowances applied to Common Equity Tier 1 capital and Tier 1 capital including goodwill, certain other intangible assets, the disallowable portion of deferred tax assets and other disallowed assets, and other regulatory adjustments.

**Lower of Cost or Market (“LOCOM”)** – A method of accounting for certain assets by recording them at the lower of their historical cost or their current market value.

**Market Capitalization** – Market value of a company. Computed by multiplying the number of shares outstanding by the current stock price.

**Market-Indexed Deposits:** Deposits with pricing tied to an index not administered by FHN. For FHN these are comprised of insured network deposits, correspondent banking deposits, and trust/sweep deposits.

**Mortgage Backed Securities (“MBS”)** – Investment securities backed by a pool of mortgages or trust deeds. Principal and interest payments on the underlying mortgages are used to pay principal and interest on the securities.

**Mortgage Warehouse** – Mortgage loans that have been closed and funded and are awaiting sale and delivery into the secondary market. Also includes loans that management does not have the intent to hold for the foreseeable future.

**Mortgage Servicing Rights (“MSR”)** – The right to service mortgage loans, generally owned by someone else, for a fee. Loan servicing includes collecting payments; remitting funds to investors, insurance companies, and taxing authorities; collecting delinquent payments; and foreclosing on properties when necessary.

**Net Interest Margin (“NIM”)** – Expressed as a percentage, net interest margin is a ratio computed by dividing a day-weighted fully taxable equivalent net interest income by average earning assets.

**Net Interest Spread** – The difference between the average yield earned on earning assets on a fully taxable equivalent basis and the average rate paid for interest-bearing liabilities.



## GLOSSARY OF SELECTED FINANCIAL TERMS (continued)

**Nonaccrual or Nonperforming Loans (“NPLs”)** – Loans on which interest accruals have been discontinued due to the borrower’s financial difficulties. Interest income on these loans is generally reported on a cash basis as it is collected after recovery of principal.

**Non-GAAP** – Certain measures contained within MD&A are not formally defined by GAAP or codified in the federal banking regulations. A reconciliation of these Non-GAAP measures may be found in table 32 of MD&A.

**Nonperforming Assets (“NPAs”)** – Interest-earning assets on which interest income is not being accrued, real estate properties acquired through foreclosure and other assets obtained through the foreclosure process.

**Origination Fees** – A fee charged to the borrower by the lender to originate a loan. Usually stated as a percentage of the face value of the loan.

**Provision for Loan Losses** – The periodic charge to earnings for inherent losses in the loan portfolio.

**Purchased Credit-Impaired (“PCI”) Loans** – Acquired loans that have exhibited deterioration of credit quality between origination and the time of acquisition and for which the timely collection of the interest and principal is no longer reasonably assured.

**Purchase Obligation** – An agreement to purchase goods or services that is enforceable and legally binding and that specifies all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

**Restricted Real Estate Loans and Secured Borrowings** – Includes restricted loans that are assets of a consolidated variable interest entity (“VIE”) that can be used only to settle obligations of the consolidated VIE and loans from nonconsolidated VIE in which the securitization did not qualify for sale treatment per GAAP. These loans secure long-term borrowings of the respective VIE.

**Return on Average Assets (“ROA”)** – A measure of profitability that is calculated by dividing net income by total average assets.

**Return on Average Common Shareholders’ Equity (“ROCE”)** – A measure of profitability that indicates what an institution earned on its shareholders’ investment. ROCE is calculated by dividing net income available to common shareholders by total average common equity.

**Return on Average Tangible Common Equity (“ROTCE”)** – A Non-GAAP measure of profitability that is calculated by dividing net income available to common shareholders by average tangible common equity.

**Risk-Weighted Assets** – A regulatory risk-based calculation that takes into account the broad differences in risks among a banking organization’s assets and off-balance sheet financial instruments.

**Tangible Common Equity to Tangible Assets (“TCE/TA”)** – A ratio which may be used to evaluate a company’s capital position. TCE/TA includes common equity less goodwill and other intangible assets over tangible assets. Tangible assets includes a company’s total assets less goodwill and other intangible assets.

**Tier 1 Capital Ratio** – Ratio consisting of shareholders’ equity adjusted for certain unrealized gains/(losses) on available-for-sale securities, reduced by goodwill, certain other intangible assets, the disallowable portion of mortgage servicing rights and other disallowed assets divided by risk-weighted assets.

**Total Capital Ratio** – Ratio consisting of Tier 1 capital plus the allowable portion of the allowance for loan losses and qualifying subordinated debt divided by risk-weighted assets.

**Troubled Debt Restructuring (“TDR”)** – A loan is identified and reported as a TDR when FHN has granted an economic concession to a borrower experiencing financial difficulty.

## ACRONYMS

|                |   |
|----------------|---|
| <b>ADR</b>     | Average daily revenue                                 |
| <b>AFS</b>     | Available-for-sale                                    |
| <b>ALCO</b>    | Asset/Liability Committee                             |
| <b>ALLL</b>    | Allowance for loan losses                             |
| <b>AOCI</b>    | Accumulated Other Comprehensive Income                |
| <b>ASC</b>     | FASB Accounting Standards Codification                |
| <b>ASU</b>     | Accounting Standards Update                           |
| <b>BOLI</b>    | Bank-owned life insurance                             |
| <b>C&amp;I</b> | Commercial, financial, and industrial loan portfolio  |
| <b>CAS</b>     | Credit Assurance Services                             |
| <b>CBF</b>     | Capital Bank Financial                                |
| <b>CD</b>      | Certificate of deposit                                |
| <b>CECL</b>    | Current Expected Credit Loss                          |
| <b>CEO</b>     | Chief Executive Officer                               |
| <b>CFPB</b>    | Consumer Financial Protection Bureau                  |
| <b>CMO</b>     | Collateralized mortgage obligations                   |
| <b>CRA</b>     | Community Reinvestment Act                            |
| <b>CRE</b>     | Commercial Real Estate                                |
| <b>CRMC</b>    | Credit Risk Management Committee                      |
| <b>DFA</b>     | Dodd-Frank Act  |
| <b>DRA</b>     | Definitive resolution agreement                       |
| <b>DSCR</b>    | Debt service coverage ratios                          |
| <b>DTA</b>     | Deferred tax asset                                    |
| <b>DTI</b>     | Debt-to-income  |
| <b>DTL</b>     | Deferred tax liability                                |
| <b>ECP</b>     | Equity Compensation Plan                              |
| <b>EPS</b>     | Earnings per share                                    |
| <b>ESOP</b>    | Employee stock ownership plan                         |
| <b>FASB</b>    | Financial Accounting Standards Board                  |
| <b>FDIC</b>    | Federal Deposit Insurance Corporation                 |
| <b>FFP</b>     | Federal funds purchased                               |
| <b>FFS</b>     | Federal funds sold                                    |
| <b>FH</b>      | First Horizon   |
| <b>FHA</b>     | Federal Housing Administration                        |
| <b>FHLB</b>    | Federal Home Loan Bank                                |
| <b>FHLMC</b>   | Federal Home Loan Mortgage Corporation or Freddie Mac |
| <b>FHN</b>     | First Horizon National Corporation                    |
| <b>FICO</b>    | Fair Isaac Corporation                                |
| <b>FINRA</b>   | Financial Industry Regulatory Authority               |
| <b>FNMA</b>    | Federal National Mortgage Association or Fannie Mae   |
| <b>FRB</b>     | Federal Reserve Bank or the Fed                       |
| <b>FTBNA</b>   | First Tennessee Bank National Association             |
| <b>FTE</b>     | Fully taxable equivalent                              |
| <b>FTHC</b>    | First Tennessee Housing Corporation                   |
| <b>FTNF</b>    | FTN Financial   |
| <b>FTNMC</b>   | First Tennessee New Markets Corporation               |

## ACRONYMS (continued)

|                 |  |
|-----------------|--|
| <b>FTRESC</b>   | FT Real Estate Securities Company, Inc.  |
| <b>GAAP</b>     | Generally accepted accounting principles   |
| <b>GNMA</b>     | Government National Mortgage Association or Ginnie Mae   |
| <b>GSE</b>      | Government sponsored enterprises, in this filing references Fannie Mae and Freddie Mac                               |
| <b>HAMP</b>     | Home Affordable Modification Program   |
| <b>HELOC</b>    | Home equity lines of credit  |
| <b>HFS</b>      | Held-for-sale  |
| <b>HTM</b>      | Held-to-maturity   |
| <b>HUD</b>      | Department of Housing and Urban Development  |
| <b>IPO</b>      | Initial public offering  |
| <b>ISDA</b>     | International Swap and Derivatives Association   |
| <b>IRS</b>      | Internal Revenue Service   |
| <b>LEP</b>      | Loss emergence period  |
| <b>LGD</b>      | Loss given default   |
| <b>LIBOR</b>    | London Inter-Bank Offered Rate   |
| <b>LIHTC</b>    | Low Income Housing Tax Credit  |
| <b>LLC</b>      | Limited Liability Company  |
| <b>LOCOM</b>    | Lower of cost or market  |
| <b>LRRD</b>     | Loan Rehab and Recovery Department   |
| <b>LTV</b>      | Loan-to-value  |
| <b>MBS</b>      | Mortgage-backed securities   |
| <b>MD&amp;A</b> | Management's Discussion and Analysis of Financial Condition and Results of Operations                                |
| <b>MI</b>       | Private mortgage insurance   |
| <b>MSR</b>      | Mortgage servicing rights  |
| <b>MSRB</b>     | Municipal Securities Rulemaking Board  |
| <b>NAICS</b>    | North American Industry Classification System  |
| <b>NII</b>      | Net interest income  |
| <b>NIM</b>      | Net interest margin  |
| <b>NMTC</b>     | New Market Tax Credit  |
| <b>NOL</b>      | Net operating loss   |
| <b>NPA</b>      | Nonperforming asset  |
| <b>NPL</b>      | Nonperforming loan   |
| <b>NSF</b>      | Non-sufficient funds   |
| <b>OCC</b>      | Office of the Comptroller of the Currency  |
| <b>OIS</b>      | Overnight indexed swap   |
| <b>OREO</b>     | Other Real Estate-owned  |
| <b>OTC</b>      | One-time close, a mortgage product which allowed simplified conversion of a construction loan to permanent financing |
| <b>OTTI</b>     | Other than temporary impairment  |
| <b>PCAOB</b>    | Public Company Accounting Oversight Board  |
| <b>PCI</b>      | Purchased credit impaired  |
| <b>PD</b>       | Probability of default   |
| <b>PM</b>       | Portfolio managers   |
| <b>PSU</b>      | Performance Stock Unit   |
| <b>R/E</b>      | Real estate  |
| <b>REIT</b>     | Real estate investment trust   |

**ACRONYMS (continued)**

|              |   |
|--------------|---|
| <b>RM</b>    | Relationship managers                         |
| <b>ROA</b>   | Return on assets                              |
| <b>ROCE</b>  | Return on average common shareholders' equity |
| <b>ROTCE</b> | Return on tangible common equity              |
| <b>RPL</b>   | Reasonably Possible Loss                      |
| <b>RSU</b>   | Restricted stock unit                         |
| <b>RWA</b>   | Risk-weighted assets                          |
| <b>SBA</b>   | Small Business Administration                 |
| <b>SEC</b>   | Securities and Exchange Commission            |
| <b>SVaR</b>  | Stressed Value-at-Risk                        |
| <b>TA</b>    | Tangible assets                               |
| <b>TCE</b>   | Tangible common equity                        |
| <b>TDR</b>   | Troubled Debt Restructuring                   |
| <b>TRUP</b>  | Trust preferred loan                          |
| <b>UPB</b>   | Unpaid principal balance                      |
| <b>USDA</b>  | United States Department of Agriculture       |
| <b>UTB</b>   | Unrecognized tax benefit                      |
| <b>VaR</b>   | Value-at-Risk                                 |
| <b>VIE</b>   | Variable Interest Entities                    |

**REPORT OF MANAGEMENT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management at First Horizon National Corporation is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. First Horizon National Corporation's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Even effective internal controls, no matter how well designed, have inherent limitations such as the possibility of human error or of circumvention or overriding of controls, and consideration of cost in relation to benefit of a control. Moreover, effectiveness must necessarily be considered according to the existing state of the art of internal control. Further, because of changes in conditions, the effectiveness of internal controls may diminish over time.

Management assessed the effectiveness of First Horizon National Corporation's internal control over financial reporting as of December 31, 2018. This assessment was based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, management believes that First Horizon National Corporation maintained effective internal control over financial reporting as of December 31, 2018.

First Horizon National Corporation's independent auditors have issued an attestation report on First Horizon National Corporation's internal control over financial reporting. That report appears on the following page.

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
First Horizon National Corporation:

### *Opinion on Internal Control Over Financial Reporting*

We have audited First Horizon National Corporation and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of condition of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements), and our report dated February 27, 2019 expressed an unqualified opinion on those consolidated financial statements.

### *Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**KPMG LLP**

Memphis, Tennessee  
February 27, 2019

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
First Horizon National Corporation:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated statements of condition of First Horizon National Corporation and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

**KPMG LLP**

We have served as the Company's auditor since 2002.

Memphis, Tennessee  
February 27, 2019

## CONSOLIDATED STATEMENTS OF CONDITION

December 31

*(Dollars in thousands, except per share amounts)*

|  | 2018                | 2017                |
|--|---------------------|---------------------|
| <b>Assets:</b>   |                     |                     |
| Cash and due from banks  | \$ 781,291          | \$ 639,073          |
| Federal funds sold   | 237,591             | 87,364              |
| Securities purchased under agreements to resell (Note 23)  | 386,443             | 725,609             |
| Total cash and cash equivalents  | 1,405,325           | 1,452,046           |
| Interest-bearing cash  | 1,277,611           | 1,185,600           |
| Trading securities   | 1,448,168           | 1,416,345           |
| Loans held-for-sale (a)  | 679,149             | 699,377             |
| Securities available-for-sale (Note 3)   | 4,626,470           | 5,170,255           |
| Securities held-to-maturity (Note 3)   | 10,000              | 10,000              |
| Loans, net of unearned income (Note 4) (b)   | 27,535,532          | 27,658,929          |
| Less: Allowance for loan losses (Note 5)   | 180,424             | 189,555             |
| Total net loans  | 27,355,108          | 27,469,374          |
| Goodwill (Note 7)  | 1,432,787           | 1,386,853           |
| Other intangible assets, net (Note 7)  | 155,034             | 184,389             |
| Fixed income receivables   | 38,861              | 68,693              |
| Premises and equipment, net (December 31, 2018 and 2017 include \$19.6 million and \$53.2 million, respectively, classified as held-for-sale) (Note 6)   | 494,041             | 532,251             |
| Other real estate owned ("OREO") (c)   | 25,290              | 43,382              |
| Derivative assets (Note 22)  | 81,475              | 81,634              |
| Other assets   | 1,802,939           | 1,723,189           |
| <b>Total assets</b>  | <b>\$40,832,258</b> | <b>\$41,423,388</b> |
| <b>Liabilities and equity:</b>   |                     |                     |
| Deposits:  |                     |                     |
| Savings (December 31, 2017 includes \$22.6 million classified as held-for-sale)  | \$12,064,072        | \$10,872,665        |
| Time deposits, net (December 31, 2017 includes \$8.0 million classified as held-for-sale) (Note 8)   | 4,105,777           | 3,322,921           |
| Other interest-bearing deposits  | 8,371,826           | 8,401,773           |
| Interest-bearing   | 24,541,675          | 22,597,359          |
| Noninterest-bearing (December 31, 2017 includes \$4.8 million classified as held-for-sale)   | 8,141,317           | 8,023,003           |
| Total deposits   | 32,682,992          | 30,620,362          |
| Federal funds purchased (Note 9)   | 256,567             | 399,820             |
| Securities sold under agreements to repurchase (Note 9 and Note 23)  | 762,592             | 656,602             |
| Trading liabilities (Note 9)   | 335,380             | 638,515             |
| Other short-term borrowings (Note 9)   | 114,764             | 2,626,213           |
| Term borrowings (Note 10)  | 1,170,963           | 1,218,097           |
| Fixed income payables  | 9,572               | 48,996              |
| Derivative liabilities (Note 22)   | 133,713             | 85,061              |
| Other liabilities  | 580,335             | 549,234             |
| Total liabilities  | 36,046,878          | 36,842,900          |
| <b>Equity:</b>   |                     |                     |
| First Horizon National Corporation Shareholders' Equity:   |                     |                     |
| Preferred stock – Series A, non-cumulative perpetual, no par value, liquidation preference of \$100,000 per share – (shares authorized – 1,000; shares issued – 1,000 on December 31, 2018 and 2017) (Note 11) | 95,624              | 95,624              |
| Common stock – \$.625 par value (shares authorized – 400,000,000; shares issued – 318,573,400 on December 31, 2018 and 326,736,214 on December 31, 2017)   | 199,108             | 204,211             |
| Capital surplus  | 3,029,425           | 3,147,613           |
| Undivided profits  | 1,542,408           | 1,160,434           |
| Accumulated other comprehensive loss, net (Note 14)  | (376,616)           | (322,825)           |
| Total First Horizon National Corporation Shareholders' Equity  | 4,489,949           | 4,285,057           |
| Noncontrolling interest (Note 11)  | 295,431             | 295,431             |
| Total equity   | 4,785,380           | 4,580,488           |
| <b>Total liabilities and equity</b>  | <b>\$40,832,258</b> | <b>\$41,423,388</b> |

See accompanying notes to consolidated financial statements.

- (a) December 31, 2018 and 2017 include \$8.4 million and \$11.7 million, respectively, of held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure.
- (b) December 31, 2018 and 2017 include \$28.6 million and \$22.7 million, respectively, of held-to-maturity consumer mortgage loans secured by residential real estate in process of foreclosure.
- (c) December 31, 2018 and 2017 include \$9.7 million and \$12.2 million, respectively, of foreclosed residential real estate.



## CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31

*(Dollars and shares in thousands except per share data, unless otherwise noted)*

|   | 2018              | 2017              | 2016              |
|---|-------------------|-------------------|-------------------|
| <b>Interest income:</b>   |                   |                   |                   |
| Interest and fees on loans  | \$1,286,470       | \$ 816,806        | \$ 679,917        |
| Interest on investment securities available-for-sale                            | 130,376           | 105,019           | 96,671            |
| Interest on investment securities held-to-maturity                              | 525               | 591               | 789               |
| Interest on loans held-for-sale   | 45,108            | 17,517            | 5,506             |
| Interest on trading securities  | 58,684            | 34,991            | 30,779            |
| Interest on other earning assets  | 24,858            | 15,006            | 4,247             |
| <b>Total interest income</b>  | <b>1,546,021</b>  | <b>989,930</b>    | <b>817,909</b>    |
| <b>Interest expense:</b>  |                   |                   |                   |
| Interest on deposits:   |                   |                   |                   |
| Savings   | 107,748           | 42,519            | 19,608            |
| Time deposits   | 53,096            | 13,111            | 10,021            |
| Other interest-bearing deposits   | 55,707            | 24,481            | 10,357            |
| Interest on trading liabilities   | 19,359            | 15,468            | 15,000            |
| Interest on short-term borrowings   | 36,747            | 16,000            | 4,736             |
| Interest on term borrowings   | 53,047            | 36,037            | 29,103            |
| <b>Total interest expense</b>   | <b>325,704</b>    | <b>147,616</b>    | <b>88,825</b>     |
| <b>Net interest income</b>  | <b>1,220,317</b>  | <b>842,314</b>    | <b>729,084</b>    |
| Provision/(provision credit) for loan losses                                    | 7,000             | -                 | 11,000            |
| <b>Net interest income after provision/(provision credit) for loan losses</b>   | <b>1,213,317</b>  | <b>842,314</b>    | <b>718,084</b>    |
| <b>Noninterest income:</b>  |                   |                   |                   |
| Fixed income  | 167,882           | 216,625           | 268,561           |
| Deposit transactions and cash management  | 133,281           | 110,592           | 108,553           |
| Brokerage, management fees and commissions                                      | 54,803            | 48,514            | 42,911            |
| Trust services and investment management  | 29,806            | 28,420            | 27,727            |
| Bankcard income   | 26,718            | 25,467            | 24,430            |
| Bank-owned life insurance ("BOLI")  | 18,955            | 15,124            | 14,687            |
| Debt securities gains/(losses), net (Note 3 and Note 14)                        | 52                | 483               | 1,485             |
| Equity securities gains/(losses), net (Note 3)                                  | 212,896           | 109               | (144)             |
| All other income and commissions (Note 13)                                      | 78,395            | 44,885            | 64,231            |
| <b>Total noninterest income</b>   | <b>722,788</b>    | <b>490,219</b>    | <b>552,441</b>    |
| <b>Adjusted gross income after provision/(provision credit) for loan losses</b> | <b>1,936,105</b>  | <b>1,332,533</b>  | <b>1,270,525</b>  |
| <b>Noninterest expense:</b>   |                   |                   |                   |
| Employee compensation, incentives, and benefits                                 | 658,223           | 587,465           | 563,791           |
| Occupancy   | 85,009            | 54,646            | 50,880            |
| Computer software   | 60,604            | 48,234            | 45,122            |
| Operations services   | 56,280            | 43,823            | 41,852            |
| Professional fees   | 45,799            | 47,929            | 19,169            |
| Equipment rentals, depreciation, and maintenance                                | 39,132            | 29,543            | 27,385            |
| FDIC premium expense  | 31,642            | 26,818            | 21,585            |
| Communications and courier  | 30,032            | 17,624            | 14,265            |
| Amortization of intangible assets   | 25,855            | 8,728             | 5,198             |
| Advertising and public relations  | 24,752            | 19,214            | 21,612            |
| Contract employment and outsourcing   | 18,522            | 14,954            | 10,061            |
| Legal fees  | 11,149            | 12,076            | 21,558            |
| Repurchase and foreclosure provision/(provision credit)                         | (1,039)           | (22,527)          | (32,722)          |
| All other expense (Note 13)   | 136,036           | 135,134           | 115,448           |
| <b>Total noninterest expense</b>  | <b>1,221,996</b>  | <b>1,023,661</b>  | <b>925,204</b>    |
| <b>Income/(loss) before income taxes</b>  | <b>714,109</b>    | <b>308,872</b>    | <b>345,321</b>    |
| Provision/(benefit) for income taxes (Note 15)                                  | 157,602           | 131,892           | 106,810           |
| <b>Net income/(loss)</b>  | <b>\$ 556,507</b> | <b>\$ 176,980</b> | <b>\$ 238,511</b> |
| Net income attributable to noncontrolling interest                              | 11,465            | 11,465            | 11,465            |
| <b>Net income/(loss) attributable to controlling interest</b>                   | <b>\$ 545,042</b> | <b>\$ 165,515</b> | <b>\$ 227,046</b> |
| Preferred stock dividends   | 6,200             | 6,200             | 6,200             |
| <b>Net income/(loss) available to common shareholders</b>                       | <b>\$ 538,842</b> | <b>\$ 159,315</b> | <b>\$ 220,846</b> |
| <b>Basic earnings/(loss) per share (Note 16)</b>                                | <b>\$ 1.66</b>    | <b>\$ 0.66</b>    | <b>\$ 0.95</b>    |
| <b>Diluted earnings/(loss) per share (Note 16)</b>                              | <b>\$ 1.65</b>    | <b>\$ 0.65</b>    | <b>\$ 0.94</b>    |
| <b>Weighted average common shares (Note 16)</b>                                 | <b>324,375</b>    | <b>241,436</b>    | <b>232,700</b>    |
| <b>Diluted average common shares (Note 16)</b>                                  | <b>327,445</b>    | <b>244,453</b>    | <b>235,292</b>    |
| <b>Cash dividends declared per common share</b>                                 | <b>\$ 0.48</b>    | <b>\$ 0.36</b>    | <b>\$ 0.28</b>    |

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 1 – Summary of Significant Accounting Policies for additional information.

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| <i>(Dollars in thousands)</i>  | Year Ended December 31 |            |             |
|--|------------------------|------------|-------------|
|  | 2018                   | 2017       | 2016        |
| Net income/(loss)  | <b>\$556,507</b>       | \$176,980  | \$238,511   |
| Other comprehensive income/(loss), net of tax:                                       |                        |            |             |
| Net unrealized gains/(losses) on securities available-for-sale                       | <b>(48,897)</b>        | (4,765)    | (20,626)    |
| Net unrealized gains/(losses) on cash flow hedges                                    | <b>(4,142)</b>         | (5,101)    | (1,265)     |
| Net unrealized gains/(losses) on pension and other postretirement plans              | <b>(541)</b>           | (7,759)    | (11,571)    |
| Other comprehensive income/(loss)  | <b>(53,580)</b>        | (17,625)   | (33,462)    |
| Comprehensive income   | <b>502,927</b>         | 159,355    | 205,049     |
| Comprehensive income attributable to noncontrolling interest                         | <b>11,465</b>          | 11,465     | 11,465      |
| Comprehensive income attributable to controlling interest                            | <b>\$491,462</b>       | \$147,890  | \$193,584   |
| <b>Income tax expense/(benefit) of items included in Other comprehensive income:</b> |                        |            |             |
| Net unrealized gains/(losses) on securities available-for-sale                       | <b>\$ (16,054)</b>     | \$ (2,955) | \$ (12,810) |
| Net unrealized gains/(losses) on cash flow hedges                                    | <b>(1,360)</b>         | (3,163)    | (780)       |
| Net unrealized gains/(losses) on pension and other postretirement plans              | <b>(177)</b>           | (832)      | (7,172)     |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF EQUITY

| <i>(Dollars and shares in thousands, except per share data)</i>            | Common<br>Shares | Total       | Preferred<br>Stock | Common<br>Stock | Capital<br>Surplus | Undivided<br>Profits | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) (a) | Noncontrolling<br>Interest |
|--|------------------|-------------|--------------------|-----------------|--------------------|----------------------|--|----------------------------|
| Balance, December 31, 2015   | 238,587          | \$2,639,586 | \$95,624           | \$149,117       | \$1,439,303        | \$ 874,303           | \$(214,192)  | \$295,431                  |
| Net income/(loss)  | -                | 238,511     | -                  | -               | -                  | 227,046              | -  | 11,465                     |
| Other comprehensive income/(loss):   | -                | (33,462)    | -                  | -               | -                  | -                    | (33,462)   | -                          |
| Comprehensive income/(loss)  | -                | 205,049     | -                  | -               | -                  | 227,046              | (33,462)   | 11,465                     |
| Cash dividends declared:   |                  |             |                    |                 |                    |                      |  |                            |
| Preferred stock (\$6,200 per share)  | -                | (6,200)     | -                  | -               | -                  | (6,200)              | -  | -                          |
| Common stock (\$.28 per share)   | -                | (66,160)    | -                  | -               | -                  | (66,160)             | -  | -                          |
| Common stock repurchased (b)   | (7,653)          | (97,396)    | -                  | (4,783)         | (92,613)           | -                    | -  | -                          |
| Common stock issued for:   |                  |             |                    |                 |                    |                      |  |                            |
| Stock options and restricted stock – equity awards                         | 2,690            | 22,521      | -                  | 1,681           | 20,840             | -                    | -  | -                          |
| Tax benefit/(benefit reversal) – stock-based compensation expense          | -                | 1,613       | -                  | -               | 1,613              | -                    | -  | -                          |
| Stock-based compensation expense   | -                | 17,536      | -                  | -               | 17,536             | -                    | -  | -                          |
| Dividends declared – noncontrolling interest of subsidiary preferred stock | -                | (11,465)    | -                  | -               | -                  | -                    | -  | (11,465)                   |
| Other  | -                | -           | -                  | -               | (43)               | 43                   | -  | -                          |
| Balance, December 31, 2016   | 233,624          | 2,705,084   | 95,624             | 146,015         | 1,386,636          | 1,029,032            | (247,654)  | 295,431                    |
| Adjustment to reflect adoption of ASU 2016-09                              | -                | -           | -                  | -               | 230                | (230)                | -  | -                          |
| Beginning balance, as adjusted   | 233,624          | 2,705,084   | 95,624             | 146,015         | 1,386,866          | 1,028,802            | (247,654)  | 295,431                    |
| Net income/(loss)  | -                | 176,980     | -                  | -               | -                  | 165,515              | -  | 11,465                     |
| Other comprehensive income/(loss)  | -                | (17,625)    | -                  | -               | -                  | -                    | (17,625)   | -                          |
| Comprehensive income/(loss)  | -                | 159,355     | -                  | -               | -                  | 165,515              | (17,625)   | 11,465                     |
| Cash dividends declared:   |                  |             |                    |                 |                    |                      |  |                            |
| Preferred stock (\$6,200 per share)  | -                | (6,200)     | -                  | -               | -                  | (6,200)              | -  | -                          |
| Common stock (\$.36 per share)   | -                | (85,174)    | -                  | -               | -                  | (85,174)             | -  | -                          |
| Common stock repurchased   | (297)            | (5,554)     | -                  | (185)           | (5,369)            | -                    | -  | -                          |
| Common stock issued for:   |                  |             |                    |                 |                    |                      |  |                            |
| Stock options and restricted stock – equity awards                         | 1,107            | 6,092       | -                  | 692             | 5,400              | -                    | -  | -                          |
| Equity issued for acquisitions   | 92,302           | 1,797,723   | -                  | 57,689          | 1,740,034          | -                    | -  | -                          |
| Stock-based compensation expense   | -                | 20,627      | -                  | -               | 20,627             | -                    | -  | -                          |
| Dividends declared – noncontrolling interest of subsidiary preferred stock | -                | (11,465)    | -                  | -               | -                  | -                    | -  | (11,465)                   |
| Other  | -                | -           | -                  | -               | 55                 | (55)                 | -  | -                          |
| Balance, December 31, 2017   | 326,736          | 4,580,488   | 95,624             | 204,211         | 3,147,613          | 1,102,888            | (265,279)  | 295,431                    |
| Adjustment to reflect adoption of ASU 2018-02                              | -                | -           | -                  | -               | -                  | 57,546               | (57,546)   | -                          |
| Balance, December 31, 2017, as adjusted                                    | 326,736          | 4,580,488   | 95,624             | 204,211         | 3,147,613          | 1,160,434            | (322,825)  | 295,431                    |
| Adjustment to reflect adoption of ASU 2016-01 and 2017-12                  | -                | 67          | -                  | -               | -                  | 278                  | (211)  | -                          |
| Beginning balance, as adjusted   | 326,736          | 4,580,555   | 95,624             | 204,211         | 3,147,613          | 1,160,712            | (323,036)  | 295,431                    |
| Net income/(loss)  | -                | 556,507     | -                  | -               | -                  | 545,042              | -  | 11,465                     |
| Other comprehensive income/(loss)  | -                | (53,580)    | -                  | -               | -                  | -                    | (53,580)   | -                          |
| Comprehensive income/(loss)  | -                | 502,927     | -                  | -               | -                  | 545,042              | (53,580)   | 11,465                     |
| Cash dividends declared:   |                  |             |                    |                 |                    |                      |  |                            |
| Preferred stock (\$6,200 per share)  | -                | (6,200)     | -                  | -               | -                  | (6,200)              | -  | -                          |
| Common stock (\$.48 per share)   | -                | (157,146)   | -                  | -               | -                  | (157,146)            | -  | -                          |
| Common stock repurchased (b)   | (6,708)          | (104,768)   | -                  | (4,192)         | (100,576)          | -                    | -  | -                          |
| Common stock issued for:   |                  |             |                    |                 |                    |                      |  |                            |
| Stock options and restricted stock – equity awards                         | 926              | 4,480       | -                  | 578             | 3,902              | -                    | -  | -                          |
| Acquisition equity adjustment (c)  | (2,374)          | (46,041)    | -                  | (1,484)         | (44,557)           | -                    | -  | -                          |
| Stock-based compensation expense   | -                | 23,171      | -                  | -               | 23,171             | -                    | -  | -                          |
| Dividends declared – noncontrolling interest of subsidiary preferred stock | -                | (11,465)    | -                  | -               | -                  | -                    | -  | (11,465)                   |
| Other  | (7)              | (133)       | -                  | (5)             | (128)              | -                    | -  | -                          |
| Balance, December 31, 2018   | 318,573          | \$4,785,380 | \$95,624           | \$199,108       | \$3,029,425        | \$1,542,408          | \$(376,616)  | \$295,431                  |

See accompanying notes to consolidated financial statements.

- (a) Due to the nature of the preferred stock issued by FHN and its subsidiaries, all components of Other comprehensive income/(loss) have been attributed solely to FHN as the controlling interest holder.
- (b) 2018 and 2016 include \$99.4 million and \$93.5 million, respectively, repurchased under share repurchase programs.
- (c) See Note 2- Acquisitions and Divestitures for additional information.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31

(Dollars in thousands)

|                                 |   | 2018         | 2017         | 2016         |
|---------------------------------|---|--------------|--------------|--------------|
| <b>Operating Activities</b>     | Net income/(loss)   | \$ 556,507   | \$ 176,980   | \$ 238,511   |
|                                 | Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities: |              |              |              |
|                                 | Provision/(provision credit) for loan losses  | 7,000        | -            | 11,000       |
|                                 | Provision/(benefit) for deferred income taxes   | 103,557      | 121,001      | 79,604       |
|                                 | Depreciation and amortization of premises and equipment   | 47,232       | 34,703       | 32,387       |
|                                 | Amortization of intangible assets   | 25,855       | 8,728        | 5,198        |
|                                 | Net other amortization and accretion  | (13,962)     | 27,493       | 27,088       |
|                                 | Net (increase)/decrease in derivatives  | 41,687       | (26,662)     | 1,886        |
|                                 | Fair value adjustment on interest-only strips   | 398          | (1,021)      | -            |
|                                 | Repurchase and foreclosure provision/(provision credit)   | -            | (20,000)     | (31,400)     |
|                                 | (Gains)/losses and write-downs on OREO, net   | (626)        | (61)         | 8            |
|                                 | Litigation and regulatory matters   | (836)        | 40,250       | 13,400       |
|                                 | Stock-based compensation expense  | 23,171       | 20,627       | 17,536       |
|                                 | Gain on sale of held-to-maturity loans  | (3,777)      | -            | -            |
|                                 | Equity securities (gains)/losses, net   | (212,896)    | (109)        | 144          |
|                                 | Debt securities (gains)/losses, net   | (52)         | (483)        | (1,485)      |
|                                 | (Gain)/loss on extinguishment of debt   | 15           | 14,329       | -            |
|                                 | Net (gains)/losses on sale/disposal of fixed assets   | (1,320)      | 6,657        | 3,447        |
|                                 | Qualified pension plan contributions  | (353)        | (5,100)      | (165,000)    |
|                                 | (Gain)/loss on BOLI   | (4,217)      | (9,012)      | (2,010)      |
|                                 | Loans held-for-sale:  |              |              |              |
|                                 | Purchases and originations  | (2,345,030)  | (2,001,708)  | (165,887)    |
|                                 | Gross proceeds from settlements and sales   | 919,187      | 1,780,047    | 181,136      |
|                                 | (Gain)/loss due to fair value adjustments and other (a)   | 19,932       | (6,624)      | (155)        |
|                                 | Net (increase)/decrease in:   |              |              |              |
|                                 | Trading securities  | 1,356,797    | (381,057)    | (18,050)     |
|                                 | Fixed income receivables  | 29,832       | (11,282)     | 6,249        |
|                                 | Interest receivable   | (15,372)     | (34,352)     | 1,627        |
|                                 | Other assets  | 32,950       | 240,629      | (7,921)      |
|                                 | Net increase/(decrease) in:   |              |              |              |
|                                 | Trading liabilities   | (303,135)    | 76,667       | (4,171)      |
|                                 | Fixed income payables   | (39,424)     | (68,495)     | (2,070)      |
|                                 | Interest payable  | 15,165       | 5,934        | (4,535)      |
|                                 | Other liabilities   | (3,980)      | (16,877)     | (36,546)     |
|                                 | Total adjustments   | (322,202)    | (205,778)    | (58,520)     |
|                                 | Net cash provided/(used) by operating activities  | 234,305      | (28,798)     | 179,991      |
| <b>Investing Activities</b>     | Available-for-sale securities:  |              |              |              |
|                                 | Sales   | 20,751       | 936,958      | 444,222      |
|                                 | Maturities  | 675,526      | 583,014      | 736,956      |
|                                 | Purchases   | (473,205)    | (1,558,990)  | (1,239,912)  |
|                                 | Held-to-maturity securities:  |              |              |              |
|                                 | Prepayments and maturities  | -            | 4,740        | -            |
|                                 | Premises and equipment:   |              |              |              |
|                                 | Sales   | 30,464       | 3,416        | 11,396       |
|                                 | Purchases   | (47,986)     | (53,046)     | (62,554)     |
|                                 | Proceeds from sale of Visa Class B shares   | 240,206      | -            | -            |
|                                 | Proceeds from sales of OREO   | 30,824       | 13,468       | 27,135       |
|                                 | Proceeds from sales of loans classified as held-to-maturity                                     | 50,498       | -            | -            |
|                                 | Proceeds from BOLI  | 12,860       | 11,440       | 2,740        |
|                                 | Net (increase)/decrease in:   |              |              |              |
|                                 | Loans (b)   | 105,267      | (808,399)    | (1,931,026)  |
|                                 | Interests retained from securitizations classified as trading securities                        | 800          | 865          | 2,429        |
|                                 | Interest-bearing cash   | (92,011)     | (121,434)    | (457,198)    |
|                                 | Cash paid related to divestitures   | (27,599)     | -            | -            |
|                                 | Cash (paid)/received for acquisitions, net (c)  | (46,023)     | (336,634)    | -            |
|                                 | Net cash provided/(used) by investing activities  | 480,372      | (1,324,602)  | (2,465,812)  |
| <b>Financing Activities</b>     | Common stock:   |              |              |              |
|                                 | Stock options exercised   | 4,482        | 6,132        | 22,479       |
|                                 | Cash dividends paid   | (138,706)    | (79,904)     | (63,504)     |
|                                 | Repurchase of shares (d)  | (104,768)    | (5,554)      | (97,396)     |
|                                 | Cash dividends paid - preferred stock - noncontrolling interest                                 | (11,465)     | (11,434)     | (11,434)     |
|                                 | Cash dividends paid - Series A preferred stock  | (6,200)      | (6,200)      | (6,200)      |
|                                 | Term borrowings:  |              |              |              |
|                                 | Issuance  | -            | 121,184      | 100          |
|                                 | Payments/maturities   | (69,025)     | (147,413)    | (267,527)    |
|                                 | Increases in restricted and secured term borrowings   | 20,477       | 7,960        | -            |
|                                 | Net increase/(decrease) in:   |              |              |              |
|                                 | Deposits  | 2,092,519    | (197,158)    | 2,705,757    |
|                                 | Short-term borrowings   | (2,548,712)  | 2,080,039    | 10,277       |
|                                 | Net cash provided/(used) by financing activities  | (761,398)    | 1,767,652    | 2,292,552    |
|                                 | Net increase/(decrease) in cash and cash equivalents  | (46,721)     | 414,252      | 6,731        |
|                                 | Cash and cash equivalents at beginning of period  | 1,452,046    | 1,037,794    | 1,031,063    |
|                                 | Cash and cash equivalents at end of period  | \$ 1,405,325 | \$ 1,452,046 | \$ 1,037,794 |
| <b>Supplemental Disclosures</b> | Total interest paid   | \$ 307,578   | \$ 140,373   | \$ 92,456    |
|                                 | Total taxes paid  | 42,817       | 54,417       | 11,609       |
|                                 | Total taxes refunded  | 48,455       | 8,285        | 3,950        |
|                                 | Transfer from loans to OREO   | 12,106       | 6,624        | 10,317       |
|                                 | Transfer from loans HFS to trading securities   | 1,389,420    | 1,004,416    | -            |

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

(a) 2018 includes \$107.4 million related to the sale of approximately \$120 million UPB of subprime auto loans. See Note 2 – Acquisitions and Divestitures for additional information.

(b) 2016 includes \$537.4 million UPB of loans acquired from GE Capital.

(c) See Note 2 - Acquisitions and Divestitures for additional information.

(d) 2018 and 2016 include \$99.4 million and \$93.5 million, respectively, repurchased under share repurchase programs.

# Notes to the Consolidated Financial Statements

## Note 1 Summary of Significant Accounting Policies

**Basis of Accounting.** The consolidated 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.

**Principles of Consolidation and Basis of Presentation.** The consolidated financial statements include the accounts of FHN and other entities in which it has a controlling financial interest. Variable Interest Entities (“VIEs”) for which FHN or a subsidiary has been determined to be the primary beneficiary are also consolidated. Affiliates for which FHN is not considered the primary beneficiary and in which FHN does not have a controlling financial interest are accounted for by the equity method. These investments are included in other assets, and FHN’s proportionate share of income or loss is included in noninterest income. All significant intercompany transactions and balances have been eliminated. For purposes of comparability, certain prior period amounts have been reclassified to conform to current year presentation.

**Business Combinations.** FHN accounts for acquisitions meeting the definition of a business combination in accordance with ASC 805, “Business Combinations,” which requires acquired assets and liabilities (other than tax and certain benefit plan balances) to be recorded at fair value. Business combinations are included in the financial statements from the respective dates of acquisition. Acquisition related costs are expensed as incurred.

**Revenues.** Revenue is recognized when the performance obligations under the terms of a contract with a customer are satisfied in an amount that reflects the consideration FHN expects to be entitled. FHN derives a significant portion of its revenues from fee-based services. Noninterest income from transaction-based fees is generally recognized immediately upon completion of the transaction. Noninterest income from service-based fees is generally recognized over the period in which FHN provides the service. Any services performed over time generally require that FHN render services each period and therefore FHN measures progress in completing these services based upon the passage of time and recognizes revenue as invoiced.

Following is a discussion of FHN’s key revenues within the scope of Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers”, and all related amendments, except as noted.

**Fixed Income.** Fixed income includes fixed income securities sales, trading, and strategies, loan sales and derivative sales which are not within the scope of revenue from contracts with customers. Fixed income also includes investment banking fees earned for services related to underwriting debt securities and performing portfolio advisory services. FHN’s performance obligation for underwriting services is satisfied on the trade date while advisory services is satisfied over time.

**Deposit Transactions and Cash Management.** Deposit transactions and cash management activities include fees for services related to consumer and commercial deposit products (such as service charges on checking accounts), cash management products and services such as electronic transaction processing (Automated Clearing House and Electronic Data Interchange), account reconciliation services, cash vault services, lockbox processing, and information reporting to large corporate clients. FHN’s obligation for transaction-based services is satisfied at the time of the transaction when the service is delivered while FHN’s obligation for service based fees is satisfied over the course of each month.

**Brokerage, Management Fees and Commissions.** Brokerage, management fees and commissions include fees for portfolio management, trade commissions, and annuity and mutual fund sales. Asset-based management fees are charged based on the market value of the client’s assets. The services associated with these revenues, which include investment advice and active management of client assets are generally performed and

## Note 1 ☐ Summary of Significant Accounting Policies (continued)

recognized over a month or quarter. Transactional revenues are based on the size and number of transactions executed at the client's direction and are generally recognized on the trade date.

**Trust Services and Investment Management.** Trust services and investment management fees include investment management, personal trust, employee benefits, and custodial trust services. Obligations for trust services are generally satisfied over time but may be satisfied at points in time for certain activities that are transactional in nature.

**Bankcard Income.** Bankcard income includes credit interchange and network revenues and various card-related fees. Interchange income is recognized concurrently with the delivery of services on a daily basis. Card-related fees such as late fees, currency conversion, and cash advance fees are loan-related and excluded from the scope of ASU 2014-09.

**Contract Balances.** As of December 31, 2018, accounts receivable related to products and services on non-interest income were \$8.1 million. For the year ended December 31, 2018, FHN had no material impairment losses on non-interest accounts receivable and there were no material contract assets, contract liabilities or deferred contract costs recorded on the Consolidated Statement of Condition as of December 31, 2018.

**Transaction Price Allocated to Remaining Performance Obligations.** For the year ended December 31, 2018, revenue recognized from performance obligations related to prior periods was not material. Revenue expected to be recognized in any future year related to remaining performance obligations, excluding revenue pertaining to contracts that have an original expected duration of one year or less and contracts where revenue is recognized as invoiced, is not material.

Refer to Note 20 – Business Segment Information for a reconciliation of disaggregated revenue by major product line and reportable segment.

**Debt Investment Securities.** Available-for-sale (“AFS”) and held-to-maturity (“HTM”) securities are reviewed quarterly for possible other-than-temporary impairment (“OTTI”). 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. Debt securities that may be sold prior to maturity are classified as AFS and are carried at fair value. The unrealized gains and losses on debt securities AFS, including 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 and the Statements of Comprehensive Income. Debt securities which management has the intent and ability to hold to maturity are reported at amortized cost. Interest-only strips that are classified as securities AFS are valued at elected fair value. See Note 24 – Fair Value of Assets and Liabilities for additional information.

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. For HTM debt securities, OTTI recognized is typically credit-related and is reported in noninterest income. For impaired AFS 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 OTTI recognized is 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 and the Statements of Comprehensive Income.

**Equity Investment Securities.** Equity securities were classified as AFS through December 31, 2017. Subsequently, all equity securities are classified in Other assets.

National banks chartered by the federal government are, by law, members of the Federal Reserve System. Each member bank is required to own stock in its regional Federal Reserve Bank (“FRB”). Given this requirement,

## Note 1 ☐ Summary of Significant Accounting Policies (continued)

FRB stock may not be sold, traded, or pledged as collateral for loans. Membership in the Federal Home Loan Bank (“FHLB”) network requires ownership of capital stock. Member banks are entitled to borrow funds from the FHLB and are required to pledge mortgage loans as collateral. Investments in the FHLB are non-transferable and, generally, membership is maintained primarily to provide a source of liquidity as needed. FRB and FHLB stock are recorded at cost and are subject to impairment reviews.

Other equity investments primarily consist of mutual funds which are marked to fair value through earnings. Smaller balances of equity investments without a readily determinable fair value are recorded at cost minus impairment with adjustments through earnings for observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

**Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase.** FHN enters into short-term securities purchased under agreements to resell transactions which are accounted for as collateralized financings except where FHN does not have an agreement to sell the same or substantially the same securities before maturity at a fixed or determinable price. All of FHN’s securities purchased under agreements to resell are recognized as collateralized financings. Securities delivered under these transactions are delivered to either the dealer custody account at the FRB or to the applicable counterparty. Securities sold under agreements to repurchase are offered to cash management customers as an automated, collateralized investment account. Securities sold under agreements to repurchase are also used by the consumer/commercial bank to obtain favorable borrowing rates on its purchased funds. All of FHN’s securities sold under agreements to repurchase are secured borrowings.

Collateral is valued daily and FHN may require counterparties to deposit additional securities or cash as collateral, or FHN may return cash or securities previously pledged by counterparties, or FHN may be required to post additional securities or cash as collateral, based on the contractual requirements for these transactions.

FHN’s fixed income business utilizes securities borrowing arrangements as part of its trading operations. Securities borrowing transactions generally require FHN to deposit cash with the securities lender. The amount of cash advanced is recorded within Securities purchased under agreements to resell in the Consolidated Statements of Condition. These transactions are not considered purchases and the securities borrowed are not recognized by FHN. FHN does not conduct securities lending transactions.

**Loans Held-for-Sale.** Loans originated or purchased in which management lacks the intent to hold are included in loans held-for-sale in the Consolidated Statements of Condition. FHN has elected the fair value option on a prospective basis for certain mortgage loans held-for-sale and repurchased loans that are not governmentally insured. Such loans are carried at fair value, with changes in the fair value recognized in the other income section of the Consolidated Statements of Income. For mortgage loans originated for sale for which the fair value option was elected, loan origination fees were recorded by FHN when earned and related direct loan origination costs are recognized when incurred. See Note 24 - Fair Value of Assets and Liabilities for additional information. FHN accounts for all other loans held-for-sale at the lower of cost or market value (“LOCOM”).

**Loans.** Generally, loans are stated at principal amounts outstanding, net of unearned income. Interest on loans is recognized on an accrual basis at the applicable interest rate on the principal amount outstanding. Loan origination fees and direct costs as well as premiums and discounts are amortized as level yield adjustments over the respective loan terms. Unamortized net fees or costs, premiums and discounts are recognized in interest income upon early repayment of the loans. Cash collections from loans that were fully charged off prior to acquisition are recognized in noninterest income. Loan commitment fees are generally deferred and amortized on a straight-line basis over the commitment period.

**Nonaccrual and Past Due Loans.** Generally, loans are placed on nonaccrual status if it becomes evident that full collection of principal and interest is at risk, impairment has been recognized as a partial charge-off of principal

## Note 1 ☐ Summary of Significant Accounting Policies (continued)

balance due to insufficient collateral value and past due status, or on a case-by-case basis if FHN continues to receive payments, but there are other borrower-specific issues.

- The accrual status policy for commercial troubled debt restructurings (“TDRs”) follows the same internal policies and procedures as other commercial portfolio loans.
- Residential real estate secured loans discharged in bankruptcy that have not been reaffirmed by the borrower (“discharged bankruptcies”) are placed on nonaccrual regardless of delinquency status and are reported as TDRs.
- Current second lien residential real estate loans that are junior to first liens are placed on nonaccrual status if the first lien is 90 or more days past due, is a bankruptcy, or is a troubled debt restructuring.
- Consumer real estate (HELOC and residential real estate installment loans), if not already on nonaccrual per above situations, are placed on nonaccrual if the loan is 30 or more days delinquent at the time of modification and is also determined to be a TDR.
- Government guaranteed/insured residential mortgage loans remain on accrual (even if the loan falls into one of the above categories) because the collection of principal and interest is reasonably assured.

For commercial and consumer loans within each portfolio segment and class that have been placed on nonaccrual status, accrued but uncollected interest is reversed and charged against interest income when the loan is placed on nonaccrual status. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral is sufficient to recover the principal balance and accrued interest. Interest payments received on nonaccrual loans are normally applied to outstanding principal first. Once all principal has been received, additional interest payments are recognized on a cash basis as interest income.

Generally, commercial and consumer loans within each portfolio segment and class that have been placed on nonaccrual status can be returned to accrual status if all principal and interest is current and FHN expects full repayment of the remaining contractual principal and interest. This typically requires that a borrower make payments in accordance with the contractual terms for a sustained period of time (generally for a minimum of six months) before being returned to accrual status. For TDRs, FHN may also consider a borrower’s sustained historical repayment performance for a reasonable time prior to the restructuring in assessing whether the borrower can meet the restructured terms, as it may indicate whether the borrower is capable of servicing the level of debt under the modified terms.

Residential real estate loans discharged through Chapter 7 bankruptcy and not reaffirmed by the borrower are not returned to accrual status. For current second liens that have been placed on nonaccrual because the first lien is 90 or more days past due or is a TDR or bankruptcy, the second lien may be returned to accrual upon pay-off or cure of the first lien.

**Charge-offs.** For all commercial and consumer loan portfolio segments, all losses of principal are charged to the allowance for loan losses (“ALLL”) in the period in which the loan is deemed to be uncollectible.

For consumer loans, the timing of a full or partial charge-off generally depends on the loan type and delinquency status. Generally, for the consumer real estate and permanent mortgage portfolio segments, a loan will be either partially or fully charged-off when it becomes 180 days past due. At this time, if the collateral value does not support foreclosure, balances are fully charged-off and other avenues of recovery are pursued. If the collateral value supports foreclosure, the loan is charged-down to net realizable value (collateral value less estimated costs to sell) and is placed on nonaccrual status. For residential real estate loans discharged in Chapter 7 bankruptcy and not reaffirmed by the borrower, the fair value of the collateral position is assessed at the time FHN is made aware of the discharge and the loan is charged down to the net realizable value (collateral value less estimated costs to sell). Within the credit card and other portfolio segment, credit cards and installment loans secured by automobiles are normally charged-off upon reaching 180 days past due while other non-real estate consumer loans are charged-off upon reaching 120 days past due.



## Note 1 ☐ Summary of Significant Accounting Policies (continued)

**Impaired Loans.** Impaired loans include nonaccrual commercial loans greater than \$1 million and modified consumer and commercial loans that have been classified as a TDR and are individually measured for impairment under the guidance of ASC 310. TDRs are always reported as such unless the TDR has exhibited sustained performance, was reported as a TDR over a year-end, and the modified terms were market-based at the time of modification.

**Purchased Credit-Impaired Loans.** ASC 310-30 “Accounting for Certain Loans or Debt Securities Acquired in a Transfer,” provides guidance for acquired loans that have exhibited deterioration of credit quality between origination and the time of acquisition and for which the timely collection of the interest and principal is not reasonably assured (“PCI loans”). PCI loans are initially recorded at fair value which is estimated by discounting expected cash flows at acquisition date. The expected cash flows include all contractually expected amounts (including interest) and incorporate an estimate for future expected credit losses, pre-payment assumptions, and yield requirement for a market participant, among other things. To the extent possible, certain PCI loans were aggregated into pools with composite interest rate and cash flows expected to be collected for the pool. Aggregation into loan pools is based upon common risk characteristics that include similar credit risk or risk ratings, and one or more predominant risk characteristics. Each PCI pool is accounted for as a single unit.

Accretable yield is initially established at acquisition and is the excess of cash flows expected at acquisition over the initial investment in the loan and is recognized in interest income over the remaining life of the loan, or pool of loans. Nonaccretable difference is initially established at acquisition and is the difference between the contractually required payments at acquisition and the cash flows expected to be collected at acquisition. FHN estimates expected cash flows for PCI loans on a quarterly basis. Increases in expected cash flows from the last measurement result in reversal of any nonaccretable difference (or allowance for loan losses to the extent any has previously been recorded) with a prospective positive impact on interest income. Decreases to the expected cash flows result in an increase in the allowance for loan losses through provision expense.

FHN does not report PCI loans as nonperforming loans due to the accretion of interest income. Additionally, PCI loans that have been pooled and subsequently modified will not be reported as troubled debt restructurings since the pool is the unit of measurement.

**Allowance for Loan Losses.** The ALLL is maintained at a level that management determines is sufficient to absorb estimated probable incurred losses in the loan portfolio. The ALLL is increased by the provision for loan losses and loan recoveries and is decreased by loan charge-offs. The ALLL is determined in accordance with ASC 450-20-50 “Contingencies - Accruals for Loss Contingencies” and is composed of reserves for commercial loans evaluated based on pools of credit graded loans and reserves for pools of smaller-balance homogeneous consumer and commercial loans. The reserve factors applied to these pools are an estimate of probable incurred losses based on management’s evaluation of historical net losses from loans with similar characteristics. Additionally, the ALLL includes specific reserves established in accordance with ASC 310-10-35 for loans determined by management to be individually impaired as well as reserves associated with PCI loans. Management uses analytical models to estimate probable incurred losses in the loan portfolio as of the balance sheet date. The models, which are primarily driven by historical losses, are carefully reviewed to identify trends that may not be captured in the historical loss factors used in the models. Management uses qualitative adjustments for those items not yet captured in the models like current events, recent trends in the portfolio, current underwriting guidelines, and local and macroeconomic trends, among other things.

The nature of the process by which FHN determines the appropriate ALLL requires the exercise of considerable judgment. See Note 5 – Allowance for Loan Losses for a discussion of FHN’s ALLL methodology and a description of the models utilized in the estimation process for the commercial and consumer loan portfolios.

Key components of the estimation process are as follows: (1) commercial loans determined by management to be individually impaired loans are evaluated individually and specific reserves are determined based on the difference between the outstanding loan amount and the estimated net realizable value of the collateral (if collateral dependent), the present value of expected future cash flows or by observable market prices; (2) individual commercial loans not considered to be individually impaired are segmented based on similar credit risk characteristics and evaluated on a pool basis; (3) reserve rates for the commercial segment are

## Note 1 ☐ Summary of Significant Accounting Policies (continued)

calculated based on historical net charge-offs and are subject to adjustment by management to reflect current events, trends, and conditions (including economic considerations and trends); (4) management's estimate of probable incurred losses reflects the reserve rates applied against the balance of loans in the commercial segment of the loan portfolio; (5) consumer loans are generally segmented based on loan type; (6) reserve amounts for each consumer portfolio segment are calculated using analytical models based on delinquency trends and net loss experience and are subject to adjustment by management to reflect current events, trends, and conditions (including economic considerations and trends); and (7) the reserve amount for each consumer portfolio segment reflects management's estimate of probable incurred losses in the consumer segment of the loan portfolio.

Impairment related to individually impaired loans is measured in accordance with ASC 310-10. For all commercial portfolio segments, commercial TDRs and other individually impaired commercial loans are measured based on the present value of expected future payments discounted at the loan's effective interest rate ("the DCF method"), observable market prices, or for loans that are solely dependent on the collateral for repayment, the net realizable value (collateral value less estimated costs to sell). Impaired loans also include consumer TDRs.

Future adjustments to the ALLL may be necessary if economic or other conditions differ substantially from the assumptions used in making the estimates or, if required by regulators, based upon information at the time of their examinations or upon future regulatory guidance. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels vary from previous estimates.

**Premises and Equipment.** Premises and equipment are carried at cost less accumulated depreciation and amortization and include additions that materially extend the useful lives of existing premises and equipment. All other maintenance and repair expenditures are expensed as incurred. Premises and equipment held-for-sale are generally valued at appraised values which reference recent disposition values for similar property types but also consider marketability discounts for vacant properties. The valuations of premises and equipment held-for-sale are reduced by estimated costs to sell. Impairments, and any subsequent recoveries, are recorded in noninterest expense. Gains and losses on dispositions are reflected in noninterest income and expense, respectively.

Depreciation and amortization are computed on the straight-line method over the estimated useful lives of the assets and are recorded as noninterest expense. Leasehold improvements are amortized over the lesser of the lease periods or the estimated useful lives using the straight-line method. Useful lives utilized in determining depreciation for furniture, fixtures and equipment and for buildings are three to fifteen and seven to forty-five years, respectively.

**Other Real Estate Owned ("OREO").** Real estate acquired by foreclosure or other real estate-owned consists of properties that have been acquired in satisfaction of debt. These properties are carried at the lower of the outstanding loan amount or estimated fair value less estimated costs to sell the real estate. At the time acquired, and in conjunction with the transfer from loans to OREO, there is a charge-off against the ALLL if the estimated fair value less costs to sell is less than the loan's cost basis. Subsequent declines in fair value and gains or losses on dispositions, if any, are charged to All other expense on the Consolidated Statements of Income. Properties acquired by foreclosure in compliance with HUD servicing guidelines prior to January 1, 2015, are included in "OREO" and are carried at the estimated amount of the underlying government insurance or guarantee. On December 31, 2018, FHN had \$2.9 million of these properties.

Required developmental costs associated with acquired property under construction are capitalized and included in determining the estimated net realizable value of the property, which is reviewed periodically, and any write-downs are charged against current earnings.

**Intangible Assets.** Intangible assets consist of "Other intangible assets" and "Goodwill." Other intangible assets represent customer lists and relationships, acquired contracts, covenants not to compete and premium on purchased deposits, which are amortized over their estimated useful lives. Intangible assets related to acquired

## Note 1 ☐ Summary of Significant Accounting Policies (continued)

deposit bases are primarily amortized over 10 years using an accelerated method. Management evaluates whether events or circumstances have occurred that indicate the remaining useful life or carrying value of amortizing intangibles should be revised. Goodwill represents the excess of cost over net assets of acquired businesses less identifiable intangible assets. On an annual basis, FHN assesses goodwill for impairment.

**Derivative Financial Instruments.** FHN accounts for derivative financial instruments in accordance with ASC 815 which requires recognition of all derivative instruments on the balance sheet as either an asset or liability measured at fair value through adjustments to either accumulated other comprehensive income within shareholders' equity or current earnings. 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. FHN has elected to present its derivative assets and liabilities gross on the Consolidated Statements of Condition. Amounts of collateral posted or received have not been netted with the related derivatives unless the collateral amounts are considered legal settlements of the related derivative positions. See Note 22 – Derivatives for discussion on netting of derivatives.

FHN prepares written hedge documentation, identifying the risk management objective and designating the derivative instrument as a fair value hedge or cash flow hedge as applicable, or as a free-standing derivative instrument entered into as an economic hedge or to meet customers' needs. All transactions designated as ASC 815 hedges must be assessed at inception and on an ongoing basis as to the effectiveness of the derivative instrument in offsetting changes in fair value or cash flows of the hedged item. 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 attributable to the hedged risk are recognized currently in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument are recorded in accumulated other comprehensive income and subsequently reclassified to earnings as the hedged transaction impacts net income. Prior to 2018, ineffectiveness in debt and cash flow hedges was recorded in noninterest expense. Starting in 2018, for fair value hedges, the entire change in the fair value of the hedging instrument included in the assessment of effectiveness is recorded to the same financial statement line item (e.g., interest expense) used to present the earnings effect of the hedged item. For cash flow hedges, the entire fair value change of the hedging instrument that is included in the assessment of hedge effectiveness is initially recorded in other comprehensive income and later recycled into earnings as the hedged transaction(s) affect net income with the income statement effects recorded in the same financial statement line item used to present the earnings effect of the hedged item (e.g., interest income). For free-standing derivative instruments, changes in fair values are recognized currently in earnings. See Note 22 – Derivatives for additional information.

Cash flows from derivative contracts are reported as operating activities on the Consolidated Statements of Cash Flows.

**Advertising and Public Relations.** Advertising and public relations costs are generally expensed as incurred.

**Income Taxes.** FHN accounts for income taxes using the asset and liability method pursuant to ASC 740, "Income Taxes," which requires the recognition of deferred tax assets ("DTAs") and liabilities ("DTLs") for the expected future tax consequences of events that have been included in the financial statements. Under this method, FHN's deferred tax assets and liabilities are determined based on differences between financial statement carrying amounts and the corresponding tax basis of certain assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on DTAs and DTLs is recognized in income in the period that includes the enactment date.

Additionally, DTAs are subject to a "more likely than not" test to determine whether the full amount of the DTAs should be recognized in the financial statements. FHN evaluates the likelihood of realization of the DTA based on both positive and negative evidence available at the time, including (as appropriate) scheduled reversals of DTLs, projected future taxable income, tax planning strategies, and recent financial performance. If the "more likely than not" test is not met, a valuation allowance must be established against the DTA. In the event FHN determines that DTAs are realizable in the future in excess of their net recorded amount, FHN would make an adjustment to the valuation allowance, which would reduce the provision for income taxes.

## Note 1 ☐ Summary of Significant Accounting Policies (continued)

FHN records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) it is determined whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority is recognized. FHN's ASC 740 policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense. Accrued interest and penalties are included within the related tax asset/liability line in the consolidated balance sheet.

FHN and its eligible subsidiaries are included in a consolidated federal income tax return. FHN files separate returns for subsidiaries that are not eligible to be included in a consolidated federal income tax return. Based on the laws of the applicable state where it conducts business operations, FHN either files consolidated, combined, or separate returns. The federal tax returns for Capital Bank Financial Corporation for 2010-2012 are under examination by the IRS. With few exceptions, FHN returns are no longer subject to federal or state and local tax examinations by tax authorities for years before 2013. FHN is currently under federal examination for 2013-2015 and is also under examination in several states.

**Earnings per Share.** Earnings per share is computed by dividing net income or loss available to common shareholders by the weighted average number of common shares outstanding for each period. Diluted earnings per share in net income periods is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding adjusted to include the number of additional common shares that would have been outstanding if the potential dilutive common shares resulting from performance shares and units, restricted shares and units, and options granted under FHN's equity compensation plans and deferred compensation arrangements had been issued. FHN utilizes the treasury stock method in this calculation. Diluted earnings per share does not reflect an adjustment for potentially dilutive shares in periods in which a net loss available to common shareholders exists.

**Equity Compensation.** FHN accounts for its employee stock-based compensation plans using the grant date fair value of an award to determine the expense to be recognized over the life of the award. Stock options are valued using an option-pricing model, such as Black-Scholes. Restricted and performance shares and share units are valued at the stock price on the grant date. Awards with post-vesting transfer restrictions are discounted using models that reflect market considerations for illiquidity. For awards with service vesting criteria, expense is recognized using the straight-line method over the requisite service period (generally the vesting period). Forfeitures are recognized when they occur. For awards vesting based on a performance measure, anticipated performance is projected to determine the number of awards expected to vest, and the corresponding aggregate expense is adjusted to reflect the elapsed portion of the performance period. If a performance period extends beyond the required service term, total expense is adjusted for changes in estimated achievement through the end of the performance period. The fair value of equity awards with cash payout requirements, as well as awards for which fair value cannot be estimated at grant date, is remeasured each reporting period through vesting date. Performance awards with pre-grant date achievement criteria are expensed over the period from the start of the performance period through the end of the service vesting term. Awards are amortized using the nonsubstantive vesting methodology which requires that expense associated with awards having only service vesting criteria that continue vesting after retirement be recognized over a period ending no later than an employee's retirement eligibility date.

**Repurchase and Foreclosure Provision.** The repurchase and foreclosure provision is the charge to earnings necessary to maintain the liability at a level that reflects management's best estimate of losses associated with the repurchase of loans previously transferred in whole loans sales or securitizations, or make whole requests as of the balance sheet date. See Note 17 - Contingencies and Other Disclosures for discussion related to FHN's obligations to repurchase such loans.

**Legal Costs.** Generally, legal costs are expensed as incurred.

**Contingency Accruals.** Contingent liabilities arise in the ordinary course of business, including those related to lawsuits, arbitration, mediation, and other forms of litigation. FHN establishes loss contingency liabilities for matters when loss is both probable and reasonably estimable in accordance with ASC 450-20-50

## Note 1 ☐ Summary of Significant Accounting Policies (continued)

“Contingencies - Accruals for Loss Contingencies”. If loss for a matter is probable and a range of possible loss outcomes is the best estimate available, accounting guidance generally requires a liability to be established at the low end of the range. Expected recoveries from insurance and indemnification arrangements are recognized if they are considered equally as probable and reasonably estimable as the related loss contingency up to the recognized amount of the estimated loss. Gain contingencies and expected recoveries from insurance and indemnification arrangements in excess of the associated recorded estimated losses are recognized when received. Recognized recoveries are recorded as offsets to the related expense in the Consolidated Statements of Income. The favorable resolution of a gain contingency generally results in the recognition of other income in the Consolidated Statements of Income. Contingencies assumed in business combinations are evaluated through the end of the one-year post-closing measurement period. If the acquisition-date fair value of the contingency can be determined during the measurement period, recognition occurs as part of the acquisition-date fair value of the acquired business. If the acquisition-date fair value of the contingency cannot be determined, but loss is considered probable as of the acquisition date and can be reasonably estimated within the measurement period, then the estimated amount is recorded within acquisition accounting. If the requirements for inclusion of the contingency as part of the acquisition are not met, subsequent recognition of the contingency is included in earnings.

**Summary of Accounting Changes.** Effective January 1, 2018, FHN adopted the provisions of ASU 2014-09, “Revenue from Contracts with Customers,” and all related amendments to all contracts using a modified retrospective transaction method. ASU 2014-09 does not change revenue recognition for financial assets. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This is accomplished through a five-step recognition framework involving 1) the identification of contracts with customers, 2) identification of performance obligations, 3) determination of the transaction price, 4) allocation of the transaction price to the performance obligations and 5) recognition of revenue as performance obligations are satisfied. Additionally, qualitative and quantitative information is required for disclosure regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In February 2016, the FASB issued ASU 2016-08, “Principal versus Agent Considerations,” which provides additional guidance on whether an entity should recognize revenue on a gross or net basis, based on which party controls the specified good or service before that good or service is transferred to a customer. In April 2016, the FASB issued ASU 2016-10, “Identifying Performance Obligations and Licensing,” which clarifies the original guidance included in ASU 2014-09 for identification of the goods or services provided to customers and enhances the implementation guidance for licensing arrangements. ASU 2016-12, “Narrow-Scope Improvements and Practical Expedients,” was issued in May 2016 to provide additional guidance for the implementation and application of ASU 2014-09. “Technical Corrections and Improvements” ASU 2016-20 was issued in December 2016 and provides further guidance on certain issues. FHN elected to adopt the provisions of the revenue recognition standards through the cumulative effect alternative and determined that there were no significant effects on the timing of recognition, which resulted in no cumulative effect adjustment being required. Beginning in first quarter 2018, in situations where FHN’s broker-dealer operations serve as the lead underwriter, the associated revenues and expenses are presented gross. The effect on 2018 revenues and expenses was not significant.

Effective January 1, 2018, FHN adopted the provisions of ASU 2017-05, “Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets” through the cumulative effect approach. ASU 2017-05 clarifies the meaning and application of the term “in substance nonfinancial asset” in transactions involving both financial and nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract are concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of revenue recognition guidance for nonfinancial assets. ASU 2017-05 also clarifies that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it with the amount of revenue recognized based on the allocation guidance provided in ASU 2014-09. ASU 2017-05 also requires an entity to derecognize a distinct nonfinancial asset or distinct in substance nonfinancial asset in a partial sale transaction when it 1) does not have (or ceases to have) a controlling financial interest in the legal entity that holds the asset in accordance with Topic 810 and 2) transfers control of the asset in accordance with the provisions of ASU 2014-09. Once

## Note 1 ☐ Summary of Significant Accounting Policies (continued)

an entity transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial asset, it is required to measure any noncontrolling interest it receives (or retains) at fair value. FHN determined that there were no significant effects on the timing of revenue recognition, which resulted in no cumulative effect adjustment being required.

Effective January 1, 2018, FHN adopted the provisions of ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 makes several revisions to the accounting, presentation and disclosure for financial instruments. Equity investments (except those accounted for under the equity method, those that result in consolidation of the investee, and those held by entities subject to specialized industry accounting which already apply fair value through earnings) are required to be measured at fair value with changes in fair value recognized in net income. This excludes FRB and FHLB stock holdings which are specifically exempted from the provisions of ASU 2016-01. An entity may elect to measure equity investments that do not have readily determinable market values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar instruments from the same issuer. ASU 2016-01 also requires a qualitative impairment review for equity investments without readily determinable fair values, with measurement at fair value required if impairment is determined to exist. For liabilities for which fair value has been elected, ASU 2016-01 revises current accounting to record the portion of fair value changes resulting from instrument-specific credit risk within other comprehensive income rather than earnings. FHN has not elected fair value accounting for any existing financial liabilities. Additionally, ASU 2016-01 clarifies that the need for a valuation allowance on a deferred tax asset related to available-for-sale securities should be assessed in combination with all other deferred tax assets rather than being assessed in isolation. ASU 2016-01 also makes several changes to existing fair value presentation and disclosure requirements, including a provision that all disclosures must use an exit price concept in the determination of fair value. Transition is through a cumulative effect adjustment to retained earnings for equity investments with readily determinable fair values. Equity investments without readily determinable fair values, for which the accounting election is made, had any initial fair value marks recorded through earnings prospectively after adoption.

Upon adoption, FHN reclassified \$265.9 million of equity investments out of AFS securities to Other assets, leaving only debt securities within the AFS classification. FHN evaluated the nature of its current equity investments (excluding FRB and FHLB stock holdings which are specifically exempted from the provisions of ASU 2016-01) and determined that substantially all qualified for the election available to assets without readily determinable fair values. Accordingly, FHN has applied this election and any future fair value marks for these investments will be recognized through earnings on a prospective basis subsequent to adoption. The requirements of ASU 2016-01 related to assessment of deferred tax assets and disclosure of the fair value of financial instruments did not have a significant effect on FHN because its current accounting and disclosure practices conform to the requirements of ASU 2016-01.

Effective January 1, 2018, FHN adopted the provisions of ASU 2016-04, "Recognition of Breakage of Certain Prepaid Stored-Value Products," which indicates that liabilities related to the sale of prepaid stored-value products are considered financial liabilities and should have a breakage estimate applied for estimated unused funds. ASU 2016-04 does not apply to stored-value products that can only be redeemed for cash, are subject to escheatment or are linked to a segregated bank account. The adoption of ASU 2016-04 did not have a significant effect on FHN's current accounting and disclosure practices.

Effective January 1, 2018, FHN adopted the provisions of ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which clarifies multiple cash flow presentation issues including providing guidance as to classification on the cash flow statement for certain cash receipts and cash payments where diversity in practice exists. The adoption of ASU 2016-15 was applied retroactively resulting in proceeds from bank-owned life insurance ("BOLI") being classified as an investing activity rather than their prior classification

**Note 1 ☐ Summary of Significant Accounting Policies (continued)**

as an operating activity. All of these amounts are included in Other assets in the Consolidated Statement of Condition. The amounts reclassified are presented in the table below.

| <i>(Dollars in thousands)</i> | Fiscal Years Ended<br>December 31 |         |
|-------------------------------|-----------------------------------|---------|
|                               | 2017                              | 2016    |
| Proceeds from BOLI            | \$11,440                          | \$2,740 |

Effective January 1, 2018, FHN retroactively adopted the provisions of ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which requires the disaggregation of the service cost component from the other components of net benefit cost for pension and postretirement plans. Service cost must be included in the same income statement line item as other compensation-related expenses. All other components of net benefit cost are required to be presented in the income statement separately from the service cost component, with disclosure of the line items where these amounts are recorded. FHN’s disclosures for pension and postretirement costs provide details of the service cost and all other components for expenses recognized for its applicable benefit plans. All of these amounts were previously included in Employee compensation, incentives, and benefits expense in the Consolidated Statements of Income. Upon adoption of ASU 2017-07 FHN reclassified the expense components other than service cost into All other expense and revised its disclosures accordingly. The amounts reclassified are presented in the table below.

| <i>(Dollars in thousands)</i>                   | Fiscal Years Ended<br>December 31 |         |
|---|-----------------------------------|---------|
|   | 2017                              | 2016    |
| Net periodic benefit cost/(credit) reclassified | \$1,946                           | \$(843) |

Effective January 1, 2018, FHN early adopted the provisions of ASU 2017-08, “Premium Amortization on Purchased Callable Debt Securities,” which shortens the amortization period for securities that have explicit, noncontingent call features that are callable at fixed prices and on preset dates. In contrast to the current requirement for premium amortization to extend to the contractual maturity date, ASU 2017-08 requires the premium to be amortized to the earliest call date. ASU 2017-08 does not change the amortization of discounts, which will continue to be amortized to maturity. The new guidance does not apply to either 1) debt securities where the prepayment date is not preset or the price is not known in advance or 2) debt securities that qualify for amortization based on estimated prepayment rates. The adoption of ASU 2017-08 did not have an effect on FHN’s investments.

Effective January 1, 2018, FHN early adopted the provisions of ASU 2017-12, “Targeted Improvements to Accounting for Hedging Activities,” which revises the financial reporting for hedging relationships through changes to both the designation and measurement requirements for qualifying hedge relationships and the presentation of hedge results. ASU 2017-12 expands permissible risk component hedging strategies, including the designation of a contractually specified interest rate (e.g., a bank’s prime rate) in hedges of cash flows from variable rate financial instruments. Additionally, ASU 2017-12 makes significant revisions to fair value hedging activities, including the ability to measure the fair value changes for a hedged item solely for changes in the benchmark interest rate, permitting partial-term hedges, limiting consideration of prepayment risk for hedged debt instruments solely to the effects of changes in the benchmark interest rate and allowing for certain hedging strategies to be applied to closed portfolios of prepayable debt instruments. ASU 2017-12 also provides elections for the exclusion of certain portions of a hedging instrument’s change in fair value from the assessment of hedge effectiveness. If elected, the fair value changes of these excluded components may be recognized immediately or recorded into other comprehensive income with recycling into earnings using a rational and systematic methodology over the life of the hedging instrument.

Under ASU 2017-12 some of the documentation requirements for hedge accounting relationships are relaxed, but the highly effective threshold has been retained. Hedge designation documentation and a prospective qualitative assessment are still required at hedge inception, but the initial quantitative analysis may be delayed until the end of the quarter the hedge is commenced. If certain criteria are met, an election can be made to perform future

## Note 1 ☐ Summary of Significant Accounting Policies (continued)

effectiveness assessments using a purely qualitative methodology. ASU 2017-12 also revises the income statement presentation requirements for hedging activities. For fair value hedges, the entire change in the fair value of the hedging instrument included in the assessment of effectiveness is recorded to the same income statement line item used to present the earnings effect of the hedged item. For cash flow hedges, the entire fair value change of the hedging instrument that is included in the assessment of hedge effectiveness is initially recorded in other comprehensive income and later recycled into earnings as the hedged transaction(s) affect net income with the income statement effects recorded in the same financial statement line item used to present the earnings effect of the hedged item.

ASU 2017-12 also makes revisions to the current disclosure requirements for hedging activities to reflect the presentation of hedging results consistent with the changes to income statement classification and to improve the disclosure of the hedging results on the balance sheet.

FHN early adopted the provisions of ASU 2017-12 in the first quarter of 2018. Prospectively, FHN is recording components of hedging results for its fair value and cash flow hedges previously recognized in other expense within either interest income or interest expense. Additionally, FHN made cumulative effect adjustments to the hedged items, accumulated other comprehensive income and retained earnings as of the beginning of 2018. The magnitude of the cumulative effect adjustments and prospective effects were insignificant for FHN's hedge relationships.

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement," which makes multiple revisions to current disclosures requirements for fair value measurements. ASU 2018-13 removes the disclosure requirements for transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for the timing of recognition for transfers between fair value levels and the discussion of valuation processes for Level 3 measurements. Additional disclosure is required for unrealized gains and losses recognized with accumulated other comprehensive income and the weighted average and range of unobservable inputs used in Level 3 measurements. ASU 2018-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted at an individual level for each removed or modified disclosure while adoption of other changes may be delayed until their effective date. FHN has elected early adoption for most of the disclosure revisions which are reflected in Note 24 – Fair Value of Assets and Liabilities.

In August 2018, the FASB issued ASU 2018-14, "Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans," which makes multiple revisions to the disclosure requirements for defined benefit pension and postretirement plans. ASU 2018-14 removes the disclosure requirements for 1) the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, 2) the amount and timing of plan assets expected to be returned to the employer, and 3) the effects of a one-percentage-point change in assumed health care cost trend rates on the (a) aggregate of the service and interest cost components of net periodic benefit costs and (b) benefit obligation for postretirement health care benefits. ASU 2018-14 adds disclosures for 1) the weighted-average interest crediting rates for plans with promised interest crediting rates, 2) an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period, 3) the projected benefit obligation ("PBO") and fair value of plan assets for plans with PBOs in excess of plan assets and 4) the accumulated benefit obligation ("ABO") and fair value of plan assets for plans with ABOs in excess of plan assets. ASU 2018-14 is effective for fiscal years ending after December 15, 2020 with full retrospective presentation required. Early adoption is permitted. FHN has elected early adoption and the disclosure revisions are presented in Note 18 – Pensions, Savings and Other Employee Benefits.



## **Note 1 ☐ Summary of Significant Accounting Policies (continued)**

### ***Accounting Changes Issued but Not Currently Effective***

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

In July 2018, the FASB issued ASU 2018-11, “Leases – Targeted Improvements,” which provides an election for a cumulative effect adjustment to retained earnings upon initial adoption of ASU 2016-02. Alternatively, under the initial guidance of ASU 2016-02, lessees and lessors are required to recognize and measure leases at the beginning of the earliest comparative period presented using a modified retrospective approach. Both adoption alternatives include a number of optional practical expedients that entities may elect to apply, which would result in continuing to account for leases that commence before the effective date in accordance with previous requirements (unless the lease is modified) except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous requirements. ASU 2016-02 also requires expanded qualitative and quantitative disclosures to assess the amount, timing, and uncertainty of cash flows arising from lease arrangements. ASU 2016-02 and ASU 2018-11 are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Upon adoption, FHN utilized the cumulative effect transition alternative provided by ASU 2018-11. FHN utilized the lease classification practical expedients and the short-term lease exemption upon adoption. FHN also has elected to determine the discount rate on leases as of the effective date and elected to use hindsight in determining remaining lease terms as well as impairments of lease assets resulting from lease abandonments upon adoption. The adoption of ASU 2016-02 resulted in recognition of lease assets of approximately \$196 million and lease liabilities of approximately \$204 million along with smaller impacts to other balance sheet classifications as well as an after-tax increase in retained earnings of approximately \$3 million, primarily reflecting the recognition of deferred gains associated with prior sale-leaseback transactions.

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments,” which revises the measurement and recognition of credit losses for assets measured at amortized cost (e.g., held-to-maturity (“HTM”) loans and debt securities) and available-for-sale (“AFS”) debt securities. Under ASU 2016-13, for assets measured at amortized cost, the current expected credit loss (“CECL”) is measured as the difference between amortized cost and the net amount expected to be collected. This represents a departure from existing GAAP as the “incurred loss” methodology for recognizing credit losses delays recognition until it is probable a loss has been incurred. The measurement of current expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. Additionally, current disclosures of credit quality indicators in relation to the amortized cost of financing receivables will be further disaggregated by year of origination. ASU 2016-13 leaves the methodology for measuring credit losses on AFS debt securities largely unchanged, with the maximum credit loss representing the difference between amortized cost and fair value. However, such credit losses will be recognized through an allowance for credit losses, which permits recovery of previously recognized credit losses if circumstances change.

ASU 2016-13 also revises the recognition of credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination (“PCD assets”). For PCD assets, the initial allowance for credit losses is added to the purchase price. Only subsequent changes in the allowance for credit losses are recorded as a credit loss expense for PCD assets. Interest income for PCD assets will be recognized based on the effective interest rate, excluding the discount embedded in the purchase price that is attributable to the acquirer’s

## **Note 1 ☐ Summary of Significant Accounting Policies (continued)**

assessment of credit losses at acquisition. Currently, credit losses for purchased credit-impaired assets are included in the initial basis of the assets with subsequent declines in credit resulting in expense while subsequent improvements in credit are reflected as an increase in the future yield from the assets.

The provisions of ASU 2016-13 will be generally adopted through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in the year of adoption. Prospective implementation is required for debt securities for which an other-than-temporary-impairment (“OTTI”) had been previously recognized. Amounts previously recognized in accumulated other comprehensive income (“AOCI”) as of the date of adoption that relate to improvements in cash flows expected to be collected will continue to be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption will be recorded in earnings when received. A prospective transition approach will be used for existing PCD assets where, upon adoption, the amortized cost basis will be adjusted to reflect the addition of the allowance for credit losses. Thus, an entity will not be required to reassess its purchased financial assets that exist as of the date of adoption to determine whether they would have met at acquisition the new criteria of more-than-insignificant credit deterioration since origination. An entity will accrete the remaining noncredit discount (based on the revised amortized cost basis) into interest income at the effective interest rate at the adoption date.

ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted in fiscal years beginning after December 15, 2018. FHN continues to evaluate the impact of ASU 2016-13, and is not currently able to reasonably estimate the impact the adoption will have on its consolidated financial position, results of operations, or cash flows. Adoption of ASU 2016-13 is likely to lead to significant changes in accounting policies and procedures related to FHN’s ALLL, and it is possible that the impact of the adoption could be material to FHN’s consolidated financial position and results of operations. To date, the Company has completed a gap analysis, established a formal governance structure for the project, selected loss estimation methodologies for material portfolio segments, selected a software solution to serve as its CECL platform, and are in the latter stages of model development activities. FHN intends to perform parallel runs in the latter half of 2019.

In August 2018, the FASB issued ASU 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,” which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). Capitalized implemented costs are required to be expensed over the term of the hosting arrangement which includes the non-cancellable period of the arrangement plus periods covered by (1) an option to extend the arrangement if the customer is reasonably certain to exercise that option, (2) an option to terminate the arrangement if the customer is reasonably certain not to exercise the termination option, and (3) an option to extend (or not to terminate) the arrangement in which exercise of the option is in the control of the vendor. ASU 2018-15 also requires application of the impairment guidance applicable to long-lived assets to the capitalized implementation costs. Amortization expense related to capitalized implementation costs must be presented in the same line item in the statement of income as the fees associated with the hosting element (service) of the arrangement and payments for capitalized implementation costs will be classified in the statement of cash flows in the same manner as payments made for fees associated with the hosting element. Capitalized implementation costs will be presented in the statement of financial position in the same line item that a prepayment for the fees of the associated hosting arrangement would be presented. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. Adoption may be either fully retrospective or prospective only. FHN has elected early adoption of ASU 2018-15 effective January 1, 2019 using the prospective transition method and the effects of adoption are not significant.

## **Note 2 ☐ Acquisitions and Divestitures**

On November 30, 2017, FHN completed its acquisition of Capital Bank Financial Corporation (“CBF”) and its subsidiaries, including Capital Bank Corporation, for an aggregate of 92,042,232 shares of FHN common stock and \$423.6 million in cash in a transaction valued at \$2.2 billion. In second quarter 2018, FHN canceled 2,373,220

## Note 2 ☐ Acquisitions and Divestitures (continued)

common shares which had been issued but set aside for certain shareholders of CBF who have commenced a dissenters' appraisal process resulting in a reduction in equity consideration and an increase in cash consideration of \$46.0 million. The final appraisal or settlement amount, as applicable, may differ from current estimates. CBF operated 178 branches in North and South Carolina, Tennessee, Florida and Virginia at the time of closing. In relation to the acquisition, FHN acquired approximately \$9.9 billion in assets, including approximately \$7.3 billion in loans and \$1.2 billion in AFS securities, and assumed approximately \$8.1 billion of CBF deposits.

The following schedule details acquired assets and liabilities and consideration paid, as well as adjustments to record the assets and liabilities at their estimated fair values as of November 30, 2017. These fair value measurements are based on third party and internal valuations.

| <i>(Dollars in thousands)</i>                  | <b>Capital Bank Financial Corporation</b> |  |                   |                       |
|--|---|--|-------------------|-----------------------|
|  | As<br>Acquired<br>(unaudited)             | Purchase Accounting/<br>Fair Value<br>Adjustments<br>(unaudited) |                   | As recorded<br>by FHN |
|  |   | 2017   | 2018 (a)          |                       |
| <b>Assets:</b>                                 |   |  |                   |                       |
| Cash and cash equivalents                      | \$ 205,999                                | \$ -   | \$ -              | \$ 205,999            |
| Trading securities                             | 4,758                                     | (4,758)(b)   | -                 | -                     |
| Loans held-for-sale                            | -   | 134,003  | (11,034)          | 122,969               |
| Securities available-for-sale                  | 1,017,867                                 | 175,526  | -                 | 1,193,393             |
| Securities held-to-maturity                    | 177,549                                   | (177,549)  | -                 | -                     |
| Loans  | 7,596,049                                 | (320,372)  | 867               | 7,276,544             |
| Allowance for loan losses                      | (45,711)                                  | 45,711   | -                 | -                     |
| CBF Goodwill                                   | 231,292                                   | (231,292)  | -                 | -                     |
| Other intangible assets                        | 24,498                                    | 119,302  | (2,593)           | 141,207               |
| Premises and equipment                         | 196,298                                   | 37,054   | (9,470)           | 223,882               |
| OREO   | 43,077                                    | (9,149)  | (315)             | 33,613                |
| Other assets                                   | 617,232                                   | 41,320(c)  | (22,422)(c)       | 636,130               |
| <b>Total assets acquired</b>                   | <b>\$10,068,908</b>                       | <b>\$(190,204)</b>   | <b>\$(44,967)</b> | <b>\$ 9,833,737</b>   |
| <b>Liabilities:</b>                            |   |  |                   |                       |
| Deposits                                       | \$ 8,141,593                              | \$ (849)   | \$ (642)          | \$ 8,140,102          |
| Securities sold under agreements to repurchase | 26,664                                    | -  | -                 | 26,664                |
| Other short-term borrowings                    | 390,391                                   | -  | -                 | 390,391               |
| Term borrowings                                | 119,486                                   | 67,683   | -                 | 187,169               |
| Other liabilities                              | 59,995                                    | 4,291  | 1,631             | 65,917                |
| <b>Total liabilities assumed</b>               | <b>8,738,129</b>                          | <b>71,125</b>  | <b>989</b>        | <b>8,810,243</b>      |
| <b>Net assets acquired</b>                     | <b>\$ 1,330,779</b>                       | <b>\$(261,329)</b>   | <b>\$(45,956)</b> | <b>1,023,494</b>      |
| <b>Consideration paid:</b>                     |   |  |                   |                       |
| Equity   |   |  |                   | (1,746,718)           |
| Cash   |   |  |                   | (469,615)             |
| <b>Total consideration paid</b>                |   |  |                   | <b>(2,216,333)</b>    |
| <b>Goodwill</b>                                |   |  |                   | <b>\$ 1,192,839</b>   |

(a) Amounts reflect adjustments made to provisional fair value estimates during the measurement period ending November 30, 2018. These adjustments were recorded in FHN's Consolidated Statement of Condition in 2018 with a corresponding adjustment to goodwill.

(b) Amount represents a conformity adjustment to align with FHN presentation.

(c) Amount primarily relates to a net deferred tax asset recorded for the effects of the purchase accounting adjustments and adjustments for acquired tax contingencies.

In relation to the acquisition, FHN recorded goodwill of approximately \$1.2 billion, representing the excess of acquisition consideration over the estimated fair value of net assets acquired. All goodwill has been attributed to FHN's Regional Banking segment (refer to Note 7 – Intangible Assets for additional information). This goodwill is the result of 1) the addition of an experienced workforce, 2) expected synergies to be realized within overlapping

## Note 2 ☐ Acquisitions and Divestitures (continued)

banking markets, 3) operational efficiencies to be obtained through integration of back office functions and 4) proportionately lower net operating costs from a larger company scale. \$17.0 million of goodwill is expected to be deductible for tax purposes as a result of tax bases carryover resulting from prior CBF acquisitions. FHN's operating results for 2018 and 2017 include the operating results of the assets and liabilities acquired from CBF subsequent to the acquisition on November 30, 2017.

Following is a description of the methods used to determine the fair values of significant assets and liabilities presented above.

*Cash and cash equivalents:* The carrying amount of these assets is a reasonable estimate of fair value based on the short-term nature of these assets.

*Securities available-for-sale:* Fair values for securities are based on quoted prices where available. If quoted market prices are not available, fair value estimates are based on observable inputs obtained from market transactions in similar securities. Securities held-to-maturity were reclassified to securities available-for-sale based on FHN's intent at closing.

*Loans and loans held-for-sale:* Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan, amortization status and current discount rates. Loans were aggregated according to similar characteristics when applying various valuation techniques. The discount rate does not include a factor for credit losses as that has been included as a reduction to the estimated cash flows. Loans held-for-sale were classified according to FHN's intent at closing. The valuation of loans held-for-sale reflects contractual or bid prices.

*Intangible assets:* Core deposit intangible ("CDI") represents the value of the relationships with deposit customers. The fair value was based on a discounted cash flow methodology that considered expected customer attrition rates, net maintenance cost of the deposit base, alternate costs of funds, and the interest costs associated with customer deposits. The CDI is being amortized over 10 years using an accelerated methodology based upon the period over which estimated economic benefits are estimated to be received. Lease intangibles are valued using a discounted cash flow methodology which compares the current contractual rental payments to estimated current market rents for the property.

*Premises and Equipment:* Land and buildings held-for-use are valued at appraised values, which reflect considerations of recent disposition values for similar property types with adjustments for characteristics of individual properties. Locations held-for-sale are valued at appraised values which also reference recent disposition values for similar property types but also considers marketability discounts for vacant properties. The valuations of locations held-for-sale are reduced by estimated costs to sell. Other fixed assets are valued using a discounted cash flow methodology which reflects estimates of the future value of the assets to a hypothetical buyer.

*OREO:* OREO properties are valued at estimated fair value less estimated costs to sell the real estate. Estimated fair value is determined using appraised values which includes consideration of recent disposition values for similar property types with adjustments for characteristics of individual properties.

*Deposits:* The fair values used for the demand and savings deposits by definition equal the amount payable on demand at the acquisition date. The fair values for time deposits are estimated using a discounted cash flow calculation using the remaining duration of the accounts and reflects the difference in interest rates currently being offered to the contractual interest rates on such time deposits.

*Securities sold under agreements to repurchase and Other short-term borrowings:* The carrying amount of these liabilities is a reasonable estimate of fair value based on the short-term nature of these liabilities.

*Term borrowings:* The fair values of long-term debt instruments are estimated based on quoted market prices for the instrument if available, or for similar instruments if not available, or by using discounted cash flow analysis,

**Note 2 ☐ Acquisitions and Divestitures (continued)**

based on estimated current borrowing rates for similar types of instruments and considers whether the debt is currently callable. Estimated discount rates are determined from the perspective of the post-merger combined entity rather than the acquiree and/or original issuers.

The following table presents financial information regarding the former CBF operations included in FHN's Consolidated Statements of Income from the date of acquisition (November 30, 2017) through December 31, 2017. Additionally, the table presents unaudited proforma information as if the acquisition of CBF had occurred on January 1, 2016:

| <i>(Dollars in thousands)</i>                   | Actual from acquisition<br>date through<br>December 31, 2017 | Unaudited Pro Forma for<br>Year Ended December 31 |             |
|---|--|---|-------------|
|   |  | 2017  | 2016        |
| Net interest income                             | \$31,253   | \$1,165,006                                       | \$1,033,218 |
| Noninterest income                              | 6,192  | 563,581   | 638,493     |
| Pre-tax income                                  | 16,534   | 476,911   | 458,667     |
| Net income available to common shareholders (a) | NM   | 274,416   | 293,981     |

(a) Net income available to common shareholders is not meaningful for actual CBF results from the acquisition date through December 31, 2017 because of the effect of tax reform.

The pro forma financial information and explanatory notes have been prepared to illustrate the effects of the merger between FHN and CBF under the acquisition method of accounting. The pro forma financial information is presented for illustrative purposes only and does not necessarily indicate the financial results of the combined companies had the companies actually been combined at the beginning of each period presented, nor does it necessarily indicate the results of operations in future periods or the future financial position of the combined entities. Cost savings and other business synergies related to the acquisition are not reflected in the pro forma amounts.

This unaudited pro forma information combines the historical consolidated results of operations of FHN and CBF for the periods presented and gives effect to the following nonrecurring adjustments:

*Fair value adjustments:* Pro forma adjustment to net interest income of \$34.5 million and \$46.5 million for the years ended December 31, 2017 and 2016, respectively, to record estimated amortization of premiums and accretion of discounts on acquired loans, securities, deposits, and term borrowings.

*CBF accretion/amortization:* Pro forma adjustment to net interest income of \$24.4 million and \$25.9 million for the years ended December 31, 2017 and 2016, respectively, to eliminate CBF amortization of premiums and accretion of discounts on previously acquired loans, securities, and deposits.

*Amortization of acquired intangibles:* Pro forma adjustment to noninterest expense of \$15.8 million and \$18.0 million for the years ended December 31, 2017 and 2016, respectively, to record estimated amortization on acquired CDI and other lease intangibles.

*Other adjustments:* Pro forma results also include adjustments related to the removal of CBF's intangible amortization expense, amortization of previously acquired lease intangibles, and FHN's merger-related costs. Also includes adjustments to depreciation expense to record estimated fair value marks for CBF tangible assets, as well as income-tax effects of pro forma adjustments.

All expenses related to the merger and integration with CBF are recorded in FHN's Corporate segment. Integration activities were substantially completed in second quarter 2018.

**Note 2 ☐ Acquisitions and Divestitures (continued)**

Total CBF merger and integration expense recognized for the years ended December 31, 2018 and 2017 are presented in the table below:

| <i>(Dollars in thousands)</i>                      | Twelve Months Ended<br>December 31, |          |
|--|-------------------------------------|----------|
|  | 2018                                | 2017     |
| Professional fees (a)                              | <b>\$22,337</b>                     | \$28,151 |
| Employee compensation, incentives and benefits (b) | <b>9,613</b>                        | 17,077   |
| Contract employment and outsourcing (c)            | <b>3,681</b>                        | 1,270    |
| Occupancy (d)                                      | <b>5,236</b>                        | 15       |
| Miscellaneous expense (e)                          | <b>7,652</b>                        | 1,291    |
| All other expense (f)                              | <b>43,874</b>                       | 8,944    |
| <b>Total</b>                                       | <b>\$92,393</b>                     | \$56,748 |

(a) Primarily comprised of fees for legal, accounting, investment bankers, and merger consultants.

(b) Primarily comprised of fees for severance and retention.

(c) Primarily relates to fees for temporary assistance for merger and integration activities.

(d) Primarily relates to fees associated with lease exit accruals.

(e) Consists of fees for Operations services, communications and courier, equipment rentals, depreciation, and maintenance, supplies, travel and entertainment, computer software, and advertising and public relations.

(f) Primarily relates to contract termination charges, costs of shareholder matters and asset impairments related to the integration, as well as other miscellaneous expenses.

On March 23, 2018, FHN divested two branches, including approximately \$30 million of deposits and \$2 million of loans. The branches, both in Greeneville, Tennessee, were divested in connection with First Horizon's agreement with the U.S. Department of Justice and commitments to the Board of Governors of the Federal Reserve System, which were entered into in connection with a customary review of FHN's merger with CBF.

In second quarter 2018, FHN sold approximately \$120 million UPB of its subprime auto loans. These loans, originally acquired as part of the CBF acquisition, did not fit within FHN's risk profile. Based on the sales price, a measurement period adjustment to the acquisition-date fair value of the subprime auto loans was recorded in second quarter 2018. A measurement period adjustment was made in fourth quarter 2018 for other consumer loans acquired from CBF based on pricing information received from potential buyers.

On April 3, 2017, FTN Financial acquired substantially all of the assets and assumed substantially all of the liabilities of Coastal Securities, Inc. ("Coastal"), a national leader in the trading, securitization, and analysis of Small Business Administration ("SBA") loans, for approximately \$131 million in cash. Coastal, which was based in Houston, TX, also traded United States Department of Agriculture ("USDA") loans and fixed income products and provided municipal underwriting and advisory services to its clients. Coastal's government-guaranteed loan products, combined with FTN Financial's existing SBA trading activities, have established an additional major product sector for FTN Financial.

**Note 2 ☐ Acquisitions and Divestitures (continued)**

The following schedule details acquired assets and liabilities and consideration paid, as well as adjustments to record the assets and liabilities at their estimated fair values as of April 3, 2017:

| <i>(Dollars in thousands)</i>                  | <b>Coastal Securities, Inc</b> |  |                       |
|--|--------------------------------|--|-----------------------|
|  | As<br>Acquired<br>(unaudited)  | Purchase Accounting/<br>Fair Value<br>Adjustments<br>(unaudited) | As recorded<br>by FHN |
| <b>Assets:</b>                                 |                                |  |                       |
| Cash and cash equivalents                      | \$ 7,502                       | \$ -   | \$ 7,502              |
| Interest-bearing cash                          | 4,132                          | -  | 4,132                 |
| Trading securities                             | 423,662                        | (284,580)  | 139,082               |
| Loans held-for-sale                            | -                              | 236,088  | 236,088               |
| Investment securities                          | -                              | 1,413  | 1,413                 |
| Other intangible assets, net                   | -                              | 27,300   | 27,300                |
| Premises and equipment, net                    | 1,229                          | -  | 1,229                 |
| Other assets                                   | 1,658                          | 14   | 1,672                 |
| <b>Total assets acquired</b>                   | <b>\$438,183</b>               | <b>\$ (19,765)</b>   | <b>\$ 418,418</b>     |
| <b>Liabilities:</b>                            |                                |  |                       |
| Securities sold under agreements to repurchase | \$201,595                      | \$ -   | \$ 201,595            |
| Other short-term borrowings                    | 33,509                         | -  | 33,509                |
| Fixed income payables                          | 143,647                        | (47,158)   | 96,489                |
| Other liabilities                              | 958                            | (642)  | 316                   |
| <b>Total liabilities assumed</b>               | <b>379,709</b>                 | <b>(47,800)</b>  | <b>331,909</b>        |
| <b>Net assets acquired</b>                     | <b>\$ 58,474</b>               | <b>\$ 28,035</b>   | <b>86,509</b>         |
| <b>Consideration paid:</b>                     |                                |  |                       |
| Cash   |                                |  | (131,473)             |
| Goodwill                                       |                                |  | \$ 44,964             |

In relation to the acquisition, FHN has recorded \$45.0 million in goodwill, representing the excess of acquisition consideration over the estimated fair value of net assets acquired (refer to Note 7 – Intangible Assets for additional information), and all of which is expected to be deductible for tax purposes. The goodwill is the result of adding an experienced workforce, establishing an additional major product sector for FTN Financial, expected synergies, and other factors. FHN's operating results for 2017 include the operating results of the acquired assets and assumed liabilities of Coastal subsequent to the acquisition on April 3, 2017.

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

In addition to the transactions 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. In January 2019, FHN signed an agreement to sell Superior Financial Services, Inc., a subsidiary acquired as part of the CBF acquisition. The sale will result in the removal of approximately \$25 million UPB of subprime consumer loans from Loans held-for-sale on FHN's Consolidated Statements of Condition and is expected to close in the first half of 2019.

### Note 3 ☐ Investment Securities

The following tables summarize FHN's investment securities on December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>  | <b>December 31, 2018</b> |                              |                               |                  |
|--|--------------------------|------------------------------|-------------------------------|------------------|
|  | Amortized<br>Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value    |
| <b>Securities available-for-sale:</b>                                |                          |                              |                               |                  |
| U.S. treasuries  | \$ 100                   | \$ -                         | \$ (2)                        | \$ 98            |
| Government agency issued mortgage-backed securities ("MBS")          | 2,473,687                | 4,819                        | (58,400)                      | 2,420,106        |
| Government agency issued collateralized mortgage obligations ("CMO") | 2,006,488                | 888                          | (48,681)                      | 1,958,695        |
| Other U.S. government agencies                                       | 149,050                  | 809                          | (73)                          | 149,786          |
| Corporates and other debt  | 55,383                   | 388                          | (461)                         | 55,310           |
| State and municipalities   | 32,473                   | 314                          | (214)                         | 32,573           |
|  | <b>\$4,717,181</b>       | <b>\$7,218</b>               | <b>\$(107,831)</b>            | <b>4,616,568</b> |

#### **AFS securities recorded at fair value through earnings:**

|  |  |  |  |                    |
|--|--|--|--|--------------------|
| SBA-interest only strips (a)                   |  |  |  | 9,902              |
| <b>Total securities available-for-sale (b)</b> |  |  |  | <b>\$4,626,470</b> |

#### **Securities held-to-maturity:**

|  |                  |             |                 |                 |
|--|------------------|-------------|-----------------|-----------------|
| Corporates and other debt                | \$ 10,000        | \$ -        | \$ (157)        | \$ 9,843        |
| <b>Total securities held-to-maturity</b> | <b>\$ 10,000</b> | <b>\$ -</b> | <b>\$ (157)</b> | <b>\$ 9,843</b> |

(a) SBA-interest only strips are recorded at elected fair value. See Note 24 – Fair Value of Assets and Liabilities for additional information.

(b) Includes \$3.8 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

| <i>(Dollars in thousands)</i>         | <b>December 31, 2017</b> |                              |                               |                  |
|---------------------------------------|--------------------------|------------------------------|-------------------------------|------------------|
|                                       | Amortized<br>Cost        | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value    |
| <b>Securities available-for-sale:</b> |                          |                              |                               |                  |
| U.S. treasuries                       | \$ 100                   | \$ -                         | \$ (1)                        | \$ 99            |
| Government agency issued MBS          | 2,580,442                | 10,538                       | (13,604)                      | 2,577,376        |
| Government agency issued CMO          | 2,302,439                | 1,691                        | (34,272)                      | 2,269,858        |
| Corporates and other debt             | 55,799                   | 23                           | (40)                          | 55,782           |
| Equity and other (a)                  | 265,863                  | 7                            | -                             | 265,870          |
|                                       | <b>\$5,204,643</b>       | <b>\$12,259</b>              | <b>\$(47,917)</b>             | <b>5,168,985</b> |

#### **AFS securities recorded at fair value through earnings:**

|  |  |  |  |                    |
|--|--|--|--|--------------------|
| SBA-interest only strips (b)                   |  |  |  | 1,270              |
| <b>Total securities available-for-sale (c)</b> |  |  |  | <b>\$5,170,255</b> |

#### **Securities held-to-maturity:**

|  |                  |             |                |                 |
|--|------------------|-------------|----------------|-----------------|
| Corporates and other debt                | \$ 10,000        | \$ -        | \$ (99)        | \$ 9,901        |
| <b>Total securities held-to-maturity</b> | <b>\$ 10,000</b> | <b>\$ -</b> | <b>\$ (99)</b> | <b>\$ 9,901</b> |

(a) Includes restricted investments in FHLB-Cincinnati stock of \$87.9 million and FRB stock of \$134.6 million. The remainder is money market, mutual funds, and cost method investments. Equity investments were reclassified to Other assets upon adoption of ASU 2016-01 on January 1, 2018.

(b) SBA-interest only strips are recorded at elected fair value. See Note 24 – Fair Value of Assets and Liabilities for additional information.

(c) Includes \$4.0 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.



### Note 3 ☐ Investment Securities (continued)

The amortized cost and fair value by contractual maturity for the available-for-sale and held-to-maturity debt securities portfolios on December 31, 2018 are provided below:

| <i>(Dollars in thousands)</i>            | Held-to-Maturity |                | Available-for-Sale |                    |
|--|------------------|----------------|--------------------|--------------------|
|  | Amortized Cost   | Fair Value     | Amortized Cost     | Fair Value         |
| Within 1 year                            | \$ -             | \$ -           | \$ 15,125          | \$ 15,008          |
| After 1 year; within 5 years             | -                | -              | 189,408            | 190,217            |
| After 5 years; within 10 years           | 10,000           | 9,843          | 755                | 3,445              |
| After 10 years                           | -                | -              | 31,718             | 38,999             |
| Subtotal                                 | 10,000           | 9,843          | 237,006            | 247,669            |
| Government agency issued MBS and CMO (a) | -                | -              | 4,480,175          | 4,378,801          |
| <b>Total</b>                             | <b>\$10,000</b>  | <b>\$9,843</b> | <b>\$4,717,181</b> | <b>\$4,626,470</b> |

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

The table below provides information on gross gains and gross losses from debt investment securities for the years ended December 31: Equity securities are included for periods prior to 2018.

| <i>(Dollars in thousands)</i>                  | Available-for-Sale |          |          |
|--|--------------------|----------|----------|
|  | 2018               | 2017     | 2016     |
| Gross gains on sales of securities             | \$52               | \$ 2,514 | \$ 5,754 |
| Gross (losses) on sales of securities          | -                  | (1,922)  | (4,213)  |
| Net gain/(loss) on sales of securities (a) (b) | 52                 | 592      | 1,541    |
| OTTI recorded (c)                              | -                  | -        | (200)    |
| Total securities gain/(loss), net              | \$52               | \$ 592   | \$ 1,341 |

(a) Cash proceeds from the sale of available-for-sale securities during 2018 were not material. Cash proceeds from sales during 2017 and 2016 were \$937.0 million and \$444.2 million, respectively. 2016 includes a \$1.5 million net gain from exchanges of approximately \$736 million of AFS debt securities.

(b) 2017 includes a \$4 million gain associated with the call of a \$4.4 million held-to-maturity municipal bond.

(c) OTTI recorded is related to equity securities.

The following tables provide information on investments within the available-for-sale portfolio that had unrealized losses as of December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>                | As of December 31, 2018 |                   |                     |                   |                    |                    |
|--|-------------------------|-------------------|---------------------|-------------------|--------------------|--------------------|
|  | Less than 12 months     |                   | 12 months or longer |                   | Total              |                    |
|  | Fair Value              | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value         | Unrealized Losses  |
| U.S. treasuries                              | \$ -                    | \$ -              | \$ 98               | \$ (2)            | \$ 98              | \$ (2)             |
| Government agency issued MBS                 | 597,008                 | (12,335)          | 1,537,106           | (46,065)          | 2,134,114          | (58,400)           |
| Government agency issued CMO                 | 290,863                 | (2,860)           | 1,560,420           | (45,821)          | 1,851,283          | (48,681)           |
| Other U.S. government agencies               | 29,776                  | (73)              | -                   | -                 | 29,776             | (73)               |
| Corporates and other debt                    | 25,114                  | (344)             | 15,008              | (117)             | 40,122             | (461)              |
| States and municipalities                    | 17,292                  | (214)             | -                   | -                 | 17,292             | (214)              |
| <b>Total temporarily impaired securities</b> | <b>\$960,053</b>        | <b>\$(15,826)</b> | <b>\$3,112,632</b>  | <b>\$(92,005)</b> | <b>\$4,072,685</b> | <b>\$(107,831)</b> |

**Note 3 ☐ Investment Securities (continued)**

|  | As of December 31, 2017 |                   |                     |                   |                    |                   |
|--|-------------------------|-------------------|---------------------|-------------------|--------------------|-------------------|
|  | Less than 12 months     |                   | 12 months or longer |                   | Total              |                   |
|  | Fair Value              | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value         | Unrealized Losses |
| <i>(Dollars in thousands)</i>                |                         |                   |                     |                   |                    |                   |
| U.S. treasuries                              | \$ 99                   | \$ (1)            | \$ -                | \$ -              | \$ 99              | \$ (1)            |
| Government agency issued MBS                 | 1,455,476               | (4,738)           | 331,900             | (8,866)           | 1,787,376          | (13,604)          |
| Government agency issued CMO                 | 1,043,987               | (7,464)           | 832,173             | (26,808)          | 1,876,160          | (34,272)          |
| Corporates and other debt                    | 15,294                  | (40)              | -                   | -                 | 15,294             | (40)              |
| <b>Total temporarily impaired securities</b> | <b>\$2,514,856</b>      | <b>\$(12,243)</b> | <b>\$1,164,073</b>  | <b>\$(35,674)</b> | <b>\$3,678,929</b> | <b>\$(47,917)</b> |

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

The carrying amount of equity investments without a readily determinable fair value was \$21.3 million and \$16.3 million at December 31, 2018 and January 1, 2018, respectively. The year-to-date 2018 gross amounts of upward and downward valuation adjustments were not significant.

Unrealized losses of \$1.5 million were recognized during 2018 for equity investments with readily determinable fair values.

In third quarter 2018 FHN sold its remaining holdings of Visa Class B Shares resulting in a pre-tax gain of \$212.9 million recognized within the Corporate segment. See the Visa Matters section of Note 17 – Contingencies and Other Disclosures and Other Derivatives section of Note 22 – Derivatives for more information regarding FHN's Visa shares.

## Note 4 ☐ Loans

The following table provides the balance of loans, net of unearned income, by portfolio segment as of December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>         | December 31         |              |
|---------------------------------------|---------------------|--------------|
|                                       | 2018                | 2017         |
| Commercial:                           |                     |              |
| Commercial, financial, and industrial | <b>\$16,514,328</b> | \$16,057,273 |
| Commercial real estate                | <b>4,030,870</b>    | 4,214,695    |
| Consumer:                             |                     |              |
| Consumer real estate (a)              | <b>6,249,516</b>    | 6,479,242    |
| Permanent mortgage                    | <b>222,448</b>      | 287,820      |
| Credit card & other                   | <b>518,370</b>      | 619,899      |
| Loans, net of unearned income         | <b>\$27,535,532</b> | \$27,658,929 |
| Allowance for loan losses             | <b>180,424</b>      | 189,555      |
| Total net loans                       | <b>\$27,355,108</b> | \$27,469,374 |

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

(a) Balances as of December 31, 2018 and 2017, include \$16.2 million and \$24.2 million of restricted real estate loans, respectively. See Note 21 – Variable Interest Entities for additional information.

## COMPONENTS OF THE LOAN PORTFOLIO

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

## Concentrations

FHN has a concentration of residential real estate loans (24 percent of total loans), the majority of which is in the consumer real estate segment (23 percent of total loans). Loans to finance and insurance companies total \$2.8 billion (17 percent of the C&I portfolio, or 10 percent of the total loans). FHN had loans to mortgage companies totaling \$2.0 billion (12 percent of the C&I segment, or 7 percent of total loans) as of December 31, 2018. As a result, 29 percent of the C&I segment is sensitive to impacts on the financial services industry.

## Restrictions

On December 31, 2018, \$6.1 billion of commercial loans were pledged to secure potential discount window borrowings from the Federal Reserve Bank. As of December 31, 2018 and 2017, FHN pledged all of its first and second lien mortgages and HELOCs, excluding restricted real estate loans, to secure potential borrowings from the

#### Note 4 ☐ Loans (continued)

FHLB-Cincinnati. Additionally, beginning in November 2017, FHN pledged all of its commercial real estate loans to secure potential borrowings from the FHLB-Cincinnati. Restricted loans secure borrowings associated with consolidated VIEs. See Note 21 – Variable Interest Entities for additional discussion.

#### Acquisition

On November 30, 2017, FHN completed its acquisition of CBF. The acquisition included \$7.6 billion in unpaid balance of loans with a fair value of \$7.4 billion of which \$121.8 million is held-for-sale.

Generally, the fair value for the acquired loans is estimated using a discounted cash flow analysis with significant unobservable inputs (Level 3) including adjustments for expected credit losses, prepayment speeds, current market rates for similar loans, and an adjustment for investor-required yield given product-type and various risk characteristics.

At acquisition, FHN designated certain loans as PCI with the remaining loans accounted for under ASC 310-20, “Nonrefundable Fees and Other Costs”. Of the loans designated as PCI at acquisition, \$4.7 million is held-for-sale. For loans accounted for under ASC 310-20, the difference between each loan’s book value and the estimated fair value at the time of the acquisition will be accreted into interest income over its remaining contractual life and the subsequent accounting and reporting will be similar to a loan in FHN’s originated portfolio.

The following tables reflect FHN’s contractually required payments receivable, cash flows expected to be collected and the fair value of the acquired loans at the acquisition date of November 30, 2017.

| <i>(Dollars in thousands)</i>                      | <b>Non-PCI Loans<br/>November 30, 2017</b> |
|--|--|
| Contractually required payments including interest | <b>\$9,182,610</b>                         |
| Less : expected losses and foregone interest       | <b>(801,546)</b>                           |
| Cash flows expected to be collected                | <b>8,381,064</b>                           |
| <b>Fair value of loans acquired (a)</b>            | <b>\$7,220,094</b>                         |

(a) Includes \$117.1 million of loans held-for-sale.

| <i>(Dollars in thousands)</i>                      | <b>PCI Loans<br/>November 30, 2017</b> |
|--|--|
| Contractually required payments including interest | <b>\$258,950</b>                       |
| Less : nonaccretable difference                    | <b>(77,022)</b>                        |
| Cash flows expected to be collected                | <b>181,928</b>                         |
| Less : accretable yield                            | <b>(14,271)</b>                        |
| <b>Fair value of loans acquired (a)</b>            | <b>\$167,657</b>                       |

(a) Includes \$4.7 million of loans held-for-sale.

**Note 4 ☐ Loans (continued)****Purchased Credit-Impaired Loans**

The following table presents a rollforward of the accretable yield for the year ended December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>           | Year Ended<br>December 31 |          |
|---|---------------------------|----------|
|   | 2018                      | 2017     |
| Balance, beginning of period            | <b>\$15,623</b>           | \$ 6,871 |
| Addition                                | -                         | 13,957   |
| Accretion                               | <b>(9,467)</b>            | (3,564)  |
| Adjustment for payoffs                  | <b>(3,896)</b>            | (1,917)  |
| Adjustment for charge-offs              | <b>(1,115)</b>            | (45)     |
| Adjustment for pool excess recovery (a) | <b>(123)</b>              | (222)    |
| Increase in accretable yield (b)        | <b>12,791</b>             | 467      |
| Disposals                               | <b>(240)</b>              | -        |
| Other                                   | <b>(198)</b>              | 76       |
| <b>Balance, end of period</b>           | <b>\$13,375</b>           | \$15,623 |

(a) Represents the removal of accretable difference for the remaining loans in a pool which is now in a recovery state.

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

At December 31, 2018, the ALLL related to PCI loans was \$4.0 million compared to \$3.2 million at December 31, 2017. The loan loss provision expense related to PCI loans during 2018 was \$4.8 million, compared to \$2.5 million during 2017.

The following table reflects the outstanding principal balance and carrying amounts of the acquired PCI loans as of December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>        | December 31,<br>2018 |                   | December 31,<br>2017 |                   |
|--------------------------------------|----------------------|-------------------|----------------------|-------------------|
|                                      | Carrying<br>value    | Unpaid<br>balance | Carrying<br>value    | Unpaid<br>balance |
| Commercial, financial and industrial | <b>\$38,873</b>      | <b>\$44,259</b>   | \$ 96,598            | \$109,280         |
| Commercial real estate               | <b>15,197</b>        | <b>17,232</b>     | 36,107               | 41,488            |
| Consumer real estate                 | <b>30,723</b>        | <b>34,820</b>     | 38,176               | 42,568            |
| Credit card and other                | <b>1,627</b>         | <b>1,879</b>      | 5,500                | 6,351             |
| Total                                | <b>\$86,420</b>      | <b>\$98,190</b>   | \$176,381            | \$199,687         |

**Note 4 ☐ Loans (continued)**

**Impaired Loans**

The following tables provide information at December 31, 2018 and 2017, by class related to individually impaired loans and consumer TDRs, regardless of accrual status. Recorded investment is defined as the amount of the investment in a loan, excluding any valuation allowance but including any direct write-down of the investment. For purposes of this disclosure, PCI loans and the TRUPS valuation allowance have been excluded.

|   | <b>December 31, 2018</b> |                                |                      |                                   |                                  |
|---|--------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
|   | Recorded<br>Investment   | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <i>(Dollars in thousands)</i>                             |                          |                                |                      |                                   |                                  |
| <b>Impaired loans with no related allowance recorded:</b> |                          |                                |                      |                                   |                                  |
| Commercial:   |                          |                                |                      |                                   |                                  |
| General C&I (a)   | \$ 42,902                | \$ 45,387                      | \$ -                 | \$ 24,186                         | \$ 757                           |
| Income CRE  | 1,589                    | 1,589                          | -                    | 1,434                             | 51                               |
| Residential CRE   | \$ -                     | \$ -                           | \$ -                 | \$ 374                            | \$ -                             |
| <b>Total</b>  | <b>\$ 44,491</b>         | <b>\$ 46,976</b>               | <b>\$ -</b>          | <b>\$ 25,994</b>                  | <b>\$ 808</b>                    |
| Consumer:   |                          |                                |                      |                                   |                                  |
| HELOC (b)   | \$ 8,645                 | \$ 16,648                      | \$ -                 | \$ 8,723                          | \$ -                             |
| R/E installment loans (b)                                 | 4,314                    | 4,796                          | -                    | 4,300                             | -                                |
| Permanent mortgage (b)                                    | 3,601                    | 6,003                          | -                    | 4,392                             | -                                |
| <b>Total</b>  | <b>\$ 16,560</b>         | <b>\$ 27,447</b>               | <b>\$ -</b>          | <b>\$ 17,415</b>                  | <b>\$ -</b>                      |
| <b>Impaired loans with related allowance recorded:</b>    |                          |                                |                      |                                   |                                  |
| Commercial:   |                          |                                |                      |                                   |                                  |
| General C&I   | \$ 2,802                 | \$ 2,802                       | \$ 149               | \$ 16,011                         | \$ -                             |
| TRUPS   | 2,888                    | 3,700                          | 925                  | 2,981                             | -                                |
| Income CRE  | 377                      | 377                            | -                    | 348                               | 10                               |
| Residential CRE   | -                        | -                              | -                    | 99                                | -                                |
| <b>Total</b>  | <b>\$ 6,067</b>          | <b>\$ 6,879</b>                | <b>\$ 1,074</b>      | <b>\$ 19,439</b>                  | <b>\$ 10</b>                     |
| Consumer:   |                          |                                |                      |                                   |                                  |
| HELOC   | \$ 66,482                | \$ 69,610                      | \$11,241             | \$ 69,535                         | \$2,273                          |
| R/E installment loans                                     | 38,993                   | 39,851                         | 6,743                | 40,118                            | 1,024                            |
| Permanent mortgage  | 67,245                   | 78,010                         | 9,419                | 73,259                            | 2,290                            |
| Credit card & other                                       | 695                      | 695                            | 337                  | 626                               | 14                               |
| <b>Total</b>  | <b>\$173,415</b>         | <b>\$188,166</b>               | <b>\$27,740</b>      | <b>\$183,538</b>                  | <b>\$5,601</b>                   |
| <b>Total commercial</b>                                   | <b>\$ 50,558</b>         | <b>\$ 53,855</b>               | <b>\$ 1,074</b>      | <b>\$ 45,433</b>                  | <b>\$ 818</b>                    |
| <b>Total consumer</b>                                     | <b>\$189,975</b>         | <b>\$215,613</b>               | <b>\$27,740</b>      | <b>\$200,953</b>                  | <b>\$5,601</b>                   |
| <b>Total impaired loans</b>                               | <b>\$240,533</b>         | <b>\$269,468</b>               | <b>\$28,814</b>      | <b>\$246,386</b>                  | <b>\$6,419</b>                   |

(a) In Q1 2018, the allowance for TDRs within the commercial portfolio was removed.

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

**Note 4 ☐ Loans (continued)**

|   | December 31, 2017      |                                |                      |                                   |                                  |
|---|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| <i>(Dollars in thousands)</i>                             | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| <b>Impaired loans with no related allowance recorded:</b> |                        |                                |                      |                                   |                                  |
| Commercial:   |                        |                                |                      |                                   |                                  |
| General C&I   | \$ 8,183               | \$ 17,372                      | \$ -                 | \$ 7,810                          | \$ -                             |
| Income CRE  | -                      | -                              | -                    | -                                 | -                                |
| <b>Total</b>  | <b>\$ 8,183</b>        | <b>\$ 17,372</b>               | <b>\$ -</b>          | <b>\$ 7,810</b>                   | <b>\$ -</b>                      |
| Consumer:   |                        |                                |                      |                                   |                                  |
| HELOC (a)   | \$ 9,258               | \$ 19,193                      | \$ -                 | \$ 10,374                         | \$ -                             |
| R/E installment loans (a)                                 | 4,093                  | 4,663                          | -                    | 4,076                             | -                                |
| Permanent mortgage (a)                                    | 5,132                  | 7,688                          | -                    | 5,602                             | -                                |
| <b>Total</b>  | <b>\$ 18,483</b>       | <b>\$ 31,544</b>               | <b>\$ -</b>          | <b>\$ 20,052</b>                  | <b>\$ -</b>                      |
| <b>Impaired loans with related allowance recorded:</b>    |                        |                                |                      |                                   |                                  |
| Commercial:   |                        |                                |                      |                                   |                                  |
| General C&I   | \$ 31,774              | \$ 38,256                      | \$ 5,119             | \$ 29,183                         | \$ 773                           |
| TRUPS   | 3,067                  | 3,700                          | 925                  | 3,139                             | -                                |
| Income CRE  | 1,612                  | 1,612                          | 49                   | 1,695                             | 52                               |
| Residential CRE   | 795                    | 1,263                          | 83                   | 1,106                             | 10                               |
| <b>Total</b>  | <b>\$ 37,248</b>       | <b>\$ 44,831</b>               | <b>\$ 6,176</b>      | <b>\$ 35,123</b>                  | <b>\$ 835</b>                    |
| Consumer:   |                        |                                |                      |                                   |                                  |
| HELOC   | \$ 72,469              | \$ 75,207                      | \$ 14,382            | \$ 77,454                         | \$ 2,261                         |
| R/E installment loans                                     | 43,075                 | 43,827                         | 8,793                | 48,473                            | 1,246                            |
| Permanent mortgage  | 79,662                 | 90,934                         | 12,105               | 81,422                            | 2,455                            |
| Credit card & other                                       | 593                    | 593                            | 311                  | 406                               | 11                               |
| <b>Total</b>  | <b>\$ 195,799</b>      | <b>\$ 210,561</b>              | <b>\$ 35,591</b>     | <b>\$ 207,755</b>                 | <b>\$ 5,973</b>                  |
| <b>Total commercial</b>                                   | <b>\$ 45,431</b>       | <b>\$ 62,203</b>               | <b>\$ 6,176</b>      | <b>\$ 42,933</b>                  | <b>\$ 835</b>                    |
| <b>Total consumer</b>                                     | <b>\$ 214,282</b>      | <b>\$ 242,105</b>              | <b>\$ 35,591</b>     | <b>\$ 227,807</b>                 | <b>\$ 5,973</b>                  |
| <b>Total impaired loans</b>                               | <b>\$ 259,713</b>      | <b>\$ 304,308</b>              | <b>\$ 41,767</b>     | <b>\$ 270,740</b>                 | <b>\$ 6,808</b>                  |

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

**Asset Quality Indicators**

FHN employs a dual grade commercial risk grading methodology to assign an estimate for the probability of default (“PD”) and the loss given default (“LGD”) for each commercial loan using factors specific to various industry, portfolio, or product segments that result in a rank ordering of risk and the assignment of grades PD 1 to PD 16. This credit grading system is intended to identify and measure the credit quality of the loan portfolio by analyzing the migration of loans between grading categories. It is also integral to the estimation methodology utilized in determining the allowance for loan losses since an allowance is established for pools of commercial loans based on the credit grade assigned. Each PD grade corresponds to an estimated one-year default probability percentage; a PD 1 has the lowest expected default probability, and probabilities increase as grades progress down the scale. PD 1 through PD 12 are “pass” grades. PD grades 13-16 correspond to the regulatory-defined categories of special mention (13), substandard (14), doubtful (15), and loss (16). Pass loan grades are required to be reassessed annually or earlier whenever there has been a material change in the financial condition of the borrower or risk characteristics of the relationship. All commercial loans over \$1 million and certain commercial loans over \$500,000 that are graded 13 or worse are reassessed on a quarterly basis. Loan grading discipline is regularly reviewed internally by Credit Assurance Services to determine if the process continues to result in

**Note 4 ☐ Loans (continued)**

accurate loan grading across the portfolio. FHN may utilize availability of guarantors/sponsors to support lending decisions during the credit underwriting process and when determining the assignment of internal loan grades. LGD grades are assigned based on a scale of 1-12 and represent FHN's expected recovery based on collateral type in the event a loan defaults. See Note 5 – Allowance for Loan Losses for further discussion on the credit grading system.

The following tables provide the balances of commercial loan portfolio classes with associated allowance, disaggregated by PD grade as of December 31, 2018 and 2017:

| <b>December 31, 2018</b>                 |                            |  |                  |                       |                            |                     |                                |  |
|--|----------------------------|--|------------------|-----------------------|----------------------------|---------------------|--------------------------------|--|
| <i>(Dollars in thousands)</i>            | <b>General<br/>C&amp;I</b> | <b>Loans to<br/>Mortgage<br/>Companies</b> | <b>TRUPS (a)</b> | <b>Income<br/>CRE</b> | <b>Residential<br/>CRE</b> | <b>Total</b>        | <b>Percentage<br/>of Total</b> | <b>Allowance<br/>for Loan<br/>Losses</b> |
| PD Grade:                                |                            |  |                  |                       |                            |                     |                                |  |
| 1  | \$ 610,177                 | \$ -                                       | \$ -             | \$ 12,586             | \$ -                       | \$ 622,763          | 3%                             | \$ 100                                   |
| 2  | 835,776                    | -  | -                | 1,688                 | 29                         | 837,493             | 4                              | 274                                      |
| 3  | 782,362                    | 716,971                                    | -                | 289,594               | 147                        | 1,789,074           | 9                              | 315                                      |
| 4  | 1,223,092                  | 394,862                                    | 43,220           | 563,243               | -                          | 2,224,417           | 11                             | 686                                      |
| 5  | 1,920,034                  | 277,814                                    | 77,751           | 798,509               | 14,150                     | 3,088,258           | 15                             | 8,919                                    |
| 6  | 1,722,136                  | 365,341                                    | 45,609           | 657,628               | 33,759                     | 2,824,473           | 14                             | 8,141                                    |
| 7  | 2,690,784                  | 96,603                                     | 11,446           | 538,909               | 26,135                     | 3,363,877           | 16                             | 16,906                                   |
| 8  | 1,337,113                  | 53,224                                     | -                | 265,901               | 20,320                     | 1,676,558           | 8                              | 18,545                                   |
| 9  | 1,472,852                  | 96,292                                     | 45,117           | 455,184               | 29,849                     | 2,099,294           | 10                             | 15,454                                   |
| 10                                       | 490,795                    | 13,260                                     | 18,536           | 60,803                | 3,911                      | 587,305             | 3                              | 8,675                                    |
| 11                                       | 311,967                    | -  | -                | 66,986                | 788                        | 379,741             | 2                              | 7,973                                    |
| 12                                       | 244,867                    | 9,379                                      | -                | 82,574                | 5,717                      | 342,537             | 2                              | 6,972                                    |
| 13                                       | 285,987                    | -  | 5,786            | 55,408                | 251                        | 347,432             | 2                              | 10,094                                   |
| 14,15,16                                 | 224,853                    | -  | -                | 28,835                | 837                        | 254,525             | 1                              | 23,307                                   |
| Collectively evaluated<br>for impairment | 14,152,795                 | 2,023,746                                  | 247,465          | 3,877,848             | 135,893                    | 20,437,747          | 100                            | 126,361                                  |
| Individually evaluated<br>for impairment | 45,704                     | -  | 2,888            | 1,966                 | -                          | 50,558              | -                              | 1,074                                    |
| Purchased credit-<br>impaired loans      | 41,730                     | -  | -                | 12,730                | 2,433                      | 56,893              | -                              | 2,823                                    |
| <b>Total commercial<br/>loans</b>        | <b>\$14,240,229</b>        | <b>\$2,023,746</b>                         | <b>\$250,353</b> | <b>\$3,892,544</b>    | <b>\$138,326</b>           | <b>\$20,545,198</b> | <b>100%</b>                    | <b>\$130,258</b>                         |

(a) Balances presented net of a \$20.2 million valuation allowance. Based on the underlying structure of the notes, the highest possible internal grade was "13" prior to second quarter 2018. In second quarter 2018, this portfolio was re-graded to align with its scorecard grading methodologies which resulted in upgrades to a majority of this portfolio. In 3Q18, FHN sold \$55.5 million of TRUPS loans with a \$5.0 million valuation allowance. Upon sale, a gain of \$3.8 million was recognized in the Non-Strategic segment within Fixed Income in the Consolidated Statement of Income. An additional TRUPS loan with a principal balance of \$3.0 million and a valuation of \$.3 million was paid off in fourth quarter 2018.



**Note 4 ☐ Loans (continued)**

| December 31, 2017                     |              |                             |           |             |                 |              |                     |                           |
|---------------------------------------|--------------|-----------------------------|-----------|-------------|-----------------|--------------|---------------------|---------------------------|
| <i>(Dollars in thousands)</i>         | General C&I  | Loans to Mortgage Companies | TRUPS (a) | Income CRE  | Residential CRE | Total        | Percentage of Total | Allowance for Loan Losses |
| PD Grade:                             |              |                             |           |             |                 |              |                     |                           |
| 1                                     | \$ 536,244   | \$ -                        | \$ -      | \$ 2,500    | \$ -            | \$ 538,744   | 3%                  | \$ 70                     |
| 2                                     | 877,635      | -                           | -         | 1,798       | 69              | 879,502      | 4                   | 339                       |
| 3                                     | 582,224      | 652,982                     | -         | 210,073     | 40              | 1,445,319    | 7                   | 272                       |
| 4                                     | 959,581      | 629,432                     | -         | 309,699     | -               | 1,898,712    | 9                   | 854                       |
| 5                                     | 1,461,632    | 328,477                     | -         | 415,764     | 2,474           | 2,208,347    | 11                  | 7,355                     |
| 6                                     | 1,668,247    | 335,169                     | -         | 456,706     | 3,179           | 2,463,301    | 12                  | 10,495                    |
| 7                                     | 2,257,400    | 47,720                      | -         | 554,590     | 9,720           | 2,869,430    | 14                  | 13,490                    |
| 8                                     | 1,092,994    | 35,266                      | -         | 241,938     | 6,454           | 1,376,652    | 7                   | 21,831                    |
| 9                                     | 2,633,854    | 70,915                      | -         | 1,630,176   | 61,475          | 4,396,420    | 22                  | 9,804                     |
| 10                                    | 373,537      | -                           | -         | 43,297      | 4,590           | 421,424      | 2                   | 8,808                     |
| 11                                    | 226,382      | -                           | -         | 31,785      | 2,936           | 261,103      | 1                   | 6,784                     |
| 12                                    | 409,838      | -                           | -         | 156,717     | 6,811           | 573,366      | 3                   | 5,882                     |
| 13                                    | 202,613      | -                           | 303,848   | 15,707      | 268             | 522,436      | 3                   | 7,265                     |
| 14,15,16                              | 228,852      | -                           | -         | 6,587       | 823             | 236,262      | 1                   | 24,400                    |
| Collectively evaluated for impairment | 13,511,033   | 2,099,961                   | 303,848   | 4,077,337   | 98,839          | 20,091,018   | 99                  | 117,649                   |
| Individually evaluated for impairment | 39,957       | -                           | 3,067     | 1,612       | 795             | 45,431       | -                   | 6,176                     |
| Purchased credit-impaired loans       | 99,407       | -                           | -         | 31,615      | 4,497           | 135,519      | 1                   | 2,813                     |
| Total commercial loans                | \$13,650,397 | \$2,099,961                 | \$306,915 | \$4,110,564 | \$104,131       | \$20,271,968 | 100%                | \$126,638                 |

(a) Balances presented net of a \$25.5 million valuation allowance. Based on the underlying structure of the notes, the highest possible internal grade was "13" prior to second quarter 2018. In second quarter 2018, this portfolio was re-graded to align with its scorecard grading methodologies which resulted in upgrades to a majority of this portfolio.

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

The following table reflects the percentage of balances outstanding by average, refreshed FICO scores for the HELOC, real estate installment, and permanent mortgage classes of loans as of December 31, 2018 and 2017:

|                              | December 31, 2018 |                       |                    | December 31, 2017 |                       |                    |
|------------------------------|-------------------|-----------------------|--------------------|-------------------|-----------------------|--------------------|
|                              | HELOC             | R/E Installment Loans | Permanent Mortgage | HELOC             | R/E Installment Loans | Permanent Mortgage |
| FICO score 740 or greater    | 61.4%             | 71.3%                 | 51.8%              | 60.0%             | 73.1%                 | 46.4%              |
| FICO score 720-739           | 8.5               | 8.8                   | 7.6                | 8.7               | 8.0                   | 12.8               |
| FICO score 700-719           | 7.6               | 7.0                   | 10.6               | 8.3               | 6.4                   | 9.2                |
| FICO score 660-699           | 10.9              | 7.6                   | 14.7               | 11.1              | 7.2                   | 14.8               |
| FICO score 620-659           | 5.1               | 2.8                   | 6.5                | 4.9               | 2.8                   | 7.3                |
| FICO score less than 620 (a) | 6.5               | 2.5                   | 8.8                | 7.0               | 2.5                   | 9.5                |
| Total                        | 100.0%            | 100.0%                | 100.0%             | 100.0%            | 100.0%                | 100.0%             |

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

**Note 4 ☐ Loans (continued)**

**Nonaccrual and Past Due Loans**

The following table reflects accruing and non-accruing loans by class on December 31, 2018:

| <i>(Dollars in thousands)</i>              | Accruing            |                     |                   |                     | Non-Accruing     |                     |                   |                    | Total Loans         |
|--|---------------------|---------------------|-------------------|---------------------|------------------|---------------------|-------------------|--------------------|---------------------|
|  | Current             | 30-89 Days Past Due | 90+ Days Past Due | Total Accruing      | Current          | 30-89 Days Past Due | 90+ Days Past Due | Total Non-Accruing |                     |
| <b>Commercial (C&amp;I):</b>               |                     |                     |                   |                     |                  |                     |                   |                    |                     |
| General C&I                                | \$14,153,275        | \$ 8,234            | \$ 102            | <b>\$14,161,611</b> | \$ 26,325        | \$ 5,537            | \$ 5,026          | <b>\$ 36,888</b>   | <b>\$14,198,499</b> |
| Loans to mortgage companies                | 2,023,746           | -                   | -                 | <b>2,023,746</b>    | -                | -                   | -                 | -                  | <b>2,023,746</b>    |
| TRUPS (a)                                  | 247,465             | -                   | -                 | <b>247,465</b>      | -                | -                   | 2,888             | <b>2,888</b>       | <b>250,353</b>      |
| Purchased credit-impaired loans            | 39,433              | 624                 | 1,673             | <b>41,730</b>       | -                | -                   | -                 | -                  | <b>41,730</b>       |
| <b>Total commercial (C&amp;I)</b>          | <b>16,463,919</b>   | <b>8,858</b>        | <b>1,775</b>      | <b>16,474,552</b>   | <b>26,325</b>    | <b>5,537</b>        | <b>7,914</b>      | <b>39,776</b>      | <b>16,514,328</b>   |
| <b>Commercial real estate:</b>             |                     |                     |                   |                     |                  |                     |                   |                    |                     |
| Income CRE                                 | 3,876,229           | 626                 | -                 | <b>3,876,855</b>    | 30               | -                   | 2,929             | <b>2,959</b>       | <b>3,879,814</b>    |
| Residential CRE                            | 135,861             | -                   | -                 | <b>135,861</b>      | 32               | -                   | -                 | <b>32</b>          | <b>135,893</b>      |
| Purchased credit-impaired loans            | 13,308              | 103                 | 1,752             | <b>15,163</b>       | -                | -                   | -                 | -                  | <b>15,163</b>       |
| <b>Total commercial real estate</b>        | <b>4,025,398</b>    | <b>729</b>          | <b>1,752</b>      | <b>4,027,879</b>    | <b>62</b>        | <b>-</b>            | <b>2,929</b>      | <b>2,991</b>       | <b>4,030,870</b>    |
| <b>Consumer real estate:</b>               |                     |                     |                   |                     |                  |                     |                   |                    |                     |
| HELOC                                      | 1,443,651           | 11,653              | 10,129            | <b>1,465,433</b>    | 49,009           | 3,314               | 8,781             | <b>61,104</b>      | <b>1,526,537</b>    |
| R/E installment loans                      | 4,652,658           | 10,470              | 6,497             | <b>4,669,625</b>    | 15,146           | 1,924               | 4,474             | <b>21,544</b>      | <b>4,691,169</b>    |
| Purchased credit-impaired loans            | 24,096              | 2,094               | 5,620             | <b>31,810</b>       | -                | -                   | -                 | -                  | <b>31,810</b>       |
| <b>Total consumer real estate</b>          | <b>6,120,405</b>    | <b>24,217</b>       | <b>22,246</b>     | <b>6,166,868</b>    | <b>64,155</b>    | <b>5,238</b>        | <b>13,255</b>     | <b>82,648</b>      | <b>6,249,516</b>    |
| <b>Permanent mortgage</b>                  | <b>193,591</b>      | <b>2,585</b>        | <b>4,562</b>      | <b>200,738</b>      | <b>11,227</b>    | <b>996</b>          | <b>9,487</b>      | <b>21,710</b>      | <b>222,448</b>      |
| <b>Credit card &amp; other:</b>            |                     |                     |                   |                     |                  |                     |                   |                    |                     |
| Credit card                                | 188,009             | 2,133               | 1,203             | <b>191,345</b>      | -                | -                   | -                 | -                  | <b>191,345</b>      |
| Other                                      | 320,551             | 3,570               | 526               | <b>324,647</b>      | 110              | 60                  | 454               | <b>624</b>         | <b>325,271</b>      |
| Purchased credit-impaired loans            | 746                 | 611                 | 397               | <b>1,754</b>        | -                | -                   | -                 | -                  | <b>1,754</b>        |
| <b>Total credit card &amp; other</b>       | <b>509,306</b>      | <b>6,314</b>        | <b>2,126</b>      | <b>517,746</b>      | <b>110</b>       | <b>60</b>           | <b>454</b>        | <b>624</b>         | <b>518,370</b>      |
| <b>Total loans, net of unearned income</b> | <b>\$27,312,619</b> | <b>\$42,703</b>     | <b>\$32,461</b>   | <b>\$27,387,783</b> | <b>\$101,876</b> | <b>\$11,831</b>     | <b>\$34,042</b>   | <b>\$147,749</b>   | <b>\$27,535,532</b> |

(a) TRUPS is presented net of the valuation allowance of \$20.2 million.

## Note 4 ☐ Loans (continued)

The following table reflects accruing and non-accruing loans by class on December 31, 2017:

| (Dollars in thousands)                     | Accruing            |                     |                   |                     | Non-Accruing    |                     |                   |                    |                     |
|--|---------------------|---------------------|-------------------|---------------------|-----------------|---------------------|-------------------|--------------------|---------------------|
|  | Current             | 30-89 Days Past Due | 90+ Days Past Due | Total Accruing      | Current         | 30-89 Days Past Due | 90+ Days Past Due | Total Non-Accruing | Total Loans         |
| <b>Commercial (C&amp;I):</b>               |                     |                     |                   |                     |                 |                     |                   |                    |                     |
| General C&I                                | \$13,514,752        | \$ 8,057            | \$ 95             | <b>\$13,522,904</b> | \$ 1,761        | \$ 7,019            | \$19,306          | <b>\$ 28,086</b>   | <b>\$13,550,990</b> |
| Loans to mortgage companies                | 2,099,961           | -                   | -                 | <b>2,099,961</b>    | -               | -                   | -                 | -                  | <b>2,099,961</b>    |
| TRUPS (a)                                  | 303,848             | -                   | -                 | <b>303,848</b>      | -               | -                   | 3,067             | <b>3,067</b>       | <b>306,915</b>      |
| Purchased credit-impaired loans            | 77,843              | 2,207               | 19,357            | <b>99,407</b>       | -               | -                   | -                 | -                  | <b>99,407</b>       |
| <b>Total commercial (C&amp;I)</b>          | <b>15,996,404</b>   | <b>10,264</b>       | <b>19,452</b>     | <b>16,026,120</b>   | <b>1,761</b>    | <b>7,019</b>        | <b>22,373</b>     | <b>31,153</b>      | <b>16,057,273</b>   |
| <b>Commercial real estate:</b>             |                     |                     |                   |                     |                 |                     |                   |                    |                     |
| Income CRE                                 | 4,077,106           | 1,240               | -                 | <b>4,078,346</b>    | 56              | -                   | 546               | <b>602</b>         | <b>4,078,948</b>    |
| Residential CRE                            | 98,844              | -                   | -                 | <b>98,844</b>       | -               | -                   | 791               | <b>791</b>         | <b>99,635</b>       |
| Purchased credit-impaired loans            | 31,173              | 2,686               | 2,253             | <b>36,112</b>       | -               | -                   | -                 | -                  | <b>36,112</b>       |
| <b>Total commercial real estate</b>        | <b>4,207,123</b>    | <b>3,926</b>        | <b>2,253</b>      | <b>4,213,302</b>    | <b>56</b>       | <b>-</b>            | <b>1,337</b>      | <b>1,393</b>       | <b>4,214,695</b>    |
| <b>Consumer real estate:</b>               |                     |                     |                   |                     |                 |                     |                   |                    |                     |
| HELOC                                      | 1,743,776           | 17,744              | 9,702             | <b>1,771,222</b>    | 40,508          | 3,626               | 8,354             | <b>52,488</b>      | <b>1,823,710</b>    |
| R/E installment loans                      | 4,587,156           | 7,274               | 3,573             | <b>4,598,003</b>    | 14,439          | 1,957               | 2,603             | <b>18,999</b>      | <b>4,617,002</b>    |
| Purchased credit-impaired loans            | 35,356              | 2,016               | 1,158             | <b>38,530</b>       | -               | -                   | -                 | -                  | <b>38,530</b>       |
| <b>Total consumer real estate</b>          | <b>6,366,288</b>    | <b>27,034</b>       | <b>14,433</b>     | <b>6,407,755</b>    | <b>54,947</b>   | <b>5,583</b>        | <b>10,957</b>     | <b>71,487</b>      | <b>6,479,242</b>    |
| <b>Permanent mortgage</b>                  | <b>254,040</b>      | <b>3,930</b>        | <b>3,460</b>      | <b>261,430</b>      | <b>13,245</b>   | <b>1,052</b>        | <b>12,093</b>     | <b>26,390</b>      | <b>287,820</b>      |
| <b>Credit card &amp; other:</b>            |                     |                     |                   |                     |                 |                     |                   |                    |                     |
| Credit card                                | 193,940             | 1,371               | 1,053             | <b>196,364</b>      | -               | -                   | -                 | -                  | <b>196,364</b>      |
| Other                                      | 415,070             | 2,666               | 103               | <b>417,839</b>      | 31              | -                   | 165               | <b>196</b>         | <b>418,035</b>      |
| Purchased credit-impaired loans            | 2,993               | 1,693               | 814               | <b>5,500</b>        | -               | -                   | -                 | -                  | <b>5,500</b>        |
| <b>Total credit card &amp; other</b>       | <b>612,003</b>      | <b>5,730</b>        | <b>1,970</b>      | <b>619,703</b>      | <b>31</b>       | <b>-</b>            | <b>165</b>        | <b>196</b>         | <b>619,899</b>      |
| <b>Total loans, net of unearned income</b> | <b>\$27,435,858</b> | <b>\$50,884</b>     | <b>\$41,568</b>   | <b>\$27,528,310</b> | <b>\$70,040</b> | <b>\$13,654</b>     | <b>\$46,925</b>   | <b>\$130,619</b>   | <b>\$27,658,929</b> |

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

(a) TRUPS is presented net of the valuation allowance of \$25.5 million.

## Note 4 ☐ Loans (continued)

### Troubled Debt Restructurings

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

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

For all classes within the commercial portfolio segment, TDRs are typically modified through forbearance agreements (generally 6 to 12 months). Forbearance agreements could include reduced interest rates, reduced payments, release of guarantor, or entering into short sale agreements. FHN's proprietary modification programs for consumer loans are generally structured using parameters of U.S. government-sponsored programs such as the former Home Affordable Modification Program ("HAMP"). Within the HELOC and R/E installment loans classes of the consumer portfolio segment, TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 1 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt-to-income ratio. After 5 years, the interest rate generally returns to the original interest rate prior to modification; for certain modifications, the modified interest rate increases 2 percent per year until the original interest rate prior to modification is achieved. Permanent mortgage TDRs are typically modified by reducing the interest rate (in increments of 25 basis points to a minimum of 2 percent for up to 5 years) and a possible maturity date extension to reach an affordable housing debt-to-income ratio. After 5 years, the interest rate steps up 1 percent every year until it reaches the Federal Home Loan Mortgage Corporation Weekly Survey Rate cap. Contractual maturities may be extended to 40 years on permanent mortgages and to 30 years for consumer real estate loans. Within the credit card class of the consumer portfolio segment, TDRs are typically modified through either a short-term credit card hardship program or a longer-term credit card workout program. In the credit card hardship program, borrowers may be granted rate and payment reductions for 6 months to 1 year. In the credit card workout program, customers are granted a rate reduction to 0 percent and term extensions for up to 5 years to pay off the remaining balance.

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

On December 31, 2018 and 2017, FHN had \$228.2 million and \$234.4 million of portfolio loans classified as TDRs, respectively. For TDRs in the loan portfolio, FHN had loan loss reserves of \$27.7 million, or 12 percent as of December 31, 2018, and \$37.3 million, or 16 percent as of December 31, 2017. Additionally, \$57.8 million and \$63.2 million of loans held-for-sale as of December 31, 2018 and 2017, respectively, were classified as TDRs.

**Note 4 ☐ Loans (continued)**

The following tables reflect portfolio loans that were classified as TDRs during the year ended December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>             | 2018       |  |   | 2017       |  |   |
|---|------------|--|---|------------|--|---|
|   | Number     | Pre-Modification<br>Outstanding<br>Recorded Investment | Post-Modification<br>Outstanding<br>Recorded Investment | Number     | Pre-Modification<br>Outstanding<br>Recorded Investment | Post-Modification<br>Outstanding<br>Recorded Investment |
| <b>Commercial (C&amp;I):</b>              |            |  |   |            |  |   |
| General C&I                               | 9          | \$27,639   | \$27,190  | 5          | \$ 1,095   | \$ 1,086  |
| Total commercial (C&I)                    | 9          | 27,639   | 27,190  | 5          | 1,095  | 1,086   |
| <b>Commercial real estate:</b>            |            |  |   |            |  |   |
| Income CRE                                | 4          | 643  | 637   | 1          | 199  | 198   |
| Total commercial real estate              | 4          | 643  | 637   | 1          | 199  | 198   |
| <b>Consumer real estate:</b>              |            |  |   |            |  |   |
| HELOC                                     | 103        | 9,406  | 9,283   | 143        | 12,739   | 12,422  |
| R/E installment loans                     | 92         | 8,077  | 7,848   | 53         | 4,092  | 4,027   |
| Total consumer real estate                | 195        | 17,483   | 17,131  | 196        | 16,831   | 16,449  |
| <b>Permanent mortgage</b>                 | <b>8</b>   | <b>1,001</b>   | <b>1,184</b>  | <b>34</b>  | <b>5,078</b>   | <b>5,045</b>  |
| <b>Credit card &amp; other</b>            | <b>132</b> | <b>604</b>   | <b>570</b>  | <b>91</b>  | <b>572</b>   | <b>550</b>  |
| <b>Total troubled debt restructurings</b> | <b>348</b> | <b>\$47,370</b>  | <b>\$46,712</b>   | <b>327</b> | <b>\$23,775</b>  | <b>\$23,328</b>   |

The following tables present TDRs which re-defaulted during 2018 and 2017, and as to which the modification occurred 12 months or less prior to the re-default. For purposes of this disclosure, FHN generally defines payment default as 30 or more days past due.

| <i>(Dollars in thousands)</i>             | 2018      |                        | 2017      |                        |
|---|-----------|------------------------|-----------|------------------------|
|   | Number    | Recorded<br>Investment | Number    | Recorded<br>Investment |
| <b>Commercial (C&amp;I):</b>              |           |                        |           |                        |
| General C&I                               | 2         | \$ 579                 | 5         | \$11,498               |
| Total commercial (C&I)                    | 2         | 579                    | 5         | 11,498                 |
| <b>Commercial real estate:</b>            |           |                        |           |                        |
| Income CRE                                | -         | -                      | 1         | 88                     |
| Total commercial real estate              | -         | -                      | 1         | 88                     |
| <b>Consumer real estate:</b>              |           |                        |           |                        |
| HELOC                                     | 6         | 239                    | 5         | 776                    |
| R/E installment loans                     | 2         | 146                    | -         | -                      |
| Total consumer real estate                | 8         | 385                    | 5         | 776                    |
| <b>Permanent mortgage</b>                 | <b>6</b>  | <b>749</b>             | <b>3</b>  | <b>715</b>             |
| <b>Credit card &amp; other</b>            | <b>49</b> | <b>239</b>             | <b>10</b> | <b>77</b>              |
| <b>Total troubled debt restructurings</b> | <b>65</b> | <b>\$1,952</b>         | <b>24</b> | <b>\$13,154</b>        |

## Note 5 Allowance for Loan Losses

As discussed in Note 1 – Summary of Significant Accounting Policies, the ALLL includes the following components: reserves for commercial loans evaluated based on pools of credit graded loans and reserves for pools of smaller-balance homogeneous consumer loans, both determined in accordance with ASC 450-20-50, and to a lesser extent, reserves determined in accordance with ASC 310-10-35 for loans determined by management to be individually impaired and an allowance associated with PCI loans.

For commercial loans, ASC 450-20-50 reserves are established using historical net loss factors by grade level, loan product, and business segment. The ALLL for smaller-balance homogeneous consumer loans is determined based on pools of similar loan types that have similar credit risk characteristics. ASC 450-20-50 reserves for the consumer portfolio are determined using segmented roll-rate models that incorporate various factors including historical delinquency trends, experienced loss frequencies, and experienced loss severities. Generally, reserves for consumer loans reflect inherent losses in the portfolio that are expected to be recognized over the following twelve months. The historical net loss factors for both commercial and consumer ASC 450-20-50 reserve models are subject to qualitative adjustments by management to reflect current events, trends, and conditions (including economic considerations and trends), which are not fully captured in the historical net loss factors. The pace of the economic recovery, performance of the housing market, unemployment levels, labor participation rate, the regulatory environment, regulatory guidance, and portfolio segment-specific trends, are examples of additional factors considered by management in determining the ALLL. Additionally, management considers the inherent uncertainty of quantitative models that are driven by historical loss data. Management evaluates the periods of historical losses that are the basis for the loss rates used in the quantitative models and selects historical loss periods that are believed to be the most reflective of losses inherent in the loan portfolio as of the balance sheet date. Management also periodically reviews an analysis of the loss emergence period which is the amount of time it takes for a loss to be confirmed (initial charge-off) after a loss event has occurred. FHN performs extensive studies as it relates to the historical loss periods used in the model and the loss emergence period and model assumptions are adjusted accordingly.

Impairment related to individually impaired loans is measured in accordance with ASC 310-10. For all commercial portfolio segments, commercial TDRs and other individually impaired commercial loans are measured based on the present value of expected future payments discounted at the loan's effective interest rate ("the DCF method"), observable market prices, or for loans that are solely dependent on the collateral for repayment, the net realizable value (collateral value less estimated costs to sell). Impaired loans also include consumer TDRs. Generally, the allowance for TDRs in all consumer portfolio segments is determined by estimating the expected future cash flows using the modified interest rate (if an interest rate concession), incorporating payoff and net charge-off rates specific to the TDRs within the portfolio segment being assessed, and discounted using the pre-modification interest rate. The discount rates of variable rate TDRs are adjusted to reflect changes in the interest rate index to which the rates are tied. The discounted cash flows are then compared to the outstanding principal balance in order to determine required reserves. Residential real estate loans discharged through bankruptcy are collateral-dependent and are charged down to net realizable value (collateral value less estimated costs to sell).

**Note 5 ☐ Allowance for Loan Losses (continued)**

The following table provides a rollforward of the allowance for loan losses by portfolio segment for December 31, 2018, 2017 and 2016:

| <i>(Dollars in thousands)</i>                            | C&I                 | Commercial<br>Real Estate | Consumer<br>Real Estate | Permanent<br>Mortgage | Credit Card<br>and Other | Total               |
|--|---------------------|---------------------------|-------------------------|-----------------------|--------------------------|---------------------|
| <b>Balance as of January 1, 2018</b>                     | \$ 98,211           | \$ 28,427                 | \$ 39,823               | \$ 13,113             | \$ 9,981                 | \$ 189,555          |
| <b>Charge-offs</b>                                       | (15,492)            | (783)                     | (9,357)                 | (477)                 | (19,688)                 | (45,797)            |
| <b>Recoveries</b>  | 4,201               | 339                       | 19,666                  | 1,421                 | 4,039                    | 29,666              |
| <b>Provision/(provision credit) for loan losses</b>      | 12,027              | 3,328                     | (23,693)                | (3,057)               | 18,395                   | 7,000               |
| <b>Balance as of December 31, 2018</b>                   | <b>98,947</b>       | <b>31,311</b>             | <b>26,439</b>           | <b>11,000</b>         | <b>12,727</b>            | <b>180,424</b>      |
| <b>Allowance – individually evaluated for impairment</b> | 1,074               | -                         | 17,984                  | 9,419                 | 337                      | 28,814              |
| <b>Allowance – collectively evaluated for impairment</b> | 95,050              | 31,311                    | 7,368                   | 1,581                 | 12,263                   | 147,573             |
| <b>Allowance – purchased credit-impaired loans</b>       | 2,823               | -                         | 1,087                   | -                     | 127                      | 4,037               |
| <b>Loans, net of unearned as of December 31, 2018:</b>   |                     |                           |                         |                       |                          |                     |
| <b>Individually evaluated for impairment</b>             | 48,592              | 1,966                     | 118,434                 | 70,846                | 695                      | 240,533             |
| <b>Collectively evaluated for impairment</b>             | 16,424,006          | 4,013,741                 | 6,099,272               | 151,602               | 515,921                  | 27,204,542          |
| <b>Purchased credit-impaired loans</b>                   | 41,730              | 15,163                    | 31,810                  | -                     | 1,754                    | 90,457              |
| <b>Total loans, net of unearned income</b>               | <b>\$16,514,328</b> | <b>\$4,030,870</b>        | <b>\$6,249,516</b>      | <b>\$222,448</b>      | <b>\$518,370</b>         | <b>\$27,535,532</b> |
| Balance as of January 1, 2017                            | \$ 89,398           | \$ 33,852                 | \$ 51,424               | \$ 15,222             | \$ 12,172                | \$ 202,068          |
| Charge-offs  | (17,657)            | (195)                     | (13,156)                | (2,179)               | (13,207)                 | (46,394)            |
| Recoveries   | 4,568               | 966                       | 22,723                  | 2,509                 | 3,115                    | 33,881              |
| Provision/(provision credit) for loan losses             | 21,902              | (6,196)                   | (21,168)                | (2,439)               | 7,901                    | —                   |
| <b>Balance as of December 31, 2017</b>                   | <b>98,211</b>       | <b>28,427</b>             | <b>39,823</b>           | <b>13,113</b>         | <b>9,981</b>             | <b>189,555</b>      |
| <b>Allowance – individually evaluated for impairment</b> | 6,044               | 132                       | 23,175                  | 12,105                | 311                      | 41,767              |
| <b>Allowance – collectively evaluated for impairment</b> | 89,358              | 28,291                    | 16,293                  | 1,008                 | 9,670                    | 144,620             |
| <b>Allowance – purchased credit-impaired loans</b>       | 2,809               | 4                         | 355                     | -                     | -                        | 3,168               |
| <b>Loans, net of unearned as of December 31, 2017:</b>   |                     |                           |                         |                       |                          |                     |
| <b>Individually evaluated for impairment</b>             | 43,024              | 2,407                     | 128,895                 | 84,794                | 593                      | 259,713             |
| <b>Collectively evaluated for impairment</b>             | 15,909,110          | 4,181,908                 | 6,311,817               | 203,026               | 613,806                  | 27,219,667          |
| <b>Purchased credit-impaired loans</b>                   | 105,139             | 30,380                    | 38,530                  | -                     | 5,500                    | 179,549             |
| <b>Total loans, net of unearned income</b>               | <b>\$16,057,273</b> | <b>\$4,214,695</b>        | <b>\$6,479,242</b>      | <b>\$287,820</b>      | <b>\$619,899</b>         | <b>\$27,658,929</b> |
| Balance as of January 1, 2016                            | \$ 73,637           | \$ 25,159                 | \$ 80,662               | \$ 18,899             | \$ 11,885                | \$ 210,242          |
| Charge-offs  | (18,460)            | (1,371)                   | (21,993)                | (1,591)               | (14,224)                 | (57,639)            |
| Recoveries   | 6,795               | 1,927                     | 23,719                  | 2,403                 | 3,621                    | 38,465              |
| Provision/(provision credit) for loan losses             | 27,426              | 8,137                     | (30,964)                | (4,489)               | 10,890                   | 11,000              |
| <b>Balance as of December 31, 2016</b>                   | <b>89,398</b>       | <b>33,852</b>             | <b>51,424</b>           | <b>15,222</b>         | <b>12,172</b>            | <b>202,068</b>      |
| <b>Allowance – individually evaluated for impairment</b> | 4,219               | 194                       | 28,802                  | 12,470                | 133                      | 45,818              |
| <b>Allowance – collectively evaluated for impairment</b> | 85,015              | 33,503                    | 22,218                  | 2,752                 | 12,039                   | 155,527             |
| <b>Allowance – purchased credit-impaired loans</b>       | 164                 | 155                       | 404                     | -                     | -                        | 723                 |
| <b>Loans, net of unearned as of December 31, 2016:</b>   |                     |                           |                         |                       |                          |                     |
| <b>Individually evaluated for impairment</b>             | 47,962              | 3,124                     | 153,460                 | 93,926                | 306                      | 298,778             |
| <b>Collectively evaluated for impairment</b>             | 12,059,593          | 2,127,481                 | 4,439,143               | 258,772               | 358,675                  | 19,243,664          |
| <b>Purchased credit-impaired loans</b>                   | 40,532              | 4,918                     | 1,576                   | -                     | 52                       | 47,078              |
| <b>Total loans, net of unearned income</b>               | <b>\$12,148,087</b> | <b>\$2,135,523</b>        | <b>\$4,594,179</b>      | <b>\$352,698</b>      | <b>\$359,033</b>         | <b>\$19,589,520</b> |

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

**Note 6 ☐ Premises, Equipment, and Leases**

Premises and equipment on December 31 are summarized below:

| <i>(Dollars in thousands)</i>                  | <b>2018</b>      | 2017      |
|--|------------------|-----------|
| Land   | <b>\$107,864</b> | \$104,454 |
| Buildings                                      | <b>461,665</b>   | 472,619   |
| Leasehold improvements                         | <b>30,230</b>    | 26,640    |
| Furniture, fixtures, and equipment             | <b>196,469</b>   | 194,057   |
| Fixed assets held-for-sale (a)                 | <b>19,617</b>    | 53,195    |
| Premises and equipment, at cost                | <b>815,845</b>   | 850,965   |
| Less accumulated depreciation and amortization | <b>321,804</b>   | 318,714   |
| Premises and equipment, net                    | <b>\$494,041</b> | \$532,251 |

(a) Primarily comprised of land and buildings.

FHN is obligated under a number of noncancelable operating leases for premises with terms up to 41 years, which may include the payment of taxes, insurance and maintenance costs. Operating leases for equipment are not material.

In 2018 and 2017, FHN recognized \$3.9 million and \$6.0 million, respectively, of fixed asset impairments and lease abandonment charges related to branch closures which are included in All other expenses on the Consolidated Statements of Income. In 2018, \$1.5 million of impairment recoveries were recorded upon disposition of the associated properties. In 2018 and 2017, FHN had net gains of \$4.3 million and \$.4 million, respectively, related to the sales of bank branches which are included in All other income and commissions on the Consolidated Statements of Income.

Minimum future lease payments for noncancelable operating leases, primarily on premises, on December 31, 2018 are shown below. Aggregate minimum income under sublease agreements for these periods is not material.

| <i>(Dollars in thousands)</i> |           |
|-------------------------------|-----------|
| 2019                          | \$ 27,524 |
| 2020                          | 24,722    |
| 2021                          | 20,954    |
| 2022                          | 16,518    |
| 2023                          | 13,174    |
| 2024 and after                | 42,370    |
| Total minimum lease payments  | \$145,262 |

Payments required under capital leases are not material.

Rent expense incurred under all operating lease obligations for the years ended December 31 is as follows:

| <i>(Dollars in thousands)</i> | <b>2018</b>     | 2017     | 2016     |
|-------------------------------|-----------------|----------|----------|
| Rent expense, gross           | <b>\$34,729</b> | \$23,116 | \$20,812 |
| Sublease income               | <b>(647)</b>    | (631)    | (477)    |
| Rent expense, net             | <b>\$34,082</b> | \$22,485 | \$20,335 |



## Note 7 ☐ Intangible Assets

The following is a summary of other intangible assets included in the Consolidated Statements of Condition:

| <i>(Dollars in thousands)</i> | December 31, 2018     |                          |                    | December 31, 2017     |                          |                    |
|-------------------------------|-----------------------|--------------------------|--------------------|-----------------------|--------------------------|--------------------|
|                               | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Core deposit intangibles (a)  | \$157,150             | \$(28,150)               | \$129,000          | \$160,650             | \$ (8,176)               | \$152,474          |
| Customer relationships        | 77,865                | (55,597)                 | 22,268             | 77,865                | (50,777)                 | 27,088             |
| Other (b)                     | 5,622                 | (1,856)                  | 3,766              | 5,622                 | (795)                    | 4,827              |
| <b>Total</b>                  | <b>\$240,637</b>      | <b>\$(85,603)</b>        | <b>\$155,034</b>   | <b>\$244,137</b>      | <b>\$(59,748)</b>        | <b>\$184,389</b>   |

(a) 2018 decrease in gross carrying amounts associated with the sale of two CBF branches and purchase accounting measurement period adjustments related to the CBF acquisition. See Note 2 – Acquisitions and Divestitures for additional information.

(b) Balance primarily includes noncompete covenants, as well as \$.3 million related to state banking licenses not subject to amortization.

Amortization expense was \$25.9 million, \$8.7 million, and \$5.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018 the estimated aggregated amortization expense is expected to be:

*(Dollars in thousands)*

| Year | Amortization |
|------|--------------|
| 2019 | \$24,835     |
| 2020 | 21,159       |
| 2021 | 19,547       |
| 2022 | 17,412       |
| 2023 | 16,117       |

Gross goodwill, accumulated impairments, and accumulated divestiture related write-offs were determined beginning January 1, 2012, when a change in accounting requirements resulted in goodwill being assessed for impairment rather than being amortized. Gross goodwill of \$200.0 million with accumulated impairments and accumulated divestiture-related write-offs of \$114.1 million and \$85.9 million, respectively, were previously allocated to the non-strategic segment, resulting in \$0 net goodwill allocated to the non-strategic segment as of December 31, 2018, 2017 and 2016. The regional banking and fixed income segments do not have any accumulated impairments or divestiture related write-offs. The following is a summary of goodwill by reportable segment included in the Consolidated Statements of Condition as of December 31, 2018, 2017 and 2016.

| <i>(Dollars in thousands)</i> | Regional Banking   | Fixed Income     | Total              |
|-------------------------------|--------------------|------------------|--------------------|
| December 31, 2015             | \$ 93,303          | \$ 98,004        | \$ 191,307         |
| Additions (a)                 | 64                 | -                | 64                 |
| December 31, 2016             | \$ 93,367          | \$ 98,004        | \$ 191,371         |
| Additions (a)                 | 1,150,518          | 44,964           | 1,195,482          |
| December 31, 2017             | \$1,243,885        | \$142,968        | \$1,386,853        |
| Additions (a)                 | 45,934             | -                | 45,934             |
| <b>December 31, 2018</b>      | <b>\$1,289,819</b> | <b>\$142,968</b> | <b>\$1,432,787</b> |

(a) See Note 2 – Acquisitions and Divestitures for further details regarding goodwill related to acquisitions.

## Note 8 ☐ Time Deposit Maturities

Following is a table of maturities for time deposits outstanding on December 31, 2018, which include Certificates of deposit under \$100,000, Other time, and Certificates of deposit \$100,000 and more. Certificates of deposit in increments of \$100,000 or more totaled \$2.6 billion on December 31, 2018, of this amount \$1.1 billion represents

**Note 8 ☐ Time Deposit Maturities (continued)**

Certificates of deposit of \$250,000 and more. Time deposits are included in Interest-bearing deposits on the Consolidated Statements of Condition.

*(Dollars in thousands)*

|                |                    |
|----------------|--------------------|
| 2019           | \$2,794,861        |
| 2020           | 690,119            |
| 2021           | 130,454            |
| 2022           | 396,340            |
| 2023           | 75,270             |
| 2024 and after | 18,733             |
| <b>Total</b>   | <b>\$4,105,777</b> |

**Note 9 ☐ Short-Term Borrowings**

Short-term borrowings include federal funds purchased and securities sold under agreements to repurchase, trading liabilities, and other borrowed funds.

Federal funds purchased and securities sold under agreements to repurchase generally have maturities of less than 90 days. Trading liabilities, which represent short positions in securities, are generally held for less than 90 days. Other short-term borrowings have original maturities of one year or less. On December 31, 2018, fixed income trading securities with a fair value of \$71.2 million were pledged to secure other short-term borrowings.

The detail of short-term borrowings for the years 2018, 2017 and 2016 is presented in the following table:

| <i>(Dollars in thousands)</i>        | Federal Funds<br>Purchased | Securities Sold<br>Under Agreements<br>to Repurchase | Trading<br>Liabilities | Other<br>Short-term<br>Borrowings |
|--------------------------------------|----------------------------|--|------------------------|-----------------------------------|
| <b>2018</b>                          |                            |  |                        |                                   |
| <b>Average balance</b>               | <b>\$405,110</b>           | <b>\$713,841</b>                                     | <b>\$682,943</b>       | <b>\$1,046,585</b>                |
| <b>Year-end balance</b>              | <b>256,567</b>             | <b>762,592</b>                                       | <b>335,380</b>         | <b>114,764</b>                    |
| <b>Maximum month-end outstanding</b> | <b>503,138</b>             | <b>891,425</b>                                       | <b>890,717</b>         | <b>2,229,155</b>                  |
| <b>Average rate for the year</b>     | <b>1.89%</b>               | <b>1.40%</b>   | <b>2.83%</b>           | <b>1.82%</b>                      |
| <b>Average rate at year-end</b>      | <b>2.50</b>                | <b>1.66</b>  | <b>3.21</b>            | <b>2.48</b>                       |
| <b>2017</b>                          |                            |  |                        |                                   |
| Average balance                      | \$447,137                  | \$578,666  | \$685,891              | \$ 554,502                        |
| Year-end balance                     | 399,820                    | 656,602  | 638,515                | 2,626,213                         |
| Maximum month-end outstanding        | 568,490                    | 743,684  | 896,943                | 2,626,213                         |
| Average rate for the year            | 1.06%                      | 0.72%  | 2.26%                  | 1.28%                             |
| Average rate at year-end             | 1.48                       | 0.64   | 2.22                   | 1.44                              |
| <b>2016</b>                          |                            |  |                        |                                   |
| Average balance                      | \$589,223                  | \$425,452  | \$771,039              | \$ 198,440                        |
| Year-end balance                     | 414,207                    | 453,053  | 561,848                | 83,177                            |
| Maximum month-end outstanding        | 695,083                    | 528,024  | 874,076                | 792,736                           |
| Average rate for the year            | 0.52%                      | 0.08%  | 1.95%                  | 0.67%                             |
| Average rate at year-end             | 0.73                       | 0.08   | 2.46                   | 0.96                              |

## Note 10 ☐ Term Borrowings

The following table presents information pertaining to Term Borrowings reported on FHN's Consolidated Statements of Condition on December 31:

| <i>(Dollars in thousands)</i>   | 2018               | 2017               |
|---|--------------------|--------------------|
| <b>First Tennessee Bank National Association:</b>   |                    |                    |
| Senior capital notes (a)  |                    |                    |
| Maturity date – December 1, 2019 – 2.95%  | \$ 395,872         | \$ 396,105         |
| Other collateralized borrowings – Maturity date – December 22, 2037                           |                    |                    |
| 3.09% on December 31, 2018 and 1.89% on December 31, 2017 (b)                                 | 76,642             | 65,356             |
| Other collateralized borrowings – SBA loans (c)   | 16,607             | 7,416              |
| Federal Home Loan Bank borrowings   |                    |                    |
| Maturity date – August 2, 2018 – 0.00%  | -                  | 100                |
| <b>First Horizon National Corporation:</b>  |                    |                    |
| Senior capital notes (a)  |                    |                    |
| Maturity date – December 15, 2020 – 3.50%   | 486,739            | 486,513            |
| Junior subordinated debentures (d)  |                    |                    |
| Maturity date – July 31, 2031 – 4.96% on December 31, 2017 (e)                                | -                  | 4,124              |
| Maturity date – July 31, 2031 – 4.96% on December 31, 2017 (e)                                | -                  | 5,155              |
| Maturity date – December 30, 2032 – 5.04% on December 31, 2017 (e)                            | -                  | 5,155              |
| Maturity date – June 26, 2033 – 4.77% on December 31, 2017 (e)                                | -                  | 10,310             |
| Maturity date – October 8, 2033 – 4.21% on December 31, 2017 (e)                              | -                  | 10,310             |
| Maturity date – February 8, 2034 – 4.23% on December 31, 2017 (e)                             | -                  | 10,310             |
| Maturity date – June 28, 2035 – 4.47% on December 31, 2018 and 3.27% on December 31, 2017     | 2,730              | 2,708              |
| Maturity date – December 15, 2035 – 4.16% on December 31, 2018 and 2.96% on December 31, 2017 | 17,456             | 17,270             |
| Maturity date – March 15, 2036 – 4.19% on December 31, 2018 and 2.99% on December 31, 2017    | 8,757              | 8,667              |
| Maturity date – March 15, 2036 – 4.33% on December 31, 2018 and 3.13% on December 31, 2017    | 11,587             | 11,482             |
| Maturity date – June 30, 2036 – 4.12% on December 31, 2018 and 3.01% on December 31, 2017     | 25,931             | 25,646             |
| Maturity date – July 7, 2036 – 3.99% on December 31, 2018 and 2.91% on December 31, 2017      | 17,803             | 17,642             |
| Maturity date – June 15, 2037 – 4.44% on December 31, 2018 and 3.24% on December 31, 2017     | 50,278             | 49,875             |
| Maturity date – September 6, 2037 – 4.17% on December 31, 2018 and 2.94% on December 31, 2017 | 8,713              | 8,627              |
| <b>FT Real Estate Securities Company, Inc.:</b>   |                    |                    |
| Cumulative preferred stock (f)  |                    |                    |
| Maturity date – March 31, 2031 – 9.50%  | 46,168             | 46,100             |
| <b>First Horizon ABS Trusts:</b>  |                    |                    |
| Other collateralized borrowings (g)   |                    |                    |
| Maturity date – October 25, 2034  |                    |                    |
| 2.66% on December 31, 2018 and 1.72% on December 31, 2017                                     | 2,981              | 11,226             |
| <b>First Tennessee New Markets Corporation Investments:</b>                                   |                    |                    |
| Maturity date – October 25, 2018 – 4.97% (e)  | -                  | 7,301              |
| Maturity date – February 1, 2033 – 4.97% (e)  | -                  | 8,000              |
| Maturity date – August 08, 2036 – 2.38%   | 2,699              | 2,699              |
| <b>Total</b>  | <b>\$1,170,963</b> | <b>\$1,218,097</b> |

(a) Changes in the fair value of debt attributable to interest rate risk are hedged. Refer to Note 22 – Derivatives.

(b) Secured by trust preferred loans.

## Note 10 ☐ Term Borrowings (continued)

- (c) Collateralized borrowings associated with SBA loan sales that did not meet sales criteria. The loans have remaining terms of 4 to 26 years. These borrowings had a weighted average interest rate of 3.95 percent and 3.26 percent on December 31, 2018 and 2017, respectively.
- (d) Acquired in conjunction with the acquisition of CBF. A portion qualifies for Tier 2 capital under the risk-based capital guidelines.
- (e) Debt retired during 2018. See Note 21 – Variable Interest Entities for additional information.
- (f) A portion qualifies for Tier 2 capital under the risk-based capital guidelines.
- (g) On December 31, 2018 and 2017, borrowings secured by \$16.2 million and \$24.2 million, respectively, of residential real estate loans.

Annual principal repayment requirements as of December 31, 2018 are as follows:

*(Dollars in thousands)*

|                |           |
|----------------|-----------|
| 2019           | \$400,000 |
| 2020           | 500,000   |
| 2021           | -         |
| 2022           | 369       |
| 2023           | -         |
| 2024 and after | 312,574   |

In conjunction with the acquisition of CBF, FHN acquired junior subordinated debentures with aggregate par values of \$212.4 million. Each of these issuances is held by a wholly owned trust that has issued trust preferred securities to external investors and loaned the funds to FHN, as successor to CBF, as junior subordinated debt. The book value for each issuance represents the purchase accounting fair value as of the closing date less accumulated amortization of the associated discount, as applicable. Through various contractual arrangements FHN assumed a full and unconditional guarantee for each trust's obligations with respect to the securities. While the maturity dates are typically 30 years from the original issuance date, FHN has the option to redeem each of the junior subordinated debentures at par on any future interest payment date, which would trigger redemption of the related trust preferred securities. The junior subordinated debentures are included in the Consolidated Statements of Condition in Term borrowings. A portion of FHN's junior subordinated notes qualify as Tier 2 capital under the risk-based capital guidelines. FHN retired \$45.4 million of this debt and the related trust preferred securities in 2018.

## Note 11 ☐ Preferred Stock

### FHN Preferred Stock

On January 31, 2013, FHN issued 1,000 shares having an aggregate liquidation preference of \$100 million of Non-Cumulative Perpetual Preferred Stock, Series A for net proceeds of approximately \$96 million. Dividends on the Series A Preferred Stock, if declared, accrue and are payable quarterly, in arrears, at a rate of 6.20 percent per annum. For the issuance, FHN issued depository shares, each of which represents a 1/4000th fractional ownership interest in a share of FHN's preferred stock. These securities qualify as Tier 1 capital.

### Subsidiary Preferred Stock

In 2000 FT Real Estate Securities Company, Inc. ("FTRESC"), an indirect subsidiary of FHN, issued 50 shares of 9.50 percent Cumulative Preferred Stock, Class B ("Class B Preferred Shares"), with a liquidation preference of \$1.0 million per share; of those, 47 shares were issued to nonaffiliates. For all periods presented, these securities are presented in the Consolidated Statements of Condition as Term borrowings. 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. At December 31, 2018 the Class B Preferred Shares partially qualified as Tier 2 regulatory capital. They are not subject to any sinking fund and are not convertible into any other securities of FTRESC, FHN, or any of its subsidiaries. In the event FTBNA becomes undercapitalized, insolvent, or in danger of

## Note 11 ☐ Preferred Stock (continued)

becoming undercapitalized, 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.

Additionally for all periods presented, subsidiaries have also issued \$.6 million in aggregate of Cumulative Perpetual Preferred Stock, which has been recognized as Noncontrolling interest on the Consolidated Statements of Condition and which partially qualifies as Tier 2 capital. Other preferred shares are outstanding but are owned by FHN subsidiaries and are eliminated in consolidation.

In 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. Dividends on the Class A Preferred Stock, if declared, accrue and are payable each quarter, in arrears, at a floating rate equal to the greater of the three month LIBOR plus .85 percent or 3.75 percent per annum. These securities qualify fully as Tier 1 capital for FTBNA while for FHN consolidated they qualify partially as Tier 1 capital and partially as Tier 2 capital. On December 31, 2018 and 2017, \$294.8 million of Class A Preferred Stock was recognized as Noncontrolling interest on the Consolidated Statements of Condition.

## Note 12 ☐ Regulatory Capital and Restrictions

**Regulatory Capital.** FHN and FTBNA are 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 such as capital components, asset risk weightings, and other factors. Quantitative measures established by regulation to ensure capital adequacy require FHN and FTBNA to maintain minimum amounts and ratios of Total, Tier 1, and Common Equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets ("Leverage"). Management believes that, as of December 31, 2018, FHN and FTBNA met all capital adequacy requirements to which they were subject.

**Note 12 ☐ Regulatory Capital and Restrictions (continued)**

The actual capital amounts and ratios of FHN and FTBNA are presented in the table below.

| <i>(Dollars in thousands)</i>  | First Horizon<br>National Corporation |        | First Tennessee Bank<br>National Association |        |
|--|---------------------------------------|--------|--|--------|
|  | Amount                                | Ratio  | Amount                                       | Ratio  |
| <b>On December 31, 2018</b>  |                                       |        |  |        |
| Actual:  |                                       |        |  |        |
| Total Capital  | \$3,940,117                           | 11.94% | \$3,689,180                                  | 11.32% |
| Tier 1 Capital   | 3,565,373                             | 10.80  | 3,492,541                                    | 10.72  |
| Common Equity Tier 1   | 3,223,702                             | 9.77   | 3,197,725                                    | 9.81   |
| Leverage   | 3,565,373                             | 9.09   | 3,492,541                                    | 9.10   |
| Minimum Requirement for Capital Adequacy Purposes:                                       |                                       |        |  |        |
| Total Capital  | 2,640,208                             | 8.00   | 2,607,406                                    | 8.00   |
| Tier 1 Capital   | 1,980,156                             | 6.00   | 1,955,555                                    | 6.00   |
| Common Equity Tier 1   | 1,485,117                             | 4.50   | 1,466,666                                    | 4.50   |
| Leverage   | 1,568,870                             | 4.00   | 1,535,279                                    | 4.00   |
| Minimum Requirement to be Well Capitalized Under Prompt Corrective<br>Action Provisions: |                                       |        |  |        |
| Total Capital  |                                       |        | 3,259,258                                    | 10.00  |
| Tier 1 Capital   |                                       |        | 2,607,406                                    | 8.00   |
| Common Equity Tier 1   |                                       |        | 2,118,518                                    | 6.50   |
| Leverage   |                                       |        | 1,919,099                                    | 5.00   |
| <b>On December 31, 2017</b>  |                                       |        |  |        |
| Actual:  |                                       |        |  |        |
| Total Capital  | \$3,703,754                           | 11.10% | \$3,520,670                                  | 10.74% |
| Tier 1 Capital   | 3,281,478                             | 9.83   | 3,317,684                                    | 10.12  |
| Common Equity Tier 1   | 2,962,155                             | 8.88   | 3,041,420                                    | 9.28   |
| Leverage   | 3,281,478                             | 10.31  | 3,317,684                                    | 10.70  |
| Minimum Requirement for Capital Adequacy Purposes:                                       |                                       |        |  |        |
| Total Capital  | 2,669,910                             | 8.00   | 2,622,924                                    | 8.00   |
| Tier 1 Capital   | 2,002,433                             | 6.00   | 1,967,193                                    | 6.00   |
| Common Equity Tier 1   | 1,501,824                             | 4.50   | 1,475,395                                    | 4.50   |
| Leverage   | 1,272,990                             | 4.00   | 1,240,647                                    | 4.00   |
| Minimum Requirement to be Well Capitalized Under Prompt Corrective<br>Action Provisions: |                                       |        |  |        |
| Total Capital  |                                       |        | 3,278,655                                    | 10.00  |
| Tier 1 Capital   |                                       |        | 2,622,924                                    | 8.00   |
| Common Equity Tier 1   |                                       |        | 2,131,126                                    | 6.50   |
| Leverage   |                                       |        | 1,550,809                                    | 5.00   |

**Restrictions on cash and due from banks.** Under the Federal Reserve Act and Regulation D, FTBNA is required to maintain a certain amount of cash reserves. On December 31, 2018 and 2017, FTBNA's net required reserves were \$371.7 million and \$278.4 million, respectively, after the consideration of \$273.7 million and \$255.2 million in average vault cash. The remaining net reserve requirement for each year was met with Federal Reserve Bank deposits. Vault cash is reflected in Cash and due from banks on the Consolidated Statements of Condition and Federal Reserve Bank deposits are reflected as Interest-bearing cash.

**Restrictions on dividends.** Cash dividends are paid by FHN from its assets, which are mainly provided by dividends from its subsidiaries. Certain regulatory restrictions exist regarding the ability of FTBNA to transfer funds to FHN in the form of cash, dividends, loans, or advances. As of December 31, 2018, FTBNA had undivided profits of \$1.0 billion, of which a limited amount was available for distribution to FHN as dividends without prior regulatory approval. Certain regulatory restrictions exist regarding the ability of FTBNA to transfer funds to FHN in the form of cash, dividends, loans, and advances. At any given time, the pertinent portions of those regulatory restrictions allow FTBNA to declare preferred or common dividends without prior regulatory approval in an amount equal to FTBNA's retained net income for the two most recent completed years plus the current year to date. For any period, FTBNA's 'retained net income' generally is equal to FTBNA's regulatory net income reduced by the preferred and common dividends declared by FTBNA. Excess dividends in either of the two most recent completed years may be

## Note 12 ☐ Regulatory Capital and Restrictions (continued)

offset with available retained net income in the two years immediately preceding it. Applying the dividend restrictions imposed under applicable federal rules, FTBNA's total amount available for dividends was positive \$222.0 million at December 31, 2018 and positive \$156.2 million at January 1, 2019. FTBNA declared and paid common dividends to the parent company in the amount of \$420.0 million in 2018 and \$250.0 million in 2017, with OCC approval as necessary. In January 2019, FTBNA declared and paid a common dividend to the parent company in the amount of \$110.0 million. During 2018 and 2017, FTBNA declared and paid dividends on its preferred stock quarterly, with OCC approval as necessary. Additionally, FTBNA declared preferred dividends in first quarter 2019 payable in April 2019.

The payment of cash dividends by FHN and FTBNA may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. Beginning January 1, 2016, the ability to pay dividends has been restricted if capital ratios fall below regulatory minimums plus a prescribed capital conservation buffer. The capital conservation requirement has been subject to a four-year phase-in period, reaching 2.5% above the minimum CET1, Tier 1, and Total capital ratios at January 1, 2019. Capital ratios required to be considered well-capitalized exceed the capital conservation buffer requirement at December 31, 2018. Furthermore, the Federal Reserve and the OCC generally require insured banks and bank holding companies only to pay dividends out of current operating earnings. Consequently, the decision of whether FHN will pay future dividends and the amount of dividends will be affected by current operating results.

**Restrictions on intercompany transactions.** Under current Federal banking law, FTBNA may not enter into covered transactions with any affiliate including the parent company and certain financial subsidiaries in excess of 10 percent of the bank's capital stock and surplus, as defined, or \$405.0 million, on December 31, 2018. Covered transactions include a loan or extension of credit to an affiliate, a purchase of or an investment in securities issued by an affiliate and the acceptance of securities issued by the affiliate as collateral for any loan or extension of credit. The equity investment, including retained earnings, in certain of a bank's financial subsidiaries is also treated as a covered transaction. The parent company had covered transactions of \$.8 million from FTBNA and the bank's financial subsidiary, FTN Financial Securities Corp., had a total equity investment from FTBNA of \$360.9 million on December 31, 2018. In addition, the aggregate amount of covered transactions with all affiliates, as defined, is limited to 20 percent of the bank's capital stock and surplus, as defined, or \$810.0 million, on December 31, 2018. FTBNA's total covered transactions with all affiliates including the parent company on December 31, 2018 were \$361.7 million.

### Note 13 ☐ Other Income and Other Expense

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

| <i>(Dollars in thousands)</i>   | <b>2018</b>      | 2017      | 2016      |
|---|------------------|-----------|-----------|
| <b>All other income and commissions:</b>                                |                  |           |           |
| Other service charges   | <b>\$ 15,122</b> | \$ 12,532 | \$ 11,731 |
| ATM and interchange fees  | <b>13,354</b>    | 12,425    | 11,965    |
| Mortgage banking  | <b>10,587</b>    | 4,649     | 10,215    |
| Dividend income (a)   | <b>10,555</b>    | -         | -         |
| Letter of credit fees   | <b>5,298</b>     | 4,661     | 4,103     |
| Electronic banking fees   | <b>5,134</b>     | 5,082     | 5,477     |
| Insurance commissions   | <b>2,096</b>     | 2,514     | 2,981     |
| Gain/(loss) on extinguishment of debt (b)                               | <b>(15)</b>      | (14,329)  | -         |
| Deferred compensation (c)   | <b>(3,224)</b>   | 6,322     | 3,025     |
| Other   | <b>19,488</b>    | 11,029    | 14,734    |
| <b>Total</b>  | <b>\$ 78,395</b> | \$ 44,885 | \$ 64,231 |
| <b>All other expense:</b>   |                  |           |           |
| Travel and entertainment  | <b>\$ 16,442</b> | \$ 11,462 | \$ 10,275 |
| Other insurance and taxes   | <b>9,684</b>     | 9,686     | 10,891    |
| Employee training and dues  | <b>7,218</b>     | 5,551     | 5,691     |
| Supplies  | <b>6,917</b>     | 4,106     | 4,434     |
| Customer relations  | <b>5,583</b>     | 5,750     | 6,255     |
| Non-service components of net periodic pension and post-retirement cost | <b>5,251</b>     | 2,144     | (666)     |
| Tax credit investments  | <b>4,712</b>     | 3,468     | 3,349     |
| Miscellaneous loan costs  | <b>3,732</b>     | 2,751     | 2,586     |
| OREO  | <b>2,630</b>     | 1,006     | 773       |
| Litigation and regulatory matters                                       | <b>644</b>       | 40,517    | 30,469    |
| Other (d)   | <b>73,223</b>    | 48,693    | 41,391    |
| <b>Total</b>  | <b>\$136,036</b> | \$135,134 | \$115,448 |

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2017-07 "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." See Note 1 – Summary of Significant Accounting Policies for additional information.

- (a) Effective January 1, 2018, FHN adopted ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" and began recording dividend income from FRB and FHLB holdings in Other income. Prior to 2018, these amounts were included in Interest income on the Consolidated Statements of Income.
- (b) Loss on extinguishment of debt for 2017 relates to the repurchase of equity securities previously included in a financing transaction.
- (c) Amounts are driven by market conditions and are mirrored by changes in deferred compensation expense which is included in employee compensation expense.
- (d) Expense increase for 2018 largely attributable to an increase in acquisition- and integration-related expense primarily associated with the CBF acquisition. See Note 2 – Acquisitions and Divestitures for additional information.



## Note 14 ☐ Components of Other Comprehensive Income/(Loss)

The following table provides the changes in accumulated other comprehensive income/(loss) by component, net of tax, for the years ended December 31, 2018, 2017, and 2016:

| <i>(Dollars in thousands)</i>                                 | Securities AFS    | Cash Flow Hedges  | Pension and Post-retirement Plans | Total              |
|---|-------------------|-------------------|-----------------------------------|--------------------|
| Balance as of December 31, 2015                               | \$ 3,394          | \$ -              | \$(217,586)                       | \$(214,192)        |
| Net unrealized gains/(losses)                                 | (19,709)          | 130               | (16,322)                          | (35,901)           |
| Amounts reclassified from AOCI                                | (917)             | (1,395)           | 4,751                             | 2,439              |
| Other comprehensive income/(loss)                             | (20,626)          | (1,265)           | (11,571)                          | (33,462)           |
| Balance as of December 31, 2016                               | (17,232)          | (1,265)           | (229,157)                         | (247,654)          |
| Net unrealized gains/(losses)                                 | (4,467)           | (2,156)           | (13,377)                          | (20,000)           |
| Amounts reclassified from AOCI                                | (298)             | (2,945)           | 5,618                             | 2,375              |
| Other comprehensive income/(loss)                             | (4,765)           | (5,101)           | (7,759)                           | (17,625)           |
| Balance as of December 31, 2017                               | (21,997)          | (6,366)           | (236,916)                         | (265,279)          |
| Adjustment to reflect adoption of ASU 2018-02                 | (4,837)           | (1,398)           | (51,311)                          | (57,546)           |
| Balance as of December 31, 2017, as adjusted                  | (26,834)          | (7,764)           | (288,227)                         | (322,825)          |
| Adjustment to reflect adoption of ASU 2016-01 and ASU 2017-12 | (5)               | (206)             | -                                 | (211)              |
| Beginning balance, as adjusted                                | <b>(26,839)</b>   | <b>(7,970)</b>    | <b>(288,227)</b>                  | <b>(323,036)</b>   |
| Net unrealized gains/(losses)                                 | <b>(48,858)</b>   | <b>(6,284)</b>    | <b>(9,435)</b>                    | <b>(64,577)</b>    |
| Amounts reclassified from AOCI                                | <b>(39)</b>       | <b>2,142</b>      | <b>8,894</b>                      | <b>10,997</b>      |
| Other comprehensive income/(loss)                             | <b>(48,897)</b>   | <b>(4,142)</b>    | <b>(541)</b>                      | <b>(53,580)</b>    |
| <b>Balance as of December 31, 2018</b>                        | <b>\$(75,736)</b> | <b>\$(12,112)</b> | <b>\$(288,768)</b>                | <b>\$(376,616)</b> |

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

| <i>(Dollars in thousands)</i>                                    |                 |          |           | Affected line item in the statement where net income is presented |
|--|-----------------|----------|-----------|---|
| Details about AOCI   | 2018            | 2017     | 2016      |   |
| Securities AFS:  |                 |          |           |   |
| Realized (gains)/losses on securities AFS                        | <b>\$ (52)</b>  | \$ (483) | \$(1,485) | Debt securities gains/(losses), net                               |
| Tax expense/(benefit)  | <b>13</b>       | 185      | 568       | Provision/(benefit) for income taxes                              |
|  | <b>(39)</b>     | (298)    | (917)     |   |
| Cash flow hedges:  |                 |          |           |   |
| Realized (gains)/losses on cash flow hedges                      | <b>2,845</b>    | (4,771)  | (2,260)   | Interest and fees on loans  |
| Tax expense/(benefit)  | <b>(703)</b>    | 1,826    | 865       | Provision/(benefit) for income taxes                              |
|  | <b>2,142</b>    | (2,945)  | (1,395)   |   |
| Pension and Postretirement Plans:                                |                 |          |           |   |
| Amortization of prior service cost and net actuarial gain/(loss) | <b>11,814</b>   | 9,101    | 7,697     | All other expense   |
| Tax expense/(benefit)  | <b>(2,920)</b>  | (3,483)  | (2,946)   | Provision/(benefit) for income taxes                              |
|  | <b>8,894</b>    | 5,618    | 4,751     |   |
| Total reclassification from AOCI                                 | <b>\$10,997</b> | \$ 2,375 | \$ 2,439  |   |

## Note 15 ☐ Income Taxes

The aggregate amount of income taxes included in the Consolidated Statements of Income and the Consolidated Statements of Equity for the years ended December 31, were as follows:

| <i>(Dollars in thousands)</i>   | <b>2018</b>      | 2017      | 2016      |
|---|------------------|-----------|-----------|
| <b>Consolidated Statements of Income:</b>                               |                  |           |           |
| Income tax expense/(benefit)  | <b>\$157,602</b> | \$131,892 | \$106,810 |
| <b>Consolidated Statements of Equity:</b>                               |                  |           |           |
| Income tax expense/(benefit) related to:                                |                  |           |           |
| Net unrealized gains/(losses) on pension and other postretirement plans | <b>(177)</b>     | (832)     | (7,172)   |
| Net unrealized gains/(losses) on securities available-for-sale          | <b>(16,054)</b>  | (2,955)   | (12,810)  |
| Net unrealized gains/(losses) on cash flow hedges                       | <b>(1,360)</b>   | (3,163)   | (780)     |
| Share based compensation  | -                | -         | (1,613)   |
| <b>Total</b>  | <b>\$140,011</b> | \$124,942 | \$ 84,435 |

The components of income tax expense/(benefit) for the years ended December 31, were as follows:

| <i>(Dollars in thousands)</i> | <b>2018</b>      | 2017      | 2016      |
|-------------------------------|------------------|-----------|-----------|
| Current:                      |                  |           |           |
| Federal                       | <b>\$ 44,088</b> | \$ 10,012 | \$ 25,234 |
| State                         | <b>9,957</b>     | 879       | 1,803     |
| Foreign                       | -                | -         | 169       |
| Deferred:                     |                  |           |           |
| Federal                       | <b>81,852</b>    | 114,059   | 67,109    |
| State                         | <b>21,705</b>    | 6,942     | 12,495    |
| <b>Total</b>                  | <b>\$157,602</b> | \$131,892 | \$106,810 |

The Tax Cuts and Jobs Act “Tax Act” was signed into law at the end of 2017. The Tax Act reduced the federal statutory tax rate from 35 percent to 21 percent effective January 1, 2018. FHN recorded approximately \$82 million of increase in tax expense related to the effects of the Tax Act during 2017 which was primarily related to an adjustment of DTA balances to the lower federal tax rate. In 2018, FHN recorded a tax benefit of \$6.7 million related to the finalization of tax items for the 2017 tax return.

A reconciliation of expected income tax expense/(benefit) at the federal statutory rate of 21 percent for 2018 and 35 percent for 2017 and 2016, respectively, to the total income tax expense follows:

| <i>(Dollars in thousands)</i>                         | <b>2018</b>      | 2017      | 2016      |
|---|------------------|-----------|-----------|
| Federal income tax rate                               | <b>21%</b>       | 35%       | 35%       |
| Tax computed at statutory rate                        | <b>\$149,963</b> | \$108,105 | \$120,862 |
| Increase/(decrease) resulting from:                   |                  |           |           |
| State income taxes, net of federal income tax benefit | <b>24,553</b>    | 4,753     | 9,918     |
| Bank-owned life insurance (“BOLI”)                    | <b>(3,626)</b>   | (8,401)   | (5,661)   |
| 401(k) – employee stock ownership plan (“ESOP”)       | <b>(653)</b>     | (904)     | (824)     |
| Tax-exempt interest                                   | <b>(6,538)</b>   | (7,890)   | (7,098)   |
| Non-deductible expenses                               | <b>8,301</b>     | 7,558     | 1,079     |
| LIHTC credits and benefits, net of amortization       | <b>(7,178)</b>   | (5,327)   | (6,165)   |
| Other tax credits                                     | <b>(2,825)</b>   | (2,480)   | (3,886)   |
| Change in valuation allowance – DTA                   | <b>(73)</b>      | (40,473)  | (116)     |
| Other changes in unrecognized tax benefits            | <b>6,143</b>     | 46        | 616       |
| Effect of Tax Act                                     | <b>(6,746)</b>   | 82,027    | -         |
| Other   | <b>(3,719)</b>   | (5,122)   | (1,915)   |
| <b>Total</b>  | <b>\$157,602</b> | \$131,892 | \$106,810 |

## Note 15 ☐ Income Taxes (continued)

As of December 31, 2018, FHN had net deferred tax asset balances related to federal and state income tax carryforwards of \$49.8 million and \$7.2 million, respectively, which will expire at various dates as follows:

| <i>(Dollars in thousands)</i> | Expiration Dates | Net Deferred Tax<br>Asset Balance |
|-------------------------------|------------------|-----------------------------------|
| Losses-federal                | 2028-2033        | \$49,821                          |
| Net operating losses-states   | 2019-2023        | 166                               |
| Net operating losses-states   | 2024-2035        | 7,059                             |

A deferred tax asset (“DTA”) or deferred tax liability (“DTL”) is recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax consequence is calculated by applying enacted statutory tax rates, applicable to future years, to these temporary differences. In order to support the recognition of the DTA, FHN’s management must believe that the realization of the DTA is more likely than not. FHN evaluates the likelihood of realization of the DTA based on both positive and negative evidence available at the time, including (as appropriate) scheduled reversals of DTLs, projected future taxable income, tax planning strategies, and recent financial performance. Realization is dependent on generating sufficient taxable income prior to the expiration of the carryforwards attributable to the DTA. In projecting future taxable income, FHN incorporates assumptions including the estimated amount of future state and federal pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates used to manage the underlying business.

As of December 31, 2018, FHN’s net DTA was \$127.9 million compared with the \$221.8 million at December 31, 2017. FHN’s gross DTA (net of a valuation allowance) and gross DTL were \$254.6 million and \$126.8 million, respectively. Although realization is not assured, FHN believes that it meets the more-likely-than-not requirement with respect to the net DTA after valuation allowance.

Temporary differences which gave rise to deferred tax assets and deferred tax liabilities on December 31, 2018 and 2017 were as follows:

| <i>(Dollars in thousands)</i>                 | 2018             | 2017      |
|---|------------------|-----------|
| <b>Deferred tax assets:</b>                   |                  |           |
| Loss reserves                                 | <b>\$ 65,015</b> | \$ 91,390 |
| Employee benefits                             | <b>64,843</b>    | 50,404    |
| Equity investments                            | -                | 28,547    |
| Accrued expenses                              | <b>15,763</b>    | 16,052    |
| Credit carryforwards                          | -                | 64,835    |
| Federal loss carryforwards                    | <b>49,821</b>    | 62,010    |
| State loss carryforwards                      | <b>7,225</b>     | 19,801    |
| Investment in debt securities (ASC 320) (a)   | <b>24,863</b>    | 8,811     |
| Other   | <b>27,168</b>    | 11,512    |
| Gross deferred tax assets                     | <b>254,698</b>   | 353,362   |
| Valuation allowance                           | <b>(74)</b>      | (147)     |
| Deferred tax assets after valuation allowance | <b>\$254,624</b> | \$353,215 |
| <b>Deferred tax liabilities:</b>              |                  |           |
| Depreciation and amortization                 | <b>51,519</b>    | \$ 43,040 |
| Equity investments                            | <b>7,705</b>     | -         |
| Other intangible assets                       | <b>57,632</b>    | 55,923    |
| Prepaid expenses                              | <b>9,218</b>     | 9,255     |
| Real estate investment trust income           | -                | 22,576    |
| Other   | <b>683</b>       | 602       |
| Gross deferred tax liabilities                | <b>126,757</b>   | 131,396   |
| Net deferred tax assets                       | <b>\$127,867</b> | \$221,819 |

(a) Tax effects of unrealized gains and losses are tracked on a security-by-security basis.

**Note 15 ☐ Income Taxes (continued)**

The total unrecognized tax benefits (“UTB”) at December 31, 2018 and 2017, was \$20.2 million and \$4.3 million, respectively. To the extent such unrecognized tax benefits as of December 31, 2018 are subsequently recognized, \$17.0 million of tax benefits would impact tax expense and FHN’s effective tax rate in future periods.

FHN is currently in audit in several jurisdictions. It is reasonably possible that the UTB related to federal and state exposures could decrease by \$6.7 million and \$.9 million, respectively during 2019 if audits are completed and settled and if the applicable statutes of limitations expire as scheduled.

FHN recognizes interest accrued and penalties related to UTB within income tax expense. FHN had approximately \$1.6 million and \$.4 million accrued for the payment of interest as of December 31, 2018 and 2017, respectively. The total amount of interest and penalties recognized in the Consolidated Statements of Income during 2018 and 2017 was an expense of \$1.3 million and \$.1 million, respectively.

The rollforward of unrecognized tax benefits is shown below:

*(Dollars in thousands)*

|  |                 |
|--|-----------------|
| Balance at December 31, 2016                           | \$ 4,244        |
| Increases related to prior year tax positions          | 33              |
| Increases related to current year tax positions        | 174             |
| Lapse of statutes                                      | (180)           |
| Balance at December 31, 2017                           | \$ 4,271        |
| <b>Increases related to prior year tax positions</b>   | <b>16,695</b>   |
| <b>Increases related to current year tax positions</b> | <b>1,576</b>    |
| <b>Settlements</b>                                     | <b>(2,080)</b>  |
| <b>Lapse of statutes</b>                               | <b>(278)</b>    |
| <b>Balance at December 31, 2018</b>                    | <b>\$20,184</b> |

**Note 16 ☐ Earnings Per Share**

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

*(Dollars and shares in thousands, except per share data)*

|   | <b>2018</b>      | 2017      | 2016      |
|---|------------------|-----------|-----------|
| <b>Net income/(loss)</b>  | <b>\$556,507</b> | \$176,980 | \$238,511 |
| Net income attributable to noncontrolling interest                      | <b>11,465</b>    | 11,465    | 11,465    |
| Net income/(loss) attributable to controlling interest                  | <b>545,042</b>   | 165,515   | 227,046   |
| Preferred stock dividends   | <b>6,200</b>     | 6,200     | 6,200     |
| <b>Net income/(loss) available to common shareholders</b>               | <b>\$538,842</b> | \$159,315 | \$220,846 |
| Weighted average common shares outstanding – basic                      | <b>324,375</b>   | 241,436   | 232,700   |
| Effect of dilutive securities   | <b>3,070</b>     | 3,017     | 2,592     |
| Weighted average common shares outstanding – diluted                    | <b>327,445</b>   | 244,453   | 235,292   |
| <b>Net income/(loss) per share available to common shareholders</b>     | <b>\$ 1.66</b>   | \$ 0.66   | \$ 0.95   |
| <b>Diluted income/(loss) per share available to common shareholders</b> | <b>\$ 1.65</b>   | \$ 0.65   | \$ 0.94   |

## Note 16 ☐ Earnings Per Share (continued)

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

| <i>(Shares in thousands)</i>  | <b>2018</b>    | 2017    | 2016    |
|---|----------------|---------|---------|
| Stock options excluded from the calculation of diluted EPS                                    | <b>2,256</b>   | 2,468   | 2,610   |
| Weighted average exercise price of stock options excluded from the calculation of diluted EPS | <b>\$24.33</b> | \$25.62 | \$26.29 |
| Other equity awards excluded from the calculation of diluted EPS                              | <b>608</b>     | 176     | 37      |

## Note 17 ☐ Contingencies and Other Disclosures

### **CONTINGENCIES**

#### ***Contingent Liabilities Overview***

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

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

#### ***Material Loss Contingency Matters***

##### **Summary**

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

## **Note 17 ☐ Contingencies and Other Disclosures (continued)**

origination and servicing businesses. In all litigation matters discussed, unless settled or otherwise resolved, FHN believes it has meritorious defenses and intends to pursue those defenses vigorously.

FHN reassesses the liability for litigation matters each quarter as the matters progress. At December 31, 2018, the aggregate amount of liabilities established for all such loss contingency matters was \$32.9 million. These liabilities are separate from those discussed under the heading “Loan Repurchase and Foreclosure Liability” below.

In each material loss contingency matter, except as otherwise noted, there is more than a remote chance that any of the following outcomes will occur: the plaintiff will substantially prevail; the defense will substantially prevail; the plaintiff will prevail in part; or the matter will be settled by the parties. At December 31, 2018, FHN estimates that for all material loss contingency matters, estimable reasonably possible losses in future periods in excess of currently established liabilities could aggregate in a range from zero to approximately \$20 million.

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

### *Material Matters*

FHN is defending a suit claiming material deficiencies in the offering documents under which certificates relating to First Horizon branded proprietary securitizations were sold under FHN’s former (pre-2009) mortgage business: Federal Deposit Insurance Corporation (“FDIC”) as receiver for Colonial Bank, in the U.S. District Court for the Southern District of New York (Case No. 12 Civ. 6166 (LLS)(MHD)). The plaintiff in that suit claims to have purchased (and later sold) certificates totaling \$83.4 million, relating to a number of separate securitizations. Plaintiff demands damages and prejudgment interest, among several remedies sought. The current liability and RPL estimates for this matter are subject to significant uncertainties regarding: the dollar amounts claimed; the potential remedies that might be available or awarded; the outcome of settlement discussions; the availability of significantly dispositive defenses; and the incomplete status of the discovery process.

### *Other Former Mortgage Business Exposures*

FHN has received indemnity claims from underwriters and others related to lawsuits as to which investors or others claimed to have purchased certificates in FHN proprietary securitizations but as to which FHN was not named a defendant. For most pending indemnity claims involving proprietary securitizations, FHN is unable to estimate an RPL range due to significant uncertainties regarding: claims as to which the claimant specifies no dollar amount; the potential remedies that might be available or awarded; the availability of significantly dispositive defenses such as statutes of limitations or repose; the outcome of potentially dispositive early-stage motions such as motions to dismiss; the incomplete status of the discovery process; the lack of a precise statement of damages; inability to identify specific loans and/or breaches that are the source of the claim; lack of specific grounds to trigger FHN’s indemnity obligation; and lack of precedent claims. The alleged purchase prices of the certificates subject to pending indemnification claims, excluding the FDIC-Colonial Bank matter mentioned above, total \$231.2 million.

FHN is contending with indemnification claims related to “other whole loans sold,” which were mortgage loans originated by FHN before 2009 and sold outside of an FHN securitization. These claims generally assert that FHN-originated loans contributed to claimant’s losses in connection with settlements that claimant paid to various third parties in connection with mortgage loans securitized by claimant. The claims generally do not include specific deficiencies for specific loans sold by FHN. Instead, the claims generally assert that FHN is liable for a share of the claimant’s loss estimated by assessing the totality of the other whole loans sold by FHN to claimant in relation to the totality of the larger number of loans securitized by claimant. FHN is unable to estimate an RPL range for these matters due to significant uncertainties regarding: the number of, and the facts underlying, the loan originations which claimants assert are indemnifiable; the applicability of FHN’s contractual indemnity covenants to

## **Note 17 ☐ Contingencies and Other Disclosures (continued)**

those facts and originations; and, in those cases where an indemnity claim may be supported, whether any legal defenses, counterclaims, other counter-positions, or third-party claims might eliminate or reduce claims against FHN or their impact on FHN.

FHN also has indemnification claims related to servicing obligations. The most significant is from Nationstar Mortgage LLC, currently doing business as “Mr. Cooper.” Nationstar was the purchaser of FHN’s mortgage servicing obligations and assets in 2013 and 2014 and, starting in 2011, was FHN’s servicer. Nationstar asserts several categories of indemnity obligations in connection with mortgage loans under the subservicing arrangement and under the purchase transaction. This matter currently is not in litigation, but litigation in the future is possible. FHN is unable to estimate an RPL range for this matter due to significant uncertainties regarding: the exact nature of each of Nationstar’s claims and its position in respect of each; the number of, and the facts underlying, the claimed instances of indemnifiable events; the applicability of FHN’s contractual indemnity covenants to those facts and events; and, in those cases where the facts and events might support an indemnity claim, whether any legal defenses, counterclaims, other counter-positions, or thirdparty claims might eliminate or reduce claims against FHN or their impact on FHN.

FHN has additional potential exposures related to its former mortgage businesses. A few of those matters have become litigation which FHN currently estimates are immaterial, some are non-litigation claims or threats, some are mere subpoenas or other requests for information, and in some areas FHN has no indication of any active or threatened dispute. Some of those matters might eventually result in settlements, and some might eventually result in adverse litigation outcomes, but none are included in the material loss contingency liabilities mentioned above or in the RPL range mentioned above.

### **Mortgage Loan Repurchase and Foreclosure Liability**

The repurchase and foreclosure liability is comprised of accruals to cover estimated loss content in the active pipeline (consisting of mortgage loan repurchase, make-whole, foreclosure/servicing demands and certain related exposures), estimated future inflows, and estimated loss content related to certain known claims not currently included in the active pipeline. FHN compares the estimated probable incurred losses determined under the applicable loss estimation approaches for the respective periods with current reserve levels. Changes in the estimated required liability levels are recorded as necessary through the repurchase and foreclosure provision.

Based on currently available information and experience to date, FHN has evaluated its loan repurchase, make-whole, foreclosure, and certain related exposures and has accrued for losses of \$32.3 million and \$34.2 million as of December 31, 2018 and 2017, respectively, including a smaller amount related to equity-lending junior lien loan sales. Accrued liabilities for FHN’s estimate of these obligations are reflected in Other liabilities on the Consolidated Statements of Condition. Charges/expense reversals to increase/decrease the liability are included within Repurchase and foreclosure provision/(provision credit) on the Consolidated Statements of Income. The estimates are based upon currently available information and fact patterns that exist as of each balance sheet date and could be subject to future changes. Changes to any one of these factors could significantly impact the estimate of FHN’s liability.

## **OTHER DISCLOSURES**

### ***Visa Matters***

FHN is a member of the Visa USA network. In October 2007, the Visa organization of affiliated entities completed a series of global restructuring transactions to combine its affiliated operating companies, including Visa USA, under a single holding company, Visa Inc. (“Visa”). Upon completion of the reorganization, the members of the Visa USA network remained contingently liable for certain Visa litigation matters (the “Covered Litigation”). Based on its proportionate membership share of Visa USA, FHN recognized a contingent liability in fourth quarter 2007 related to this contingent obligation. In March 2008, Visa completed its initial public offering (“IPO”) and funded

## **Note 17 ☐ Contingencies and Other Disclosures (continued)**

an escrow account from its IPO proceeds to be used to make payments related to the Visa litigation matters. FHN received approximately 2.4 million Class B shares in conjunction with Visa's IPO.

FHN executed sales of its Visa Class B shares in December 2010, September 2011 and September 2018, resulting in the complete disposition of its holdings of these shares and relief from the contingent liability. In each sale FHN and the purchasers entered into derivative transactions whereby FHN will make, or receive, cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. See Note 22 – Derivatives for further discussion of these transactions.

### ***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 by such agreements.

## **Note 18 ☐ Pension, Savings, and Other Employee Benefits**

***Pension plan.*** FHN sponsors a noncontributory, qualified defined benefit pension plan to employees hired or re-hired on or before September 1, 2007. Pension benefits are based on years of service, average compensation near retirement or other termination, and estimated social security benefits at age 65. Benefits under the plan are "frozen" so that years of service and compensation changes after 2012 do not affect the benefit owed. Minimum contributions are based upon actuarially determined amounts necessary to fund the total benefit obligation. Decisions to contribute to the plan are based upon pension funding requirements under the Pension Protection Act, the maximum amount deductible under the Internal Revenue Code, the actual performance of plan assets, and trends in the regulatory environment. FHN contributed \$165 million to the qualified pension plan in third quarter 2016. The contribution had no effect on FHN's 2016 Consolidated Statements of Income. FHN did not make any contributions to the qualified pension plan in 2017 and made an insignificant contribution to the qualified pension plan in 2018. Management does not currently anticipate that FHN will make a contribution to the qualified pension plan in 2019.

FHN assumed two additional qualified pension plans in conjunction with the CBF acquisition. FHN conformed the actuarial assumptions used in measuring the acquired plans to those used for its qualified plan in the purchase accounting valuation. Both legacy CBF plans are frozen. At the closing of FHN's merger with CBF, those plans had an aggregate benefit obligation of \$18.5 million and aggregate plan assets of \$13.2 million. FHN contributed \$5.1 million to these plans in December 2017. As of December 31, 2018 and 2017, the aggregate benefit obligation for the plans was \$17.1 million and \$18.7 million, respectively, and aggregate plan assets were \$16.5 million and \$18.6 million, respectively. Benefit payments, expense and actuarial gains/losses related to these plans were insignificant for 2018 and 2017. After the contribution, FHN re-allocated plan assets into fixed income investments (primarily Level 1 mutual funds) with durations similar to those for the projected benefit obligation. Additional funding amounts to these plans are dependent upon the potential settlement of the plans. Due to the insignificant financial statement impact, these two plans are not included in the disclosures that follow.

FHN also maintains non-qualified plans including a supplemental retirement plan that covers certain employees whose benefits under the qualified pension plan have been limited by tax rules. These other non-qualified plans are unfunded, and contributions to these plans cover all benefits paid under the non-qualified plans. Payments made under the non-qualified plans were \$5.8 million for 2018. FHN anticipates making benefit payments under the non-qualified plans of \$5.2 million in 2019.

***Savings plan.*** FHN provides all qualifying full-time employees with the opportunity to participate in FHN's tax qualified 401(k) savings plan. The qualified plan allows employees to defer receipt of earned salary, up to tax law



**Note 18 ☐ Pension, Savings, and Other Employee Benefits (continued)**

limits, on a tax- advantaged basis. Accounts, which are held in trust, may be invested in a wide range of mutual funds and in FHN common stock. Up to tax law limits, FHN provides a 100 percent match for the first 6 percent of salary deferred, with company matching contributions invested according to a participant's current investment election. Through a non-qualified savings restoration plan, FHN provides a restorative benefit to certain highly-compensated employees who participate in the savings plan and whose contribution elections are capped by tax limitations.

FHN also provides "flexible dollars" to assist employees with the cost of annual benefits and/or allow the employee to contribute to his or her qualified savings plan account. These "flexible dollars" are pre-tax contributions and are based upon the employees' years of service and qualified compensation. Contributions made by FHN through the flexible benefits plan and the company matches were \$29.3 million for 2018, \$23.0 million for 2017, and \$21.6 million for 2016.

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

**Actuarial assumptions.** FHN's process for developing the long-term expected rate of return of pension plan assets is based on capital market exposure as the source of investment portfolio returns. Capital market exposure refers to the plan's allocation of its assets to asset classes, which primarily represent fixed income investments. FHN also considers expectations for inflation, real interest rates, and various risk premiums based primarily on the historical risk premium for each asset class. The expected return is based upon a thirty year time horizon. Since the contribution made in 2016, the asset allocation strategy for the qualified pension plan utilizes fixed income instruments that more closely match the estimated duration of payment obligations. Consequently, FHN selected a 4.20 percent assumption for 2018 for the qualified defined benefit pension plan and a 2.15 percent assumption for postretirement medical plan assets dedicated to employees who retired prior to January 1, 1993. FHN selected a 5.95 percent assumption for 2018 for postretirement medical plan assets dedicated to employees who retired after January 1, 1993.

The discount rates for the three years ended 2018 for pension and other benefits were determined by using a hypothetical AA yield curve represented by a series of annualized individual discount rates from one-half to thirty years. The discount rates are selected based upon data specific to FHN's plans and employee population. The bonds used to create the hypothetical yield curve were subjected to several requirements to ensure that the resulting rates were representative of the bonds that would be selected by management to fulfill the company's funding obligations. In addition to the AA rating, only non-callable bonds were included. Each bond issue was required to have at least \$300 million (\$300 million in 2017 and \$250 million in 2016) par outstanding so that each issue was sufficiently marketable. Finally, bonds more than two standard deviations from the average yield were removed. When selecting the discount rate, FHN matches the duration of high quality bonds with the duration of the obligations of the plan as of the measurement date. For all years presented, the measurement date of the benefit obligations and net periodic benefit costs was December 31.

**Note 18 ☐ Pension, Savings, and Other Employee Benefits (continued)**

The actuarial assumptions used in the defined benefit pension plans and other employee benefit plans were as follows:

|  | Benefit Obligations |               |               | Net Periodic Benefit Cost |               |               |
|--|---------------------|---------------|---------------|---------------------------|---------------|---------------|
|  | 2018                | 2017          | 2016          | 2018                      | 2017          | 2016          |
| <b>Discount rate</b>   |                     |               |               |                           |               |               |
| Qualified pension  | 4.43%               | 3.76%         | 4.39%         | 3.75%                     | 4.37%         | 4.69%         |
| Nonqualified pension   | 4.26%               | 3.59%         | 4.07%         | 3.59%                     | 4.07%         | 4.34%         |
| Other nonqualified pension                                       | 3.83%               | 3.19%         | 3.39%         | 3.19%                     | 3.39%         | 3.57%         |
| Postretirement benefits  | 4.03% - 4.56%       | 3.37% - 3.87% | 3.67% - 4.57% | 3.35% - 3.87%             | 3.68% - 4.57% | 3.84% - 4.87% |
| <b>Expected long-term rate of return</b>                         |                     |               |               |                           |               |               |
| Qualified pension/<br>postretirement benefits                    | N/A                 | N/A           | N/A           | 4.20%                     | 4.50%         | 6.00%         |
| Postretirement benefit<br>(retirees post<br>January 1, 1993)     | N/A                 | N/A           | N/A           | 5.95%                     | 6.00%         | 6.15%         |
| Postretirement benefit<br>(retirees prior to<br>January 1, 1993) | N/A                 | N/A           | N/A           | 2.15%                     | 2.15%         | 2.10%         |

The rate of compensation increase previously had a significant effect on the actuarial assumptions used for the defined benefit pension plan. However, since the benefits in the pension plan are frozen, the rate of compensation increase has no effect upon qualified pension benefits.

FHN has one pension plan where participants' benefits are affected by interest crediting rates. The plan's projected benefit obligation as of December 31, 2018, 2017 and 2016 and interest crediting rates for the respective years are:

| <i>(Dollars in thousands)</i> | 2018     | 2017     | 2016     |
|-------------------------------|----------|----------|----------|
| Projected benefit obligation  | \$16,947 | \$19,115 | \$22,196 |
| Interest crediting rate       | 10.12%   | 9.28%    | 10.16%   |

The components of net periodic benefit cost for the plan years 2018, 2017 and 2016 are as follows:

| <i>(Dollars in thousands)</i>                  | Total Pension Benefits |                 |               | Other Benefits |               |                 |
|--|------------------------|-----------------|---------------|----------------|---------------|-----------------|
|  | 2018                   | 2017            | 2016          | 2018           | 2017          | 2016            |
| <b>Components of net periodic benefit cost</b> |                        |                 |               |                |               |                 |
| Service cost                                   | \$ 41                  | \$ 37           | \$ 39         | \$ 133         | \$ 107        | \$ 110          |
| Interest cost                                  | 27,877                 | 29,380          | 31,216        | 1,309          | 1,305         | 1,292           |
| Expected return on plan assets                 | (32,897)               | (36,015)        | (39,123)      | (1,074)        | (947)         | (913)           |
| Amortization of unrecognized:                  |                        |                 |               |                |               |                 |
| Prior service cost/(credit)                    | -                      | 52              | 196           | -              | 95            | 170             |
| Actuarial (gain)/loss                          | 12,102                 | 9,521           | 8,141         | (387)          | (567)         | (810)           |
| <b>Net periodic benefit cost</b>               | <b>7,123</b>           | <b>2,975</b>    | <b>469</b>    | <b>(19)</b>    | <b>(7)</b>    | <b>(151)</b>    |
| <b>ASC 715 settlement expense</b>              | <b>-</b>               | <b>43</b>       | <b>-</b>      | <b>99</b>      | <b>-</b>      | <b>-</b>        |
| <b>Total periodic benefit costs</b>            | <b>\$ 7,123</b>        | <b>\$ 3,018</b> | <b>\$ 469</b> | <b>\$ 80</b>   | <b>\$ (7)</b> | <b>\$ (151)</b> |

The long-term expected rate of return is applied to the market-related value of plan assets in determining the expected return on plan assets. FHN determines the market-related value of plan assets using a calculated value that recognizes changes in the fair value of plan assets over five years, as permitted by GAAP.

**Note 18 ☐ Pension, Savings, and Other Employee Benefits (continued)**

FHN utilizes a spot rate approach which applies duration-specific rates from the full yield curve to estimated future benefit payments for the determination of interest cost.

The following tables set forth the plans' benefit obligations and plan assets for 2018 and 2017:

| <i>(Dollars in thousands)</i>                            | Total Pension Benefits |                    | Other Benefits    |                   |
|--|------------------------|--------------------|-------------------|-------------------|
|  | 2018                   | 2017               | 2018              | 2017              |
| <b>Change in benefit obligation</b>                      |                        |                    |                   |                   |
| Benefit obligation, beginning of year                    | \$840,884              | \$804,542          | \$ 39,562         | \$ 35,403         |
| Service cost   | 41                     | 37                 | 133               | 107               |
| Interest cost  | 27,877                 | 29,380             | 1,309             | 1,305             |
| Actuarial (gain)/loss (a)                                | (68,724)               | 63,876             | (3,648)           | 3,733             |
| Actual benefits paid (b)                                 | (34,769)               | (56,951)           | (2,182)           | (986)             |
| <b>Benefit obligation, end of year</b>                   | <b>\$765,309</b>       | <b>\$840,884</b>   | <b>\$ 35,174</b>  | <b>\$ 39,562</b>  |
| <b>Change in plan assets</b>                             |                        |                    |                   |                   |
| Fair value of plan assets, beginning of year             | \$811,244              | \$778,872          | \$ 18,753         | \$ 16,717         |
| Actual return on plan assets                             | (49,470)               | 84,534             | (928)             | 2,458             |
| Employer contributions                                   | 3,948                  | 4,789              | 1,789             | 564               |
| Actual benefits paid – settlement payments               | -                      | -                  | (2,182)           | (986)             |
| Actual benefits paid – other payments                    | (34,769)               | (56,951)           | -                 | -                 |
| <b>Fair value of plan assets, end of year</b>            | <b>\$730,953</b>       | <b>\$811,244</b>   | <b>\$ 17,432</b>  | <b>\$ 18,753</b>  |
| <b>Funded (unfunded) status of the plans</b>             | <b>\$ (34,356)</b>     | <b>\$ (29,640)</b> | <b>\$(17,742)</b> | <b>\$(20,809)</b> |
| <b>Amounts recognized in the Statements of Condition</b> |                        |                    |                   |                   |
| Other assets   | \$ 1,911               | \$ 11,238          | \$ 14,356         | \$ 15,254         |
| Other liabilities  | (36,267)               | (40,878)           | (32,098)          | (36,063)          |
| <b>Net asset/(liability) at end of year</b>              | <b>\$ (34,356)</b>     | <b>\$ (29,640)</b> | <b>\$(17,742)</b> | <b>\$(20,809)</b> |

(a) Variances in the actuarial (gain)/loss are due to normal activity such as changes in discount rates, updates to participant demographic information and revisions to life expectancy assumptions.

(b) 2017 amounts are higher due to the settlements of certain terminated, vested participants in the qualified pension plan that occurred during the year.

The projected benefit obligation for unfunded plans are as follows:

| <i>(Dollars in thousands)</i> | Total Pension Benefits |          | Other Benefits |          |
|-------------------------------|------------------------|----------|----------------|----------|
|                               | 2018                   | 2017     | 2018           | 2017     |
| Projected benefit obligation  | \$36,267               | \$40,878 | \$32,098       | \$36,063 |

The qualified pension plan was overfunded as of December 31, 2018 by \$1.9 million. Because of the pension freeze as of the end of 2012, the pension benefit obligation and the accumulated benefit obligation are the same as of December 31, 2018 and 2017. The qualified pension plan was overfunded as of December 31, 2017 by \$11.2 million. FHN's funded post retirement plan was also in an overfunded status as of December 31, 2018 and 2017.

**Note 18 ☐ Pension, Savings, and Other Employee Benefits (continued)**

Unrecognized actuarial gains and losses and unrecognized prior service costs and credits are recognized as a component of accumulated other comprehensive income. Balances reflected in accumulated other comprehensive income on a pre-tax basis for the years ended December 31, 2018 and 2017 consist of:

| <i>(Dollars in thousands)</i>                                       | Total Pension Benefits |           | Other Benefits   |           |
|---|------------------------|-----------|------------------|-----------|
|   | 2018                   | 2017      | 2018             | 2017      |
| <b>Amounts recognized in accumulated other comprehensive income</b> |                        |           |                  |           |
| Prior service cost/(credit)   | \$ -                   | \$ -      | \$ -             | \$ -      |
| Net actuarial (gain)/loss   | <b>387,058</b>         | 385,517   | <b>(6,451)</b>   | (5,093)   |
| <b>Total</b>  | <b>\$387,058</b>       | \$385,517 | <b>\$(6,451)</b> | \$(5,093) |

The pre-tax amounts recognized in other comprehensive income during 2018 and 2017 were as follows:

| <i>(Dollars in thousands)</i>   | Total Pension Benefits |          | Other Benefits   |         |
|---|------------------------|----------|------------------|---------|
|   | 2018                   | 2017     | 2018             | 2017    |
| <b>Changes in plan assets and benefit obligation recognized in other comprehensive income</b> |                        |          |                  |         |
| Net actuarial (gain)/loss arising during measurement period                                   | <b>\$ 13,643</b>       | \$15,357 | <b>\$(1,646)</b> | \$2,222 |
| Items amortized during the measurement period:  |                        |          |                  |         |
| Prior service credit/(cost)   | -                      | (52)     | -                | (95)    |
| Net actuarial gain/(loss)   | <b>(12,102)</b>        | (9,521)  | <b>288</b>       | 567     |
| <b>Total recognized in other comprehensive income</b>   | <b>\$ 1,541</b>        | \$ 5,784 | <b>\$(1,358)</b> | \$2,694 |

FHN utilizes the minimum amortization method in determining the amount of actuarial gains or losses to include in plan expense. Under this approach, the net deferred actuarial gain or loss that exceeds a threshold is amortized over the average remaining service period of active plan participants. The threshold is measured as the greater of: 10 percent of a plan's projected benefit obligation as of the beginning of the year or 10 percent of the market related value of plan assets as of the beginning of the year. FHN amortizes actuarial gains and losses using the estimated average remaining life expectancy of the remaining participants since all participants are considered inactive due to the freeze.

The following table provides detail on expected benefit payments, which reflect expected future service, as appropriate:

| <i>(Dollars in thousands)</i> | Pension Benefits | Other Benefits |
|-------------------------------|------------------|----------------|
| 2019                          | \$ 38,642        | \$ 1,663       |
| 2020                          | 40,904           | 1,717          |
| 2021                          | 42,708           | 1,775          |
| 2022                          | 43,480           | 1,836          |
| 2023                          | 44,781           | 1,900          |
| 2024-2028                     | 238,274          | 10,344         |

**Plan assets.** FHN's overall investment goal is to create, over the life of the pension plan and retiree medical plan, an adequate pool of sufficiently liquid assets to support the qualified pension benefit obligations to participants, retirees, and beneficiaries, as well as to partially support the medical obligations to retirees and beneficiaries. Thus, the qualified pension plan and retiree medical plan seek to achieve a level of investment return consistent with changes in projected benefit obligations.

Qualified pension plan assets primarily consist of fixed income securities which include U.S. treasuries, corporate bonds of companies from diversified industries, municipal bonds, and foreign bonds. Fixed income investments generally have long durations consistent with the estimated pension liabilities of FHN. This duration-matching

**Note 18 ☐ Pension, Savings, and Other Employee Benefits (continued)**

strategy is intended to hedge substantially all of the plan's risk associated with future benefit payments. Retiree medical funds are kept in short-term investments, primarily money market funds and mutual funds. On December 31, 2018 and 2017, FHN did not have any significant concentrations of risk within the plan assets related to the pension plan or the retiree medical plan.

The fair value of FHN's pension plan assets at December 31, 2018 and 2017, by asset category classified using the Fair Value measurement hierarchy is shown in the table below. See Note 24—Fair Value of Assets and Liabilities for more details about Fair Value measurements.

| <i>(Dollars in thousands)</i>           | December 31, 2018 |                  |             |                  |
|---|-------------------|------------------|-------------|------------------|
|   | Level 1           | Level 2          | Level 3     | Total            |
| Cash equivalents and money market funds | \$13,855          | \$ -             | \$ -        | \$ 13,855        |
| Fixed income securities:                |                   |                  |             |                  |
| U.S. treasuries                         | -                 | 28,626           | -           | 28,626           |
| Corporate, municipal and foreign bonds  | -                 | 688,472          | -           | 688,472          |
| <b>Total</b>                            | <b>\$13,855</b>   | <b>\$717,098</b> | <b>\$ -</b> | <b>\$730,953</b> |

| <i>(Dollars in thousands)</i>           | December 31, 2017 |                  |             |                  |
|---|-------------------|------------------|-------------|------------------|
|   | Level 1           | Level 2          | Level 3     | Total            |
| Cash equivalents and money market funds | \$21,152          | \$ -             | \$ -        | \$ 21,152        |
| Fixed income securities:                |                   |                  |             |                  |
| U.S. treasuries                         | -                 | 27,173           | -           | 27,173           |
| Corporate, municipal and foreign bonds  | -                 | 762,919          | -           | 762,919          |
| <b>Total</b>                            | <b>\$21,152</b>   | <b>\$790,092</b> | <b>\$ -</b> | <b>\$811,244</b> |

The Pension and Savings Investment Committees, comprised of senior managers within the organization, meet regularly to review asset performance and potential portfolio revisions. Adjustments to the qualified pension plan asset allocation primarily reflect changes in anticipated liquidity needs for plan benefits.

The fair value of FHN's retiree medical plan assets at December 31, 2018 and 2017 by asset category are as follows:

| <i>(Dollars in thousands)</i>           | December 31, 2018 |             |             |                 |
|---|-------------------|-------------|-------------|-----------------|
|   | Level 1           | Level 2     | Level 3     | Total           |
| Cash equivalents and money market funds | \$ 207            | \$ -        | \$ -        | \$ 207          |
| Mutual funds:                           |                   |             |             |                 |
| Equity mutual funds                     | 10,387            | -           | -           | 10,387          |
| Fixed income mutual funds               | 6,838             | -           | -           | 6,838           |
| <b>Total</b>                            | <b>\$17,432</b>   | <b>\$ -</b> | <b>\$ -</b> | <b>\$17,432</b> |

| <i>(Dollars in thousands)</i>           | December 31, 2017 |             |             |                 |
|---|-------------------|-------------|-------------|-----------------|
|   | Level 1           | Level 2     | Level 3     | Total           |
| Cash equivalents and money market funds | \$ 364            | \$ -        | \$ -        | \$ 364          |
| Mutual funds:                           |                   |             |             |                 |
| Equity mutual funds                     | 11,402            | -           | -           | 11,402          |
| Fixed income mutual funds               | 6,987             | -           | -           | 6,987           |
| <b>Total</b>                            | <b>\$18,753</b>   | <b>\$ -</b> | <b>\$ -</b> | <b>\$18,753</b> |

## Note 19 ☐ Stock Options, Restricted Stock, and Dividend Reinvestment Plans

### **Equity compensation plans**

FHN currently has one plan, its shareholder-approved Equity Compensation Plan (“ECP”), which authorizes the grant of new stock-based awards to employees and directors. Most awards outstanding at year end were granted under the ECP, though older stock options and certain deferred stock units remain outstanding under several plans which no longer are active. The ECP authorizes a broad range of award types, including restricted shares, stock units, and stock options. Stock units may be paid in shares or cash, depending upon the terms of the award. The ECP also authorizes the grant of stock appreciation rights, though no such grants have been made. Unvested awards have service and/or performance conditions which must be met in order for the shares to vest. Awards generally have service-vesting conditions, meaning that the employee must remain employed by FHN for certain periods in order for the award to vest. Some outstanding awards also have performance conditions, and one outstanding award has performance conditions associated with FHN’s stock price. FHN operates the ECP by establishing award programs, each of which is intended to cover a specific need. Programs are created, changed, or terminated as needs change. On December 31, 2018, there were 8,729,408 shares available for new awards under the ECP. The ECP imposes a separate limit on full-value (non-option) awards which is included within the overall limit; at December 31, 2018 there were 6,810,413 shares available to be granted as full-value awards.

**Service condition full-value awards.** Awards may be granted with service conditions only. In recent years, programs using these awards have included annual programs for executives and selected management employees, a mandatory deferral program for executives tied to annual bonuses earned, other mandatory or elective deferral programs, various retention programs, and special hiring-incentive situations. Details of the awards vary by program, but most are settled in shares at vesting rather than cash, and vesting rarely begins earlier than the first anniversary of grant and rarely extends beyond the fifth anniversary of grant. Annual programs tend to use multiple annual vesting dates while retention programs tend to use a single vesting date, but there are exceptions.

**Performance condition awards.** Under FHN’s long-term incentive and corporate performance programs, performance stock units (“PSUs”) (executives) and cash units (selected management employees) are granted annually and vest only if predetermined performance measures are met. The measures are changed each year based on goals and circumstances prevailing at the time of grant. In recent years the performance periods have been three years, with service-vesting near the third anniversary of the grant. PSUs granted after 2014 also have a two year post-vest holding period. Recent annual performance awards require pro-rated forfeiture for performance falling between a threshold level and a maximum. Performance awards sometimes are used to provide a narrow, targeted incentive to a single person or small group; one such award which includes a market performance condition to FHN’s Chief Executive Officer (“CEO”) is discussed in the next paragraph. Of the annual program awards paid during 2018 or outstanding on December 31, 2018: performance conditions related to the 2015 units were met at the 108.3 percent payout level and vested in 2018; the three-year performance period of the 2016 units has ended but performance is measured relative to peers and has not yet been determined; and, the three-year performance periods for the 2017 and 2018 units have not ended.

**Market condition award.** In 2016, FHN made a special grant of performance stock units to FHN’s CEO which will vest at the end of a performance period of seven years. The award has no provision for pro-rated payment based on partial performance. The award’s performance goal is based on achievement of a specific level of total shareholder return during the performance period.

**Director awards.** Non-employee directors receive cash and annual grants of service-conditioned stock units under a program approved by the board of directors. Director stock units vest in the year following the year of grant, require a two-year payment deferral, and settle in shares after the deferral period. In 2018 and 2017 each director received \$65,000 or prorated equivalent of stock units, representing a portion of their annual retainer. Prior to 2005 directors could elect to defer cash compensation in the form of discount-priced stock options, some of which remain outstanding.

**Note 19 ☐ Stock Options, Restricted Stock, and Dividend Reinvestment Plans (continued)**

**Stock and stock unit awards.** A summary of restricted and performance stock and unit activity during the year ended December 31, 2018, is presented below:

|                          | Shares/<br>Units (a) | Weighted<br>average<br>grant date<br>fair value<br>(per share) (b) |
|--------------------------|----------------------|--|
| January 1, 2018          | 3,971,216            | 12.92  |
| Shares/units granted     | 1,260,143            | 18.70  |
| Shares/units vested      | (949,719)            | 13.29  |
| Shares/units cancelled   | (191,816)            | 16.57  |
| <b>December 31, 2018</b> | <b>4,089,824</b>     | <b>14.57</b>   |

(a) Includes only units that settle in shares and nonvested performance units are included at 100% payout level.

(b) The weighted average grant date fair value for shares/units granted in 2017 and 2016 was \$18.83 and \$12.90, respectively.

On December 31, 2018, there was \$27.8 million of unrecognized compensation cost related to nonvested restricted stock awards. That cost is expected to be recognized over a weighted-average period of 2.3 years. The total grant date fair value of shares vested during 2018, 2017 and 2016, was \$12.6 million, \$9.9 million, and \$9.7 million, respectively.

**Stock option awards.** Currently FHN operates only a single option program, calling for annual grants of service-vested options to executives. In the past, however, option programs varied widely in their uses and terms, and many old-program options, granted under the ECP or its predecessor plans, remain outstanding today. Except for substitute options (discussed below), all options granted since 2005 provide for the issuance of FHN common stock at a price fixed at its fair market value on the grant date. Except for substitute options, converted options and a special retention stock option award to the CEO in 2016, all options granted since 2008 vest fully no later than the fourth anniversary of grant, and all such options expire seven years from the grant date. Substitute options can be issued under the ECP in exchange for options of an acquired company that are canceled in a merger. The price, vesting, expiration, and other terms of the substitute options economically mirror those of the canceled options. Converted options from CBF are all fully vested and expire ten years from grant date. The 2016 retention award vests beginning on the fourth anniversary of grant and extends through the sixth anniversary of grant. A deferral program, which was discontinued in 2005, allowed for foregone compensation plus the exercise price to equal the fair market value of the stock on the date of grant if the grantee agreed to receive the options in lieu of compensation. Deferral options still outstanding expire 20 years from the grant date.

The summary of stock option activity for the year ended December 31, 2018, is shown below:

|                           | Options<br>Outstanding | Weighted<br>Average<br>Exercise Price<br>(per share) | Weighted<br>Average<br>Remaining<br>Contractual Term<br>(years) | Aggregate<br>Intrinsic Value<br>(thousands) |
|---------------------------|------------------------|--|---|---|
| January 1, 2018           | 6,608,571              | 16.80  |   |   |
| Options granted           | 394,296                | 18.69  |   |   |
| Options exercised         | (376,273)              | 11.91  |   |   |
| Options expired/cancelled | (721,907)              | 25.80  |   |   |
| <b>December 31, 2018</b>  | <b>5,904,687</b>       | <b>16.16</b>   | <b>3.06</b>   | <b>6,684</b>                                |
| Options exercisable       | 4,412,367              | 16.44  | 2.45  | 5,619                                       |
| Options expected to vest  | 1,492,320              | 15.35  | 4.84  | 1,065                                       |

The total intrinsic value of options exercised during 2018, 2017 and 2016 was \$3.0 million, \$2.5 million, and \$10.6 million, respectively. On December 31, 2018, there was \$1.8 million of unrecognized compensation cost related to nonvested stock options. That cost is expected to be recognized over a weighted-average period of 2.8 years.

**Note 19 ☐ Stock Options, Restricted Stock, and Dividend Reinvestment Plans (continued)**

FHN granted or converted 394,296, 1,483,323 and 971,328 stock options with a weighted average fair value of \$3.89, \$4.69, and \$2.95 per option at grant date in 2018, 2017 and 2016, respectively.

FHN used the Black-Scholes Option Pricing Model to estimate the fair value of stock options granted or converted in 2018, 2017, and 2016 with the following assumptions:

|  | 2018                  | 2017           | 2016           |
|--|-----------------------|----------------|----------------|
| Expected dividend yield                            | <b>2.57%</b>          | 1.82%          | 2.41%          |
| Expected weighted-average lives of options granted | <b>6.21 years</b>     | 6.09 years     | 6.19 years     |
| Expected weighted-average volatility               | <b>24.61%</b>         | 26.90%         | 32.84%         |
| Expected volatility range                          | <b>23.95 – 25.26%</b> | 24.36 – 29.44% | 30.73 – 34.95% |
| Risk-free interest rate                            | <b>2.69%</b>          | 2.07%          | 1.28%          |

Expected lives of options granted are determined based on the vesting period, historical exercise patterns and contractual term of the options. FHN uses a blend of historical and implied volatility in determining expected volatility. A portion of the weighted average volatility rate is derived by compiling daily closing stock prices over a historical period approximating the expected lives of the options. Additionally, because of market volatility due to economic conditions and the impact on stock prices of financial institutions, FHN also incorporates a measure of implied volatility so as to incorporate more recent market conditions in the estimation of future volatility.

**Compensation Cost.** The compensation cost that has been included in the Consolidated Statements of Income pertaining to stock-based awards was \$23.2 million, \$20.6 million, and \$17.5 million for 2018, 2017, and 2016, respectively. The corresponding total income tax benefits recognized were \$5.7 million in 2018, \$7.9 million in 2017, and \$6.7 million in 2016.

**Authorization.** Consistent with Tennessee state law, only authorized, but unissued, stock may be utilized in connection with any issuance of FHN common stock which may be required as a result of stock based compensation awards. FHN has obtained authorization from the Board of Directors to repurchase up to certain numbers of shares related to issuance under the ECP and several older stock award plans. These authorizations are automatically adjusted for stock splits and stock dividends. Repurchases are authorized to be made in the open market or through privately negotiated transactions and will be subject to market conditions, accumulation of excess equity, legal and regulatory restrictions, and prudent capital management. FHN does not currently expect to repurchase a material number of shares under the compensation plan-related repurchase program during 2019.

**Dividend reinvestment plan.** The Dividend Reinvestment and Stock Purchase Plan authorizes the sale of FHN's common stock from stock acquired on the open market to shareholders who choose to invest all or a portion of their cash dividends or make optional cash payments of \$25 to \$10,000 per quarter without paying commissions. The price of stock purchased on the open market is the average price paid.



**Note 20 ☐ Business Segment Information**

FHN has four business segments: regional banking, fixed income, corporate, and non-strategic. The regional banking segment offers financial products and services, including traditional lending and deposit taking, to consumer and commercial customers in Tennessee, North Carolina, South Carolina, Florida and other selected markets. Regional banking also provides investments, wealth management, financial planning, trust services and asset management, mortgage banking, credit card, and cash management. Additionally, the regional banking segment includes correspondent banking which provides credit, depository, and other banking related services to other financial institutions nationally. The fixed income segment consists of fixed income securities sales, trading, underwriting, and strategies for institutional clients in the U.S. and abroad, as well as loan sales, portfolio advisory services, and derivative sales. The corporate segment consists of unallocated corporate expenses, expense on subordinated debt issuances, bank-owned life insurance, unallocated interest income associated with excess equity, net impact of raising incremental capital, revenue and expense associated with deferred compensation plans, funds management, tax credit investment activities, derivative valuation adjustments related to prior sales of Visa Class B shares, gain/(loss) on extinguishment of debt, and acquisition- and integration-related costs. The non-strategic segment consists of run-off consumer lending activities, legacy (pre-2009) mortgage banking elements, and the associated ancillary revenues and expenses related to these businesses. Non-strategic also includes the wind-down trust preferred loan portfolio and exited businesses.

Periodically, FHN adapts its segments to reflect managerial or strategic changes. FHN may also modify its methodology of allocating expenses and equity among segments which could change historical segment results. Business segment revenue, expense, asset, and equity levels reflect those which are specifically identifiable or which are allocated based on an internal allocation method. Because the allocations are based on internally developed assignments and allocations, to an extent they are subjective. Generally, all assignments and allocations have been consistently applied for all periods presented. The following table reflects the amounts of consolidated revenue, expense, tax, and average assets, as well as, depreciation and amortization expense and expenditures for long lived assets for each segment for the years ended December 31:

| <i>(Dollars in thousands)</i>                | <b>2018</b>         | 2017         | 2016         |
|--|---------------------|--------------|--------------|
| <b>Consolidated</b>                          |                     |              |              |
| Net interest income                          | <b>\$ 1,220,317</b> | \$ 842,314   | \$ 729,084   |
| Provision/(provision credit) for loan losses | <b>7,000</b>        | -            | 11,000       |
| Noninterest income                           | <b>722,788</b>      | 490,219      | 552,441      |
| Noninterest expense                          | <b>1,221,996</b>    | 1,023,661    | 925,204      |
| Income/(loss) before income taxes            | <b>714,109</b>      | 308,872      | 345,321      |
| Provision/(benefit) for income taxes         | <b>157,602</b>      | 131,892      | 106,810      |
| Net income/(loss)                            | <b>\$ 556,507</b>   | \$ 176,980   | \$ 238,511   |
| Average assets                               | <b>\$40,225,459</b> | \$29,924,813 | \$27,427,227 |
| Depreciation and amortization                | <b>\$ 59,125</b>    | \$ 70,924    | \$ 64,673    |
| Expenditures for long-lived assets           | <b>38,166</b>       | 287,642      | 62,554       |

**Note 20 ☐ Business Segment Information (continued)**

| <i>(Dollars in thousands)</i>                | 2018         | 2017         | 2016         |
|--|--------------|--------------|--------------|
| <b>Regional Banking</b>                      |              |              |              |
| Net interest income                          | \$ 1,202,317 | \$ 846,620   | \$ 742,131   |
| Provision/(provision credit) for loan losses | 25,277       | 21,341       | 38,886       |
| Noninterest income                           | 309,308      | 258,627      | 248,996      |
| Noninterest expense                          | 824,740      | 626,304      | 612,983      |
| Income/(loss) before income taxes            | 661,608      | 457,602      | 339,258      |
| Provision/(benefit) for income taxes         | 155,471      | 163,547      | 121,304      |
| Net income/(loss)                            | \$ 506,137   | \$ 294,055   | \$ 217,954   |
| Average assets                               | \$28,470,388 | \$19,507,765 | \$17,137,709 |
| Depreciation and amortization                | \$ 29,681    | \$ 43,061    | \$ 38,896    |
| Expenditures for long-lived assets           | 34,212       | 274,059      | 51,442       |
| <b>Fixed Income</b>                          |              |              |              |
| Net interest income                          | \$ 35,715    | \$ 18,065    | \$ 10,802    |
| Noninterest income                           | 164,767      | 217,082      | 269,344      |
| Noninterest expense                          | 191,504      | 208,921      | 227,936      |
| Income/(loss) before income taxes            | 8,978        | 26,226       | 52,210       |
| Provision/(benefit) for income taxes         | 1,560        | 8,717        | 18,722       |
| Net income/(loss)                            | \$ 7,418     | \$ 17,509    | \$ 33,488    |
| Average assets                               | \$ 3,299,117 | \$ 2,543,151 | \$ 2,364,130 |
| Depreciation and amortization                | \$ 9,724     | \$ 8,737     | \$ 5,770     |
| Expenditures for long-lived assets           | 755          | 2,499        | 2,019        |
| <b>Corporate</b>                             |              |              |              |
| Net interest income/(expense)                | \$ (64,140)  | \$ (59,383)  | \$ (66,215)  |
| Noninterest income (a)                       | 239,252      | 8,878        | 20,453       |
| Noninterest expense                          | 177,829      | 144,258      | 63,577       |
| Income/(loss) before income taxes            | (2,717)      | (194,763)    | (109,339)    |
| Provision/(benefit) for income taxes         | (10,856)     | (47,989)     | (57,698)     |
| Net income/(loss)                            | \$ 8,139     | \$ (146,774) | \$ (51,641)  |
| Average assets                               | \$ 7,092,078 | \$ 6,367,268 | \$ 6,037,624 |
| Depreciation and amortization                | \$ 25,564    | \$ 18,726    | \$ 19,610    |
| Expenditures for long-lived assets           | 2,302        | 9,161        | 8,947        |
| <b>Non-Strategic</b>                         |              |              |              |
| Net interest income                          | \$ 46,425    | \$ 37,012    | \$ 42,366    |
| Provision/(provision credit) for loan losses | (18,277)     | (21,341)     | (27,886)     |
| Noninterest income                           | 9,461        | 5,632        | 13,648       |
| Noninterest expense                          | 27,923       | 44,178       | 20,708       |
| Income/(loss) before income taxes            | 46,240       | 19,807       | 63,192       |
| Provision/(benefit) for income taxes         | 11,427       | 7,617        | 24,482       |
| Net income/(loss)                            | \$ 34,813    | \$ 12,190    | \$ 38,710    |
| Average assets                               | \$ 1,363,876 | \$ 1,506,629 | \$ 1,887,764 |
| Depreciation and amortization                | \$ (5,844)   | \$ 400       | \$ 397       |
| Expenditures for long-lived assets           | 897          | 1,923        | 146          |

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

(a) 2018 includes a \$212.9 million pre-tax gain from the sale of Visa Class B shares; 2017 includes a \$14.3 million pre-tax loss from the repurchase of equity securities previously included in a financing transaction.

**Note 20 ☐ Business Segment Information (continued)**

The following tables reflect a disaggregation of FHN's noninterest income by major product line and reportable segment for the years ended December 31, 2018, 2017, and 2016:

|   | December 31, 2018   |                  |                  |                   |                  |
|---|---------------------|------------------|------------------|-------------------|------------------|
| <i>(Dollars in thousands)</i>                 | Regional<br>Banking | Fixed<br>Income  | Corporate        | Non-<br>Strategic | Consolidated     |
| <b>Noninterest income:</b>                    |                     |                  |                  |                   |                  |
| Fixed income (a)                              | \$ 417              | \$163,382        | \$ -             | \$4,083           | \$167,882        |
| Deposit transactions and cash management      | 126,909             | 12               | 6,144            | 216               | 133,281          |
| Brokerage, management fees and commissions    | 54,800              | -                | -                | 3                 | 54,803           |
| Trust services and investment management      | 29,852              | -                | (46)             | -                 | 29,806           |
| Bankcard income                               | 26,848              | -                | 226              | (356)             | 26,718           |
| BOLI (b)                                      | -                   | -                | 18,955           | -                 | 18,955           |
| Debt securities gains/(losses), net (b)       | -                   | -                | 52               | -                 | 52               |
| Equity securities gains/(losses), net (b) (c) | -                   | -                | 212,896          | -                 | 212,896          |
| All other income and commissions (d)          | 70,482              | 1,373            | 1,025            | 5,515             | 78,395           |
| <b>Total noninterest income</b>               | <b>\$309,308</b>    | <b>\$164,767</b> | <b>\$239,252</b> | <b>\$9,461</b>    | <b>\$722,788</b> |

|  | December 31, 2017   |                  |                 |                   |                  |
|--|---------------------|------------------|-----------------|-------------------|------------------|
| <i>(Dollars in thousands)</i>              | Regional<br>Banking | Fixed<br>Income  | Corporate       | Non-<br>Strategic | Consolidated     |
| <b>Noninterest income:</b>                 |                     |                  |                 |                   |                  |
| Fixed income                               | \$ 430              | \$216,195        | \$ -            | \$ -              | \$216,625        |
| Deposit transactions and cash management   | 105,163             | 3                | 5,236           | 190               | 110,592          |
| Brokerage, management fees and commissions | 48,513              | -                | 1               | -                 | 48,514           |
| Trust services and investment management   | 28,491              | -                | (71)            | -                 | 28,420           |
| Bankcard income                            | 25,014              | -                | 225             | 228               | 25,467           |
| BOLI                                       | -                   | -                | 15,124          | -                 | 15,124           |
| Debt securities gains/(losses), net        | 386                 | -                | 97              | -                 | 483              |
| Equity securities gains/(losses), net      | -                   | -                | 109             | -                 | 109              |
| All other income and commissions (e)       | 50,630              | 884              | (11,843)        | 5,214             | 44,885           |
| <b>Total noninterest income</b>            | <b>\$258,627</b>    | <b>\$217,082</b> | <b>\$ 8,878</b> | <b>\$5,632</b>    | <b>\$490,219</b> |

|  | December 31, 2016   |                  |                 |                   |                  |
|--|---------------------|------------------|-----------------|-------------------|------------------|
| <i>(Dollars in thousands)</i>              | Regional<br>Banking | Fixed<br>Income  | Corporate       | Non-<br>Strategic | Consolidated     |
| <b>Noninterest income:</b>                 |                     |                  |                 |                   |                  |
| Fixed income                               | \$ 79               | \$268,482        | \$ -            | \$ -              | \$268,561        |
| Deposit transactions and cash management   | 103,122             | 3                | 5,250           | 178               | 108,553          |
| Brokerage, management fees and commissions | 42,911              | -                | -               | -                 | 42,911           |
| Trust services and investment management   | 27,764              | -                | (37)            | -                 | 27,727           |
| BOLI                                       | 23,945              | -                | 215             | 270               | 24,430           |
| Bank-owned life insurance                  | -                   | -                | 14,687          | -                 | 14,687           |
| Debt securities gains/(losses), net        | -                   | -                | 1,485           | -                 | 1,485            |
| Equity securities gains/(losses), net      | -                   | -                | (144)           | -                 | (144)            |
| All other income and commissions           | 51,175              | 859              | (1,003)         | 13,200            | 64,231           |
| <b>Total noninterest income</b>            | <b>\$248,996</b>    | <b>\$269,344</b> | <b>\$20,453</b> | <b>\$13,648</b>   | <b>\$552,441</b> |

(a) Includes \$28.9 million of underwriting, portfolio advisory, and other noninterest income in scope of Accounting Standards Codification ("ASC") 606, "Revenue From Contracts With Customers." Non-Strategic includes a \$4.1 million gain from the reversal of a previous valuation adjustment due to sales of TRUPS loans excluded from the scope of ASC 606.

(b) Represents noninterest income excluded from the scope of ASC 606. Amount is presented for informational purposes to reconcile total non-interest income.

(c) Includes a pre-tax gain of \$212.9 million from the sale of FHN's remaining holdings of Visa Class B shares.

(d) Includes other service charges, ATM and interchange fees, electronic banking fees, and insurance commission in scope of ASC 606.

(e) Corporate includes a \$14.3 million pre-tax loss from the repurchase of equity securities previously included in a financing transaction.

## **Note 21 ☐ Variable Interest Entities**

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

### **Consolidated Variable Interest Entities**

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

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

## Note 21 ☐ Variable Interest Entities (continued)

The following table summarizes VIEs consolidated by FHN as of December 31, 2018 and December 31, 2017:

|                                 | December 31, 2018   |   | December 31, 2017   |   |
|---------------------------------|---|---|---|---|
|                                 | On-Balance Sheet<br>Consumer Loan<br>Securitization<br>Carrying Value | Rabbi Trusts<br>Used for Deferred<br>Compensation Plans<br>Carrying Value | On-Balance Sheet<br>Consumer Loan<br>Securitization<br>Carrying Value | Rabbi Trusts<br>Used for Deferred<br>Compensation Plans<br>Carrying Value |
| <i>(Dollars in thousands)</i>   |   |   |   |   |
| <b>Assets:</b>                  |   |   |   |   |
| Cash and due from banks         | \$ -  | N/A   | \$ -  | N/A   |
| Loans, net of unearned income   | 16,213  | N/A   | 24,175  | N/A   |
| Less: Allowance for loan losses | -   | N/A   | -   | N/A   |
| Total net loans                 | 16,213  | N/A   | 24,175  | N/A   |
| Other assets                    | 35  | \$78,446  | 47  | \$80,479  |
| <b>Total assets</b>             | <b>\$16,248</b>   | <b>\$78,446</b>   | <b>\$24,222</b>   | <b>\$80,479</b>   |
| <b>Liabilities:</b>             |   |   |   |   |
| Term borrowings                 | \$ 2,981  | N/A   | \$11,226  | N/A   |
| Other liabilities               | -   | \$56,700  | 2   | \$61,733  |
| <b>Total liabilities</b>        | <b>\$ 2,981</b>   | <b>\$56,700</b>   | <b>\$11,228</b>   | <b>\$61,733</b>   |

### Nonconsolidated Variable Interest Entities

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

FHN accounts for all qualifying LIHTC investments under the proportional amortization method. Under this method an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense/(benefit). LIHTC investments that do not qualify for the proportional amortization method are accounted for using the equity method. Expenses associated with these investments were \$4.1 million, \$1.8 million, and \$1.8 million during 2018, 2017, and 2016, respectively. The following table summarizes the impact to the Provision/(benefit) for income taxes on the Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016 for LIHTC investments accounted for under the proportional amortization method.

| <i>(Dollars in thousands)</i>                              | 2018      | 2017      | 2016      |
|--|-----------|-----------|-----------|
| Provision/(benefit) for income taxes:                      |           |           |           |
| Amortization of qualifying LIHTC investments (a)           | \$ 10,793 | \$ 14,037 | \$ 14,223 |
| Low income housing tax credits                             | (10,232)  | (11,037)  | (10,100)  |
| Other tax benefits related to qualifying LIHTC investments | (7,370)   | (5,045)   | (9,779)   |

(a) 2017 reflects increased amortization due the effects of the Tax Act.

## Note 21 ☐ Variable Interest Entities (continued)

**Other Tax Credit Investments.** First Tennessee New Markets Corporation (“FTNMC”), a wholly-owned subsidiary of FTBNA, makes equity investments through wholly-owned subsidiaries as a non-managing member in various limited liability companies (“LLCs”) that sponsor community development projects utilizing the New Market Tax Credit (“NMTC”) pursuant to Section 45 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital and to support FHN’s community reinvestment initiatives. The activities of the LLCs include providing investment capital for low-income communities within FHN’s primary geographic region. A portion of the funding of FTNMC’s investment in a NMTC LLC is obtained via a loan from an unrelated third-party that is typically a community development enterprise. The NMTC LLCs are considered VIEs as FTNMC, the holder of the equity investment at risk, does not have the ability to direct the activities that most significantly affect the performance of the entity through voting rights or similar rights. While FTNMC could absorb losses that are significant to the NMTC LLCs as it has a risk of loss for its initial capital contributions, the managing members are considered the primary beneficiaries as managerial functions give them the power to direct the activities that most significantly impact the NMTC LLCs’ economic performance and the managing members are exposed to all losses beyond FTNMC’s initial capital contributions. A NMTC relationship was resolved in 2018 resulting in a \$15.3 million decline in the investment balance and the related debt.

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

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

**On-Balance Sheet Trust Preferred Securitization.** In 2007, FTBNA executed a securitization of certain small issuer trust preferreds for which the underlying trust meets the definition of a VIE as the holders of the equity investment at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entity’s economic performance. FTBNA could potentially receive benefits or absorb losses that are significant to the trust based on the size and priority of the interests it retained in the securities issued by the trust. However, since FTBNA did not retain servicing or other decision making rights, FTBNA is not the primary beneficiary as it does not have the power to direct the activities that most significantly impact the trust’s economic performance. Accordingly, FTBNA has accounted for the funds received through the securitization as a term borrowing in its Consolidated Statements of Condition. FTBNA has no contractual requirements to provide financial support to the trust.

**Proprietary Residential Mortgage Securitizations.** FHN holds variable interests (primarily principal-only strips) in proprietary residential mortgage securitization trusts it established prior to 2008 as a source of liquidity for its mortgage banking operations. Except for recourse due to breaches of representations and warranties made by FHN in connection with the sale of the loans to the trusts, the creditors of the trusts hold no recourse to the assets of

## Note 21 ☐ Variable Interest Entities (continued)

FHN. Additionally, FHN has no contractual requirements to provide financial support to the trusts. Based on their restrictive nature, the trusts are considered VIEs as the holders of equity at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the trusts' economic performance. However, FHN did not have the ability to participate in significant portions of a securitization trust's cash flows, and FHN was not considered the primary beneficiary of the trust. Therefore, these trusts were not consolidated by FHN.

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

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

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

**Proprietary Trust Preferred Issuances.** In conjunction with the acquisition of CBF, FHN acquired junior subordinated debt totaling \$212.4 million underlying multiple issuances of trust preferred debt by institutions previously acquired by CBF. All of these trusts are considered VIEs because the ownership interests from the capital contributions to these trusts are not considered "at risk" in evaluating whether the holders of the equity investments at risk in the trusts have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entities' economic performance. Thus, FHN cannot be the trusts' primary beneficiary because its ownership interests in the trusts are not considered variable interests as they are not considered "at risk". Consequently, none of the trusts are consolidated by FHN. FHN retired \$45.4 million of this debt and the related trust preferred securities in 2018.

## Note 21 ☐ Variable Interest Entities (continued)

The following table summarizes FHN's nonconsolidated VIEs as of December 31, 2018:

| <i>(Dollars in thousands)</i>                     | Maximum<br>Loss Exposure | Liability<br>Recognized | Classification                |
|---|--------------------------|-------------------------|-------------------------------|
| Type:   |                          |                         |                               |
| Low income housing partnerships                   | \$ 156,056               | \$ 80,427               | (a)                           |
| Other tax credit investments (b) (c)              | 3,619                    | -                       | Other assets                  |
| Small issuer trust preferred holdings (d)         | 270,585                  | -                       | Loans, net of unearned income |
| On-balance sheet trust preferred securitization   | 37,532                   | 76,642                  | (e)                           |
| Proprietary residential mortgage securitizations  | 1,524                    | -                       | Trading securities            |
| Holdings of agency mortgage-backed securities (d) | 4,842,630                | -                       | (f)                           |
| Commercial loan troubled debt restructurings (g)  | 40,590                   | -                       | Loans, net of unearned income |
| Sale-leaseback transaction                        | 16,327                   | -                       | (h)                           |
| Proprietary trust preferred issuances (i)         | -                        | 167,014                 | Term borrowings               |

- (a) Maximum loss exposure represents \$75.6 million of current investments and \$80.4 million of accrued contractual funding commitments. Accrued funding commitments represent unconditional contractual obligations for future funding events, and are also recognized in Other liabilities. FHN currently expects to be required to fund these accrued commitments by the end of 2020.
- (b) A liability is not recognized as investments are written down over the life of the related tax credit.
- (c) Maximum loss exposure represents current investment balance. Of the initial investment, \$2.7 million was funded through loans from community development enterprises.
- (d) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts' securities.
- (e) Includes \$112.5 million classified as Loans, net of unearned income, and \$1.7 million classified as Trading securities which are offset by \$76.6 million classified as Term borrowings.
- (f) Includes \$.5 billion classified as Trading securities and \$4.4 billion classified as Securities available-for-sale.
- (g) Maximum loss exposure represents \$38.2 million of current receivables and \$2.3 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.
- (h) Maximum loss exposure represents the current loan balance plus additional funding commitments less amounts received from the buyer-lessor.
- (i) No exposure to loss due to nature of FHN's involvement.

The following table summarizes FHN's nonconsolidated VIEs as of December 31, 2017:

| <i>(Dollars in thousands)</i>                     | Maximum<br>Loss Exposure | Liability<br>Recognized | Classification                |
|---|--------------------------|-------------------------|-------------------------------|
| Type:   |                          |                         |                               |
| Low income housing partnerships                   | \$ 94,798                | \$ 33,348               | (a)                           |
| Other tax credit investments (b) (c)              | 20,394                   | -                       | Other assets                  |
| Small issuer trust preferred holdings (d)         | 332,455                  | -                       | Loans, net of unearned income |
| On-balance sheet trust preferred securitization   | 48,817                   | 65,357                  | (e)                           |
| Proprietary residential mortgage securitizations  | 2,151                    | -                       | Trading securities            |
| Holdings of agency mortgage-backed securities (d) | 5,349,287                | -                       | (f)                           |
| Commercial loan troubled debt restructurings (g)  | 19,411                   | -                       | Loans, net of unearned income |
| Sale-leaseback transaction                        | 14,827                   | -                       | (h)                           |
| Proprietary trust preferred issuances (i)         | -                        | 212,378                 | Term borrowings               |

- (a) Maximum loss exposure represents \$61.5 million of current investments and \$33.3 million of accrued contractual funding commitments. Accrued funding commitments represent unconditional contractual obligations for future funding events, and are also recognized in Other liabilities. FHN currently expects to be required to fund these accrued commitments by the end of 2020.
- (b) A liability is not recognized as investments are written down over the life of the related tax credit.
- (c) Maximum loss exposure represents current investment balance. Of the initial investment, \$18.0 million was funded through loans from community development enterprises.
- (d) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts' securities.
- (e) Includes \$112.5 million classified as Loans, net of unearned income, and \$1.7 million classified as Trading securities which are offset by \$65.4 million classified as Term borrowings.
- (f) Includes \$.5 billion classified as Trading securities and \$4.8 billion classified as Securities available-for-sale.
- (g) Maximum loss exposure represents \$19.1 million of current receivables and \$.3 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.
- (h) Maximum loss exposure represents the current loan balance plus additional funding commitments less amounts received from the buyer-lessor.
- (i) No exposure to loss due to nature of FHN's involvement.



## Note 22 ☐ Derivatives

In the normal course of business, FHN utilizes various financial instruments (including derivative contracts and credit-related agreements) through its fixed income and risk management operations, as part of its risk management strategy and as a means to meet customers' needs. Derivative instruments are subject to credit and market risks in excess of the amount recorded on the balance sheet as required by GAAP. The contractual or notional amounts of these financial instruments do not necessarily represent the amount of credit or market risk. However, they can be used to measure the extent of involvement in various types of financial instruments. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. The Asset/Liability Committee ("ALCO") controls, coordinates, and monitors the usage and effectiveness of these financial instruments.

Credit risk represents the potential loss that may occur if a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. FHN manages credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties, and by using mutual margining and master netting agreements whenever possible to limit potential exposure. FHN also maintains collateral posting requirements with certain counterparties to limit credit risk. In 2017, a central clearinghouse revised the treatment of daily margin posted or received from collateral to legal settlements of the related derivative contracts. In 2018, the other central clearinghouse used by FHN also revised the treatment of daily margin posted or received from collateral to legal settlements of the related derivative contracts. These changes resulted in a reduction in derivative assets and liabilities and corresponding reductions in collateral posted and received as these amounts are now presented net by contract in the Consolidated Statements of Condition. These changes had no effect on hedge accounting or gains/losses for the applicable derivative contracts. On December 31, 2018 and 2017, respectively, FHN had \$79.9 million and \$60.3 million of cash receivables and \$40.4 million and \$49.7 million of cash payables related to collateral posting under master netting arrangements, inclusive of collateral posted related to contracts with adjustable collateral posting thresholds and over-collateralized positions, with derivative counterparties. With exchange-traded contracts, the credit risk is limited to the clearinghouse used. For non-exchange traded instruments, credit risk may occur when there is a gain in the fair value of the financial instrument and the counterparty fails to perform according to the terms of the contract and/or when the collateral proves to be of insufficient value. See additional discussion regarding master netting agreements and collateral posting requirements later in this note under the heading "Master Netting and Similar Agreements." Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates or the prices of debt instruments. FHN manages market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. FHN continually measures this risk through the use of models that measure value-at-risk and earnings-at-risk.

**Derivative Instruments.** FHN enters into various derivative contracts both in a dealer capacity to facilitate customer transactions and as a risk management tool. Where contracts have been created for customers, FHN enters into upstream transactions with dealers to offset its risk exposure. Contracts with dealers that require central clearing are novated to a clearing agent who becomes FHN's counterparty. Derivatives are also used as a risk management tool to hedge FHN's exposure to changes in interest rates or other defined market risks.

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

## Note 22 ☐ Derivatives (continued)

### Trading Activities

FHN's fixed income segment trades U.S. Treasury, U.S. Agency, government-guaranteed loan, mortgage-backed, corporate and municipal fixed income securities, and other securities for distribution to customers. When these securities settle on a delayed basis, they are considered forward contracts. Fixed income also enters into interest rate contracts, including caps, swaps, and floors, for its customers. In addition, fixed income enters into futures and option contracts to economically hedge interest rate risk associated with a portion of its securities inventory. These transactions are measured at fair value, with changes in fair value recognized currently in fixed income noninterest income. Related assets and liabilities are recorded on the Consolidated Statements of Condition as Derivative assets and Derivative liabilities. The FTN Financial Risk Committee and the Credit Risk Management Committee collaborate to mitigate credit risk related to these transactions. Credit risk is controlled through credit approvals, risk control limits, and ongoing monitoring procedures. Total trading revenues were \$132.3 million, \$173.9 million and \$229.7 million for the years ended December 31, 2018, 2017 and 2016, respectively. Trading revenues are inclusive of both derivative and non-derivative financial instruments, and are included in fixed income noninterest income.

The following tables summarize FHN's derivatives associated with fixed income trading activities as of December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>               | <b>December 31, 2018</b> |               |                    |
|---|--------------------------|---------------|--------------------|
|   | <b>Notional</b>          | <b>Assets</b> | <b>Liabilities</b> |
| Customer Interest Rate Contracts            | \$2,271,448              | \$18,744      | \$27,768           |
| Offsetting Upstream Interest Rate Contracts | 2,271,448                | 4,014         | 9,041              |
| Option Contracts Purchased                  | 20,000                   | 25            | -                  |
| Forwards and Futures Purchased              | 4,684,177                | 28,304        | 181                |
| Forwards and Futures Sold                   | 4,967,454                | 522           | 30,055             |

| <i>(Dollars in thousands)</i>               | <b>December 31, 2017</b> |               |                    |
|---|--------------------------|---------------|--------------------|
|   | <b>Notional</b>          | <b>Assets</b> | <b>Liabilities</b> |
| Customer Interest Rate Contracts            | \$2,026,753              | \$22,097      | \$18,323           |
| Offsetting Upstream Interest Rate Contracts | 2,026,753                | 17,931        | 20,720             |
| Option Contracts Purchased                  | 20,000                   | 15            | -                  |
| Forwards and Futures Purchased              | 6,257,140                | 4,354         | 5,526              |
| Forwards and Futures Sold                   | 6,292,012                | 5,806         | 4,010              |

### Interest Rate Risk Management

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

FHN has designated a derivative transaction in a hedging strategy to manage interest rate risk on \$400.0 million of senior debt issued by FTBNA which matures in December 2019. This qualifies for hedge accounting under ASC 815-20 using the long-haul method. FHN entered into a pay floating, receive fixed interest rate swap to hedge

**Note 22 ☐ Derivatives (continued)**

the interest rate risk of the senior debt. The balance sheet impact of this swap was not significant as of December 31, 2018 and 2017.

FHN has designated a derivative transaction in a hedging strategy to manage interest rate risk on \$500.0 million of senior debt which matures in December 2020. This qualifies for hedge accounting under ASC 815-20 using the long-haul method. FHN entered into a pay floating, receive fixed interest rate swap to hedge the interest rate risk of the senior debt. The balance sheet impact of this swap was not significant as of December 31, 2018 and 2017.

The following tables summarize FHN's derivatives associated with interest rate risk management activities as of December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>                     | <b>December 31, 2018</b> |               |                    |
|---|--------------------------|---------------|--------------------|
|   | <b>Notional</b>          | <b>Assets</b> | <b>Liabilities</b> |
| <b>Customer Interest Rate Contracts Hedging</b>   |                          |               |                    |
| <i>Hedging Instruments and Hedged Items:</i>      |                          |               |                    |
| Customer Interest Rate Contracts                  | \$2,029,162              | \$20,262      | \$ 25,880          |
| Offsetting Upstream Interest Rate Contracts       | 2,029,162                | 8,154         | 9,153              |
| <b>Debt Hedging</b>                               |                          |               |                    |
| <i>Hedging Instruments:</i>                       |                          |               |                    |
| Interest Rate Swaps                               | \$ 900,000               | \$ 127        | \$ 6               |
| <i>Hedged Items:</i>                              |                          |               |                    |
| <i>Term Borrowings:</i>                           |                          |               |                    |
| Par   | N/A                      | N/A           | \$900,000          |
| Cumulative fair value hedging adjustments         | N/A                      | N/A           | (15,094)           |
| Unamortized premium/(discount) and issuance costs | N/A                      | N/A           | (2,295)            |
| Total carrying value                              | N/A                      | N/A           | \$882,611          |

| <i>(Dollars in thousands)</i>                     | <b>December 31, 2017</b> |               |                    |
|---|--------------------------|---------------|--------------------|
|   | <b>Notional</b>          | <b>Assets</b> | <b>Liabilities</b> |
| <b>Customer Interest Rate Contracts Hedging</b>   |                          |               |                    |
| <i>Hedging Instruments and Hedged Items:</i>      |                          |               |                    |
| Customer Interest Rate Contracts                  | \$1,608,912              | \$11,644      | \$ 19,780          |
| Offsetting Upstream Interest Rate Contracts       | 1,608,912                | 18,473        | 11,019             |
| <b>Debt Hedging</b>                               |                          |               |                    |
| <i>Hedging Instruments:</i>                       |                          |               |                    |
| Interest Rate Swaps                               | \$ 900,000               | \$ 371        | N/A                |
| <i>Hedged Items:</i>                              |                          |               |                    |
| <i>Term Borrowings:</i>                           |                          |               |                    |
| Par   | N/A                      | N/A           | \$900,000          |
| Cumulative fair value hedging adjustments         | N/A                      | N/A           | (13,472)           |
| Unamortized premium/(discount) and issuance costs | N/A                      | N/A           | (3,910)            |
| Total carrying value                              | N/A                      | N/A           | \$882,618          |

## Note 22 ☐ Derivatives (continued)

The following table summarizes gains/(losses) on FHN's derivatives associated with interest rate risk management activities for the years ended December 31, 2018, 2017, and 2016:

|   | Year Ended December 31 |                |                |
|---|------------------------|----------------|----------------|
|   | 2018                   | 2017           | 2016           |
| <i>(Dollars in thousands)</i>                   | Gains/(Losses)         | Gains/(Losses) | Gains/(Losses) |
| <b>Customer Interest Rate Contracts Hedging</b> |                        |                |                |
| <i>Hedging Instruments and Hedged Items:</i>    |                        |                |                |
| Customer Interest Rate Contracts (a)            | \$ 1,779               | \$(10,703)     | \$(22,969)     |
| Offsetting Upstream Interest Rate Contracts (a) | (1,779)                | 10,699         | 22,969         |
| <b>Debt Hedging</b>                             |                        |                |                |
| <i>Hedging Instruments:</i>                     |                        |                |                |
| Interest Rate Swaps (b)                         | \$(1,648)              | \$ (7,766)     | \$ (3,552)     |
| <i>Hedged Items:</i>                            |                        |                |                |
| Term Borrowings (a) (c)                         | 1,622                  | 7,582          | 3,429          |

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

(b) Gains/losses included in the Interest expense for 2018, and All other expense for 2017 and 2016 within the Consolidated Statement of Income.

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

In first quarter 2016, FHN entered into a pay floating, receive fixed interest rate swap in a hedging strategy to manage its exposure to the variability in cash flows related to the interest payments for the following five years on \$250 million principal of debt instruments, which primarily consist of held-to-maturity trust preferred loans that have variable interest payments based on 3-month LIBOR. In first quarter 2017, FHN initiated cash flow hedges of \$650 million notional amount that had initial durations between three and seven years. The debt instruments primarily consist of held-to-maturity commercial loans that have variable interest payments based on 1-month LIBOR. These qualify for hedge accounting as cash flow hedges under ASC 815-20. Subsequent to 2017, all changes in the fair value of these derivatives are recorded as a component of AOCI. Amounts are reclassified from AOCI to earnings as the hedged cash flows affect earnings. Prior to 2018, FHN measured ineffectiveness using the Hypothetical Derivative Method and AOCI was adjusted to an amount that reflected the lesser of either the cumulative change in fair value of the swaps or the cumulative change in the fair value of the hypothetical derivative instruments. To the extent that any ineffectiveness existed in the hedge relationships, the amounts were recorded in current period earnings. Interest paid or received for these swaps is recognized as an adjustment to interest income of the assets whose cash flows are being hedged.

The following tables summarize FHN's derivative activities associated with cash flow hedges as of December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>   | December 31, 2018 |           |             |
|---|-------------------|-----------|-------------|
|   | Notional          | Assets    | Liabilities |
| <b>Cash Flow Hedges</b>   |                   |           |             |
| <i>Hedging Instruments:</i>   |                   |           |             |
| Interest Rate Swaps   | \$900,000         | \$ 888    | \$ 5        |
| <i>Hedged Items:</i>  |                   |           |             |
| Variability in Cash Flows Related to Debt Instruments (Primarily Loans) | N/A               | \$900,000 | N/A         |

**Note 22 ☐ Derivatives (continued)**

| <i>(Dollars in thousands)</i>   | <b>December 31, 2017</b> |               |                    |
|---|--------------------------|---------------|--------------------|
|   | <b>Notional</b>          | <b>Assets</b> | <b>Liabilities</b> |
| <b>Cash Flow Hedges</b>   |                          |               |                    |
| <i>Hedging Instruments:</i>   |                          |               |                    |
| Interest Rate Swaps   | \$900,000                | \$ 942        | N/A                |
| <i>Hedged Items:</i>  |                          |               |                    |
| Variability in Cash Flows Related to Debt Instruments (Primarily Loans) | N/A                      | \$900,000     | N/A                |

The following table summarizes gains/(losses) on FHN's derivatives associated with cash flow hedges for the years ended December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i>                               | <b>Year Ended December 31</b> |                       |                       |
|---|-------------------------------|-----------------------|-----------------------|
|   | <b>2018</b>                   | <b>2017</b>           | <b>2016</b>           |
|   | <b>Gains/(Losses)</b>         | <b>Gains/(Losses)</b> | <b>Gains/(Losses)</b> |
| <b>Cash Flow Hedges</b>                                     |                               |                       |                       |
| <i>Hedging Instruments:</i>                                 |                               |                       |                       |
| Interest Rate Swaps (a)                                     | <b>\$(5,502)</b>              | \$(8,264)             | \$(2,045)             |
| Gain/(loss) recognized in Other comprehensive income/(loss) | <b>(6,284)</b>                | (2,156)               | 130                   |
| Gain/(loss) reclassified from AOCI into Interest income     | <b>2,142</b>                  | (2,945)               | (1,395)               |

(a) Approximately \$7.4 million of cumulative losses are expected to be reclassified into earnings in the next twelve months.

Other Derivatives

In conjunction with the sales of a portion of its Visa Class B shares in 2010 and 2011, FHN and the purchaser entered into derivative transactions whereby FHN will make or receive cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. FHN is also required to make periodic financing payments to the purchasers until all of Visa's covered litigation matters are resolved. In third quarter 2018, FHN sold the remainder of its Visa Class B shares, entering into a similar derivative arrangement with the counterparty. All of these derivatives extend until the end of Visa's Covered Litigation matters. In September 2018, Visa reached a preliminary settlement for one class of plaintiffs in its Payment Card Interchange matter. This settlement is subject to court approval and contains opt out provisions for individual plaintiffs as well as a termination option if opt outs exceed a specified threshold. Settlement has not been reached with the second class of plaintiffs in this matter and other covered litigation matters are also pending judicial resolution. Accordingly, the value and timing for completion of Visa's Covered Litigation matters are uncertain.

The derivative transaction executed in third quarter 2018 includes a contingent accelerated termination clause based on the credit ratings of FHN and FTBNA. FHN has not received or paid collateral related to this contract. As of December 31, 2018 and December 31, 2017, the derivative liabilities associated with the sales of Visa Class B shares were \$31.5 million and \$5.6 million, respectively. \$26.0 million of the value at December 31, 2018 relates to the transaction executed in third quarter 2018. See the Visa Matters section of Note 17 – Contingencies and Other Disclosures for more information regarding FHN's Visa shares. See Note 24 – Fair Value of Assets & Liabilities for discussion of the valuation inputs and processes for these Visa-related derivatives.

FHN utilizes cross currency swaps and cross currency interest rate swaps to economically hedge its exposure to foreign currency risk and interest rate risk associated with non-U.S. dollar denominated loans. As of December 31, 2018 and December 31, 2017, these loans were valued at \$11.0 million and \$1.5 million, respectively. The balance sheet amounts and the gains/losses associated with these derivatives were not significant.

## Note 22 ☐ Derivatives (continued)

### Master Netting and Similar Agreements

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

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

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

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

The net fair value, determined by individual counterparty, of all derivative instruments with adjustable collateral posting thresholds was \$20.7 million of assets and \$37.8 million of liabilities on December 31, 2018, and \$23.3 million of assets and \$34.5 million of liabilities on December 31, 2017. As of December 31, 2018 and 2017, FHN had received collateral of \$86.6 million and \$119.3 million and posted collateral of \$16.2 million and \$18.9 million, respectively, in the normal course of business related to these agreements.

Certain agreements entered into prior to required central clearing also contain accelerated termination provisions, inclusive of the right of offset, if a counterparty’s credit rating falls below a specified level. If a counterparty’s debt rating (including FHN’s and FTBNA’s) were to fall below these minimums, these provisions would be triggered, and the counterparties could terminate the agreements and require immediate settlement of all derivative contracts under the agreements. The net fair value, determined by individual counterparty, of all derivative instruments with credit-risk-related contingent accelerated termination provisions was \$19.0 million of assets and \$33.2 million of liabilities on December 31, 2018, and \$22.8 million of assets and \$19.4 million of liabilities on December 31, 2017. As of December 31, 2018 and 2017, FHN had received collateral of \$84.5 million and \$118.6 million and posted collateral of \$15.2 million and \$6.7 million, respectively, in the normal course of business related to these contracts.

FHN’s fixed income segment buys and sells various types of securities for its customers. When these securities settle on a delayed basis, they are considered forward contracts, and are generally not subject to master netting

**Note 22 ☐ Derivatives (continued)**

agreements. For futures and options, FHN transacts through a third party, and the transactions are subject to margin and collateral maintenance requirements. In the event of default, open positions can be offset along with the associated collateral.

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

The following table provides details of derivative assets and collateral received as presented on the Consolidated Statements of Condition as of December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i> | Gross amounts of recognized assets | Gross amounts offset in the Statements of Condition | Net amounts of assets presented in the Statements of Condition (a) | Gross amounts not offset in the Statements of Condition |                     |               |
|-------------------------------|------------------------------------|---|--|---|---------------------|---------------|
|                               |                                    |   |  | Derivative liabilities available for offset             | Collateral Received | Net amount    |
| Derivative assets:            |                                    |   |  |   |                     |               |
| <b>December 31, 2018 (b)</b>  | <b>\$52,562</b>                    | <b>\$ -</b>   | <b>\$52,562</b>  | <b>\$(12,745)</b>                                       | <b>\$(39,637)</b>   | <b>\$ 180</b> |
| December 31, 2017 (b)         | 71,458                             | -   | 71,458   | (17,278)  | (51,271)            | 2,909         |

(a) Included in Derivative assets on the Consolidated Statements of Condition. As of December 31, 2018 and 2017, \$28.9 million and \$10.2 million, respectively, of derivative assets (primarily fixed income forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) Amounts are comprised entirely of interest rate derivative contracts.

The following table provides details of derivative liabilities and collateral pledged as presented on the Consolidated Statements of Condition as of December 31, 2018 and 2017:

| <i>(Dollars in thousands)</i> | Gross amounts of recognized liabilities | Gross amounts offset in the Statements of Condition | Net amounts of liabilities presented in the Statements of Condition (a) | Gross amounts not offset in the Statements of Condition |                    |                |
|-------------------------------|---|---|---|---|--------------------|----------------|
|                               |   |   |   | Derivative assets available for offset                  | Collateral pledged | Net amount     |
| Derivative liabilities:       |   |   |   |   |                    |                |
| <b>December 31, 2018 (b)</b>  | <b>\$71,853</b>                         | <b>\$ -</b>   | <b>\$71,853</b>   | <b>\$(12,745)</b>                                       | <b>\$(54,773)</b>  | <b>\$4,335</b> |
| December 31, 2017 (b)         | 69,842                                  | -   | 69,842  | (17,278)  | (51,801)           | 763            |

(a) Included in Derivative liabilities on the Consolidated Statements of Condition. As of December 31, 2018 and 2017, \$61.9 million and \$15.2 million, respectively, of derivative liabilities (primarily Visa-related derivatives and fixed income forward contracts) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

(b) Amounts are comprised entirely of interest rate derivative contracts.

**Note 23 ☐ Master Netting and Similar Agreements - Repurchase, Reverse Repurchase, and Securities Borrowing Transactions**

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

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

The following table provides details of Securities purchased under agreements to resell as presented on the Consolidated Statements of Condition and collateral pledged by counterparties as of December 31:

| <i>(Dollars in thousands)</i>                    | Gross amounts of recognized assets | Gross amounts offset in the Statements of Condition | Net amounts of assets presented in the Statements of Condition | Gross amounts not offset in the Statements of Condition   |   | Net amount     |
|--|------------------------------------|---|--|---|---|----------------|
|  |                                    |   |  | Offsetting securities sold under agreements to repurchase | Securities collateral (not recognized on FHN's Statements of Condition) |                |
| Securities purchased under agreements to resell: |                                    |   |  |   |   |                |
| <b>2018</b>                                      | <b>\$386,443</b>                   | <b>\$ -</b>   | <b>\$386,443</b>   | <b>\$(261)</b>  | <b>\$(382,756)</b>  | <b>\$3,426</b> |
| 2017   | 725,609                            | -   | 725,609  | (259)   | (720,036)   | 5,314          |

The following table provides details of Securities sold under agreements to repurchase as presented on the Consolidated Statements of Condition and collateral pledged by FHN as of December 31:

| <i>(Dollars in thousands)</i>                   | Gross amounts of recognized liabilities | Gross amounts offset in the Statements of Condition | Net amounts of liabilities presented in the Statements of Condition | Gross amounts not offset in the Statements of Condition    |   | Net amount  |
|---|---|---|---|--|---|-------------|
|   |   |   |   | Offsetting securities purchased under agreements to resell | Securities/government guaranteed loans collateral |             |
| Securities sold under agreements to repurchase: |   |   |   |  |   |             |
| <b>2018</b>                                     | <b>\$762,592</b>                        | <b>\$ -</b>   | <b>\$762,592</b>  | <b>\$(261)</b>   | <b>\$(762,322)</b>                                | <b>\$ 9</b> |
| 2017  | 656,602                                 | -   | 656,602   | (259)  | (656,216)   | 127         |

Due to the short duration of Securities sold under agreements to repurchase and the nature of collateral involved, the risks associated with these transactions are considered minimal. The following tables provide details, by



**Note 23 ☐ Master Netting and Similar Agreements - Repurchase, Reverse Repurchase, and Securities Borrowing Transactions (continued)**

collateral type, of the remaining contractual maturity of Securities sold under agreements to repurchase as of December 31:

| <i>(Dollars in thousands)</i>                               | <b>December 31, 2018</b>    |                |                  |
|---|-----------------------------|----------------|------------------|
|   | Overnight and<br>Continuous | Up to 30 Days  | Total            |
| Securities sold under agreements to repurchase:             |                             |                |                  |
| U.S. treasuries   | \$ 16,321                   | \$ -           | \$ 16,321        |
| Government agency issued MBS                                | 414,488                     | 5,220          | 419,708          |
| Government agency issued CMO                                | 36,688                      | -              | 36,688           |
| Government guaranteed loans (SBA and USDA)                  | 289,875                     | -              | 289,875          |
| <b>Total Securities sold under agreements to repurchase</b> | <b>\$757,372</b>            | <b>\$5,220</b> | <b>\$762,592</b> |

| <i>(Dollars in thousands)</i>                               | December 31, 2017           |                |                  |
|---|-----------------------------|----------------|------------------|
|   | Overnight and<br>Continuous | Up to 30 Days  | Total            |
| Securities sold under agreements to repurchase:             |                             |                |                  |
| U.S. treasuries   | \$ 13,830                   | \$ -           | \$ 13,830        |
| Government agency issued MBS                                | 424,821                     | 5,365          | 430,186          |
| Government agency issued CMO                                | 54,037                      | 3,666          | 57,703           |
| Government guaranteed loans (SBA and USDA)                  | 154,883                     | -              | 154,883          |
| <b>Total Securities sold under agreements to repurchase</b> | <b>\$647,571</b>            | <b>\$9,031</b> | <b>\$656,602</b> |

**Note 24 ☐ Fair Value of Assets and Liabilities**

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

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

**Note 24 ☐ Fair Value of Assets and Liabilities (continued)****Recurring Fair Value Measurements**

The following table presents the balance of assets and liabilities measured at fair value on a recurring basis as of December 31, 2018:

| <i>(Dollars in thousands)</i>                   | December 31, 2018 |                    |                 |                    |
|---|-------------------|--------------------|-----------------|--------------------|
|   | Level 1           | Level 2            | Level 3         | Total              |
| <b>Trading securities – fixed income:</b>       |                   |                    |                 |                    |
| U.S. treasuries                                 | \$ -              | \$ 169,799         | \$ -            | \$ 169,799         |
| Government agency issued MBS                    | -                 | 133,373            | -               | 133,373            |
| Government agency issued CMO                    | -                 | 330,456            | -               | 330,456            |
| Other U.S. government agencies                  | -                 | 76,733             | -               | 76,733             |
| States and municipalities                       | -                 | 54,234             | -               | 54,234             |
| Corporate and other debt                        | -                 | 682,068            | -               | 682,068            |
| Equity, mutual funds, and other                 | -                 | (19)               | -               | (19)               |
| <b>Total trading securities – fixed income</b>  | <b>-</b>          | <b>1,446,644</b>   | <b>-</b>        | <b>1,446,644</b>   |
| Trading securities – mortgage banking           | -                 | -                  | 1,524           | 1,524              |
| Loans held-for-sale (elected fair value)        | -                 | -                  | 16,273          | 16,273             |
| <b>Securities available-for-sale:</b>           |                   |                    |                 |                    |
| U.S. treasuries                                 | -                 | 98                 | -               | 98                 |
| Government agency issued MBS                    | -                 | 2,420,106          | -               | 2,420,106          |
| Government agency issued CMO                    | -                 | 1,958,695          | -               | 1,958,695          |
| Other U.S. government agencies                  | -                 | 149,786            | -               | 149,786            |
| States and municipalities                       | -                 | 32,573             | -               | 32,573             |
| Corporate and other debt                        | -                 | 55,310             | -               | 55,310             |
| Interest-Only Strip (elected fair value)        | -                 | -                  | 9,902           | 9,902              |
| <b>Total securities available-for-sale</b>      | <b>-</b>          | <b>4,616,568</b>   | <b>9,902</b>    | <b>4,626,470</b>   |
| <b>Other assets:</b>                            |                   |                    |                 |                    |
| Deferred compensation mutual funds              | 37,771            | -                  | -               | 37,771             |
| Equity, mutual funds, and other                 | 22,248            | -                  | -               | 22,248             |
| Derivatives, forwards and futures               | 28,826            | -                  | -               | 28,826             |
| Derivatives, interest rate contracts            | -                 | 52,214             | -               | 52,214             |
| Derivatives, other                              | -                 | 435                | -               | 435                |
| <b>Total other assets</b>                       | <b>88,845</b>     | <b>52,649</b>      | <b>-</b>        | <b>141,494</b>     |
| <b>Total assets</b>                             | <b>\$88,845</b>   | <b>\$6,115,861</b> | <b>\$27,699</b> | <b>\$6,232,405</b> |
| <b>Trading liabilities – fixed income:</b>      |                   |                    |                 |                    |
| U.S. treasuries                                 | \$ -              | \$ 207,739         | \$ -            | \$ 207,739         |
| Other U.S. government agencies                  | -                 | 98                 | -               | 98                 |
| Corporates and other debt                       | -                 | 127,543            | -               | 127,543            |
| <b>Total trading liabilities – fixed income</b> | <b>-</b>          | <b>335,380</b>     | <b>-</b>        | <b>335,380</b>     |
| <b>Other liabilities:</b>                       |                   |                    |                 |                    |
| Derivatives, forwards and futures               | 30,236            | -                  | -               | 30,236             |
| Derivatives, interest rate contracts            | -                 | 71,853             | -               | 71,853             |
| Derivatives, other                              | -                 | 84                 | 31,540          | 31,624             |
| <b>Total other liabilities</b>                  | <b>30,236</b>     | <b>71,937</b>      | <b>31,540</b>   | <b>133,713</b>     |
| <b>Total liabilities</b>                        | <b>\$30,236</b>   | <b>\$ 407,317</b>  | <b>\$31,540</b> | <b>\$ 469,093</b>  |

**Note 24 ☐ Fair Value of Assets and Liabilities (continued)**

The following table presents the balance of assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

| <i>(Dollars in thousands)</i>                  | December 31, 2017 |                    |                 |                    |
|--|-------------------|--------------------|-----------------|--------------------|
|  | Level 1           | Level 2            | Level 3         | Total              |
| Trading securities – fixed income:             |                   |                    |                 |                    |
| U.S. treasuries                                | \$ -              | \$ 128,995         | \$ -            | \$ 128,995         |
| Government agency issued MBS                   | -                 | 227,038            | -               | 227,038            |
| Government agency issued CMO                   | -                 | 275,014            | -               | 275,014            |
| Other U.S. government agencies                 | -                 | 54,699             | -               | 54,699             |
| States and municipalities                      | -                 | 34,573             | -               | 34,573             |
| Corporate and other debt                       | -                 | 693,877            | -               | 693,877            |
| Equity, mutual funds, and other                | -                 | (2)                | -               | (2)                |
| <b>Total trading securities – fixed income</b> | <b>-</b>          | <b>1,414,194</b>   | <b>-</b>        | <b>1,414,194</b>   |
| Trading securities – mortgage banking          | -                 | -                  | 2,151           | 2,151              |
| Loans held-for-sale                            | -                 | 1,955              | 18,926          | 20,881             |
| Securities available-for-sale:                 |                   |                    |                 |                    |
| U.S. treasuries                                | -                 | 99                 | -               | 99                 |
| Government agency issued MBS                   | -                 | 2,577,376          | -               | 2,577,376          |
| Government agency issued CMO                   | -                 | 2,269,858          | -               | 2,269,858          |
| Corporates and other debt                      | -                 | 55,782             | -               | 55,782             |
| Interest-only strips                           | -                 | -                  | 1,270           | 1,270              |
| Equity, mutual funds, and other                | 27,017            | -                  | -               | 27,017             |
| <b>Total securities available-for-sale</b>     | <b>27,017</b>     | <b>4,903,115</b>   | <b>1,270</b>    | <b>4,931,402</b>   |
| Other assets:                                  |                   |                    |                 |                    |
| Deferred compensation assets                   | 39,822            | -                  | -               | 39,822             |
| Derivatives, forwards and futures              | 10,161            | -                  | -               | 10,161             |
| Derivatives, interest rate contracts           | -                 | 71,473             | -               | 71,473             |
| <b>Total other assets</b>                      | <b>49,983</b>     | <b>71,473</b>      | <b>-</b>        | <b>121,456</b>     |
| <b>Total assets</b>                            | <b>\$77,000</b>   | <b>\$6,390,737</b> | <b>\$22,347</b> | <b>\$6,490,084</b> |
| Trading liabilities-fixed income:              |                   |                    |                 |                    |
| U.S. treasuries                                | \$ -              | \$ 506,679         | \$ -            | \$ 506,679         |
| Corporates and other debt                      | -                 | 131,836            | -               | 131,836            |
| <b>Total trading liabilities-fixed income</b>  | <b>-</b>          | <b>638,515</b>     | <b>-</b>        | <b>638,515</b>     |
| Other liabilities:                             |                   |                    |                 |                    |
| Derivatives, forwards and futures              | 9,535             | -                  | -               | 9,535              |
| Derivatives, interest rate contracts           | -                 | 69,842             | -               | 69,842             |
| Derivatives, other                             | -                 | 39                 | 5,645           | 5,684              |
| <b>Total other liabilities</b>                 | <b>9,535</b>      | <b>69,881</b>      | <b>5,645</b>    | <b>85,061</b>      |
| <b>Total liabilities</b>                       | <b>\$ 9,535</b>   | <b>\$ 708,396</b>  | <b>\$ 5,645</b> | <b>\$ 723,576</b>  |

**Note 24 ☐ Fair Value of Assets and Liabilities (continued)**

**Changes in Recurring Level 3 Fair Value Measurements**

The changes in Level 3 assets and liabilities measured at fair value for the years ended December 31, 2018, 2017 and 2016 on a recurring basis are summarized as follows:

| <i>(Dollars in thousands)</i>         | <b>Year Ended December 31, 2018</b> |                          |                     |                            |
|---------------------------------------|-------------------------------------|--------------------------|---------------------|----------------------------|
|                                       | Trading securities                  | Interest-only strips-AFS | Loans held-for-sale | Net derivative liabilities |
| Balance on January 1, 2018            | \$2,151                             | \$ 1,270                 | \$18,926            | \$ (5,645)                 |
| Total net gains/(losses) included in: |                                     |                          |                     |                            |
| Net income                            | 173                                 | (398)                    | 1,239               | (4,677)                    |
| Purchases                             | -                                   | -                        | 62                  | (28,100)(e)                |
| Sales                                 | -                                   | (16,840)                 | -                   | -                          |
| Settlements                           | (800)                               | -                        | (3,598)             | 6,882                      |
| Net transfers into/(out of) Level 3   | -                                   | 25,870(b)                | (356)(d)            | -                          |
| <b>Balance on December 31, 2018</b>   | <b>\$1,524</b>                      | <b>\$ 9,902</b>          | <b>\$16,273</b>     | <b>\$(31,540)</b>          |

|  |         |               |             |               |
|--|---------|---------------|-------------|---------------|
| Net unrealized gains/(losses) included in net income | \$ 6(a) | \$ (1,025)(c) | \$ 1,239(a) | \$ (4,677)(f) |
|--|---------|---------------|-------------|---------------|

| <i>(Dollars in thousands)</i>         | <b>Year Ended December 31, 2017</b> |                          |                     |                            |
|---------------------------------------|-------------------------------------|--------------------------|---------------------|----------------------------|
|                                       | Trading securities                  | Interest-only strips-AFS | Loans held-for-sale | Net derivative liabilities |
| Balance on January 1, 2017            | \$2,573                             | \$ -                     | \$21,924            | \$(6,245)                  |
| Total net gains/(losses) included in: |                                     |                          |                     |                            |
| Net income                            | 448                                 | 1,021                    | 1,547               | (596)                      |
| Purchases                             | -                                   | 1,413                    | 168                 | -                          |
| Sales                                 | (5)                                 | (11,431)                 | -                   | -                          |
| Settlements                           | (865)                               | -                        | (4,346)             | 1,196                      |
| Net transfers into/(out of) Level 3   | -                                   | 10,267(b)                | (367)(d)            | -                          |
| <b>Balance on December 31, 2017</b>   | <b>\$2,151</b>                      | <b>\$ 1,270</b>          | <b>\$18,926</b>     | <b>\$(5,645)</b>           |

|  |           |             |             |             |
|--|-----------|-------------|-------------|-------------|
| Net unrealized gains/(losses) included in net income | \$ 303(a) | \$ (171)(c) | \$ 1,547(a) | \$ (596)(f) |
|--|-----------|-------------|-------------|-------------|

| <i>(Dollars in thousands)</i>         | <b>Year Ended December 31, 2016</b> |                     |                               |                                |                            |
|---------------------------------------|-------------------------------------|---------------------|-------------------------------|--------------------------------|----------------------------|
|                                       | Trading securities                  | Loans held-for-sale | Securities available-for-sale | Mortgage servicing rights, net | Net derivative liabilities |
| Balance on January 1, 2016            | \$ 4,377                            | \$27,418            | \$ 1,500                      | \$1,841                        | \$(4,810)                  |
| Total net gains/(losses) included in: |                                     |                     |                               |                                |                            |
| Net income                            | 604                                 | 3,380               | -                             | 31                             | (2,634)                    |
| Purchases                             | -                                   | 706                 | -                             | -                              | -                          |
| Sales                                 | -                                   | -                   | -                             | (205)                          | -                          |
| Settlements                           | (2,408)                             | (6,264)             | (1,500)                       | (682)                          | 1,199                      |
| Net transfers into/(out of) Level 3   | -                                   | (3,316)(d)          | -                             | -                              | -                          |
| <b>Balance on December 31, 2016</b>   | <b>\$ 2,573</b>                     | <b>\$21,924</b>     | <b>\$ -</b>                   | <b>\$ 985</b>                  | <b>\$(6,245)</b>           |

|  |           |             |      |      |              |
|--|-----------|-------------|------|------|--------------|
| Net unrealized gains/(losses) included in net income | \$ 159(a) | \$ 3,380(a) | \$ - | \$ - | \$(2,634)(f) |
|--|-----------|-------------|------|------|--------------|

(a) Primarily included in mortgage banking income on the Consolidated Statements of Income.

(b) Transfers into interest-only strips - AFS level 3 measured on a recurring basis reflect movements from loans held-for-sale (Level 2 nonrecurring).

(c) Primarily included in fixed income on the Consolidated Statements of Income.

(d) Transfers out of loans held-for-sale level 3 measured on a recurring basis generally reflect movements into OREO (level 3 nonrecurring).

(e) Increase related to newly executed Visa-related derivatives, see Note 22-Derivatives.

(f) Included in Other expense.

## Note 24 ☐ Fair Value of Assets and Liabilities (continued)

There were no net unrealized gains/(losses) for Level 3 assets and liabilities included in other comprehensive income as of December 31, 2018, 2017 and 2016.

### Nonrecurring Fair Value Measurements

From time to time, FHN may be required to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market ("LOCOM") accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis which were still held on the balance sheet at December 31, 2018, 2017 and 2016, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment, the related carrying value, and the fair value adjustments recorded during the respective periods.

| <i>(Dollars in thousands)</i>         | <b>Carrying value at December 31, 2018</b> |           |         |           | <b>Year Ended<br/>December 31, 2018</b> |
|---------------------------------------|--|-----------|---------|-----------|---|
|                                       | Level 1                                    | Level 2   | Level 3 | Total     | Net gains/(losses)                      |
| Loans held-for-sale – other consumer  | \$-  | \$ 18,712 | \$ -    | \$ 18,712 | \$ (1,809)                              |
| Loans held-for-sale – SBAs and USDA   | -  | 577,280   | 1,011   | 578,291   | (2,541)                                 |
| Loans held-for-sale – first mortgages | -  | -         | 541     | 541       | 13                                      |
| Loans, net of unearned income (a)     | -  | -         | 48,259  | 48,259    | (841)                                   |
| OREO (b)                              | -  | -         | 22,387  | 22,387    | (2,599)                                 |
| Other assets (c)                      | -  | -         | 8,845   | 8,845     | (4,712)                                 |
|                                       |  |           |         |           | <u>\$(12,489)</u>                       |

| <i>(Dollars in thousands)</i>         | <b>Carrying value at December 31, 2017</b> |           |          |           | <b>Year Ended<br/>December 31, 2017</b> |
|---------------------------------------|--|-----------|----------|-----------|---|
|                                       | Level 1                                    | Level 2   | Level 3  | Total     | Net gains/(losses)                      |
| Loans held-for-sale – SBAs and USDA   | \$-  | \$465,504 | \$ 1,473 | \$466,977 | \$(1,629)                               |
| Loans held-for-sale – first mortgages | -  | -         | 618      | 618       | 36                                      |
| Loans, net of unearned income (a)     | -  | -         | 26,666   | 26,666    | (1,687)                                 |
| OREO (b)                              | -  | -         | 39,566   | 39,566    | (996)                                   |
| Other assets (c)                      | -  | -         | 26,521   | 26,521    | (3,468)                                 |
|                                       |  |           |          |           | <u>\$(7,744)</u>                        |

| <i>(Dollars in thousands)</i>         | <b>Carrying value at December 31, 2016</b> |         |         |          | <b>Year Ended<br/>December 31, 2016</b> |
|---------------------------------------|--|---------|---------|----------|---|
|                                       | Level 1                                    | Level 2 | Level 3 | Total    | Net gains/(losses)                      |
| Loans held-for-sale – SBAs            | \$-  | \$4,286 | \$ -    | \$ 4,286 | \$ (1)                                  |
| Loans held-for-sale – first mortgages | -  | -       | 638     | 638      | 75                                      |
| Loans, net of unearned income (a)     | -  | -       | 31,070  | 31,070   | (2,055)                                 |
| OREO (b)                              | -  | -       | 11,235  | 11,235   | (2,041)                                 |
| Other assets (c)                      | -  | -       | 29,609  | 29,609   | (3,349)                                 |
|                                       |  |         |         |          | <u>\$(7,371)</u>                        |

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

In fourth, third, and second quarters of 2018, FHN recognized \$1.9 million, \$.7 million, and \$1.3 million, respectively, of impairments of long-lived assets in its corporate segment primarily related to optimization efforts for its facilities. In fourth quarter 2017, FHN recognized \$3.0 million and \$.8 million of impairments on long-lived assets in its Corporate and Regional Banking segments, respectively, associated with efforts to more efficiently utilize its branch locations, including integration with branches acquired from CBF. In first quarter 2016, FHN's

**Note 24 ☐ Fair Value of Assets and Liabilities (continued)**

Regional Banking segment recognized \$3.7 million of impairments on long-lived assets for similar efficiency efforts. \$1.0 million of the fourth quarter 2017 impairments in the corporate segment were reversed in third quarter 2018 based on the disposition price for the applicable location and an additional \$.5 million was reversed in fourth quarter 2018. The affected branch locations represented a mixture of owned and leased sites. The fair values of owned sites were determined using estimated sales prices from appraisals less estimated costs to sell. The fair values of leased sites were determined using a discounted cash flow approach, based on the revised estimated useful lives of the related assets. Both measurement methodologies are considered Level 3 valuations.

In third quarter 2017, FHN's Corporate segment recognized \$2.0 million of impairments on long-lived technology assets associated with the transition to expanded processing capacity that was required upon completion of the merger with CBF. The fair values of the assets impaired were determined using a discounted cash flow approach which reflected short estimated remaining lives and considered estimated salvage values. The measurement methodologies are considered Level 3 valuations.

**Note 24 □ Fair Value of Assets and Liabilities (continued)**

**Level 3 Measurements**

The following tables provide information regarding the unobservable inputs utilized in determining the fair value of level 3 recurring and non-recurring measurements as of December 31, 2018 and 2017:

(Dollars in thousands)

| Level 3 Class  | Fair Value at<br>December 31, 2018 | Valuation Techniques                     | Unobservable Input  | Values Utilized                 |                         |
|--|------------------------------------|--|---|---------------------------------|-------------------------|
|  |                                    |  |   | Range                           | Weighted<br>Average (d) |
| Available-for-sale –<br>securities SBA-interest<br>only strips | \$ 9,902                           | Discounted cash flow                     | Constant prepayment rate  | 11% - 12%                       | 11%                     |
|  |                                    |  | Bond equivalent yield   | 14% - 15%                       | 14%                     |
| Loans held-for-sale –<br>residential real estate               | 16,815                             | Discounted cash flow                     | Prepayment speeds –<br>First mortgage                             | 2% - 10%                        | 3%                      |
|  |                                    |  | Prepayment speeds –<br>HELOC                                      | 5% - 12%                        | 7.5%                    |
|  |                                    |  | Foreclosure losses  | 50% - 66%                       | 63%                     |
|  |                                    |  | Loss severity trends –<br>First mortgage                          | 2% - 25% of UPB                 | 17%                     |
|  |                                    |  | Loss severity trends –<br>HELOC                                   | 50% - 100% of UPB               | 50%                     |
| Loans held-for-sale –<br>unguaranteed interest<br>in SBA loans | 1,011                              | Discounted cash flow                     | Constant prepayment<br>rate                                       | 8% - 12%                        | 10%                     |
|  |                                    |  | Bond equivalent yield   | 9%                              | 9%                      |
| Derivative liabilities,<br>other                               | 31,540                             | Discounted cash flow                     | Visa covered litigation<br>resolution amount                      | \$5.0 billion - \$5.8 billion   | \$5.6 billion           |
|  |                                    |  | Probability of<br>resolution scenarios                            | 10% - 25%                       | 23%                     |
|  |                                    |  | Time until resolution   | 18 - 48 months                  | 36 months               |
| Loans, net of unearned<br>income (a)                           | 48,259                             | Appraisals from<br>comparable properties | Marketability<br>adjustments for<br>specific properties           | 0% - 10% of<br>appraisal        | NM                      |
|  |                                    | Other collateral<br>valuations           | Borrowing base<br>certificates adjustment                         | 20% - 50% of<br>gross value     | NM                      |
|  |                                    |  | Financial<br>Statements/Auction<br>values adjustment              | 0% - 25% of<br>reported value   | NM                      |
| OREO (b)   | 22,387                             | Appraisals from<br>comparable properties | Adjustment for value<br>changes since appraisal                   | 0% - 10% of<br>appraisal        | NM                      |
| Other assets (c)   | 8,845                              | Discounted cash flow                     | Adjustments to current<br>sales yields for<br>specific properties | 0% - 15%<br>adjustment to yield | NM                      |
|  |                                    | Appraisals from<br>comparable properties | Marketability<br>adjustments for<br>specific properties           | 0% - 25%<br>of appraisal        | NM                      |

NM - Not meaningful.

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

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

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

(d) Weighted averages are determined by the relative fair value of the instruments or the relative contribution to an instrument's fair value



**Note 24 ☐ Fair Value of Assets and Liabilities (continued)**
*(Dollars in thousands)*

| Level 3 Class   | Fair Value at<br>December 31, 2017 | Valuation Techniques                     | Unobservable Input  | Values Utilized                 |                         |
|---|------------------------------------|--|---|---------------------------------|-------------------------|
|   |                                    |  |   | Range                           | Weighted<br>Average (d) |
| Available-for-sale –<br>securities SBA-<br>interest only strips | \$ 1,270                           | Discounted cash flow                     | Constant prepayment<br>rate                                       | 10% - 11%                       | 11%                     |
|   |                                    |  | Bond equivalent yield   | 17%                             | 17%                     |
| Loans held-for-sale –<br>residential real estate                | 19,544                             | Discounted cash flow                     | Prepayment speeds –<br>First mortgage                             | 2% - 12%                        | 3%                      |
|   |                                    |  | Prepayment speeds –<br>HELOC                                      | 5% - 12%                        | 8%                      |
|   |                                    |  | Foreclosure losses  | 50% - 70%                       | 65%                     |
|   |                                    |  | Loss severity trends –<br>First mortgage                          | 5% - 30% of UPB                 | 20%                     |
|   |                                    |  | Loss severity trends –<br>HELOC                                   | 15% - 100% of UPB               | 55%                     |
| Loans held-for-sale –<br>unguaranteed<br>interest in SBA loans  | 1,473                              | Discounted cash flow                     | Constant prepayment<br>rate                                       | 8% - 12%                        | 10%                     |
|   |                                    |  | Bond equivalent yield   | 9% - 10%                        | 10%                     |
| Derivative liabilities,<br>other                                | 5,645                              | Discounted cash flow                     | Visa covered litigation<br>resolution amount                      | \$4.4 billion - \$5.2 billion   | \$4.9 billion           |
|   |                                    |  | Probability of<br>resolution scenarios                            | 10% - 30%                       | 23%                     |
|   |                                    |  | Time until resolution   | 18 - 48 months                  | 35 months               |
| Loans, net of unearned<br>income (a)                            | 26,666                             | Appraisals from<br>comparable properties | Marketability<br>adjustments for<br>specific properties           | 0% - 10% of appraisal           | NM                      |
|   |                                    | Other collateral<br>valuations           | Borrowing base<br>certificates adjustment                         | 20% - 50% of gross value        | NM                      |
|   |                                    |  | Financial<br>Statements/Auction<br>values adjustment              | 0% - 25% of<br>reported value   | NM                      |
| OREO (b)  | 39,566                             | Appraisals from<br>comparable properties | Adjustment for value<br>changes since<br>appraisal                | 0% - 10% of appraisal           | NM                      |
| Other assets (c)  | 26,521                             | Discounted cash flow                     | Adjustments to current<br>sales yields for<br>specific properties | 0% - 15% adjustment<br>to yield | NM                      |
|   |                                    | Appraisals from<br>comparable properties | Marketability<br>adjustments for<br>specific properties           | 0% - 25% of appraisal           | NM                      |

NM - Not meaningful.

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

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

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

(d) Weighted averages are determined by the relative fair value of the instruments or the relative contribution to an instrument's fair value

## Note 24 ☐ Fair Value of Assets and Liabilities (continued)

**Securities AFS.** Increases (decreases) in estimated prepayment rates and bond equivalent yields negatively (positively) affect the value of SBA interest only strips. Management additionally considers whether the loans underlying related SBA-interest only strips are delinquent, in default or prepaying, and adjusts the fair value down 20 - 100% depending on the length of time in default.

**Loans held-for-sale.** Foreclosure losses and prepayment rates are significant unobservable inputs used in the fair value measurement of FHN's residential real estate loans held-for-sale. Loss severity trends are also assessed to evaluate the reasonableness of fair value estimates resulting from discounted cash flows methodologies as well as to estimate fair value for newly repurchased loans and loans that are near foreclosure. Significant increases (decreases) in any of these inputs in isolation would result in significantly lower (higher) fair value measurements. All observable and unobservable inputs are re-assessed quarterly.

Increases (decreases) in estimated prepayment rates and bond equivalent yields negatively (positively) affect the value of unguaranteed interests in SBA loans. Unguaranteed interest in SBA loans held-for-sale are carried at less than the outstanding balance due to credit risk estimates. Credit risk adjustments may be reduced if prepayment is likely or as consistent payment history is realized. Management also considers other factors such as delinquency or default and adjusts the fair value accordingly.

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

**Loans, net of unearned income and Other Real Estate Owned.** Collateral-dependent loans and OREO are primarily valued using appraisals based on sales of comparable properties in the same or similar markets. Other collateral (receivables, inventory, equipment, etc.) is valued through borrowing base certificates, financial statements and/or auction valuations. These valuations are discounted based on the quality of reporting, knowledge of the marketability/collectability of the collateral and historical disposition rates.

**Other assets—tax credit investments.** The estimated fair value of tax credit investments accounted for under the equity method is generally determined in relation to the yield (i.e., future tax credits to be received) an acquirer of these investments would expect in relation to the yields experienced on current new issue and/or secondary market transactions. Thus, as tax credits are recognized, the future yield to a market participant is reduced, resulting in consistent impairment of the individual investments. Individual investments are reviewed for impairment quarterly, which may include the consideration of additional marketability discounts related to specific investments which typically includes consideration of the underlying property's appraised value.

### Fair Value Option

FHN has elected the fair value option on a prospective basis for almost all types of mortgage loans originated for sale purposes under the Financial Instruments Topic ("ASC 825") except for mortgage origination operations which utilize the platform acquired from CBF. FHN determined that the election reduces certain timing differences and better matches changes in the value of such loans with changes in the value of derivatives and forward delivery commitments used as economic hedges for these assets at the time of election.

**Note 24 ☐ Fair Value of Assets and Liabilities (continued)**

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

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

|   | December 31, 2018          |                            |  |
|---|----------------------------|----------------------------|--|
|   | Fair value carrying amount | Aggregate unpaid principal | Fair value carrying amount less aggregate unpaid principal |
| <i>(Dollars in thousands)</i>                                       |                            |                            |  |
| Residential real estate loans held-for-sale reported at fair value: |                            |                            |  |
| Total loans   | \$16,273                   | \$23,567                   | \$(7,294)  |
| Nonaccrual loans  | 4,536                      | 8,128                      | (3,592)  |
| Loans 90 days or more past due and still accruing                   | 171                        | 281                        | (110)  |

|   | December 31, 2017          |                            |  |
|---|----------------------------|----------------------------|--|
|   | Fair value carrying amount | Aggregate unpaid principal | Fair value carrying amount less aggregate unpaid principal |
| <i>(Dollars in thousands)</i>                                       |                            |                            |  |
| Residential real estate loans held-for-sale reported at fair value: |                            |                            |  |
| Total loans   | \$20,881                   | \$29,755                   | \$(8,874)  |
| Nonaccrual loans  | 5,783                      | 10,881                     | (5,098)  |
| Loans 90 days or more past due and still accruing                   | -                          | -                          | -  |

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

|   | Year Ended<br>December 31 |         |         |
|---|---------------------------|---------|---------|
|   | 2018                      | 2017    | 2016    |
| <i>(Dollars in thousands)</i>                 |                           |         |         |
| Changes in fair value included in net income: |                           |         |         |
| Mortgage banking noninterest income           |                           |         |         |
| Loans held-for-sale                           | <b>\$1,239</b>            | \$1,547 | \$3,380 |

For the years ended December 31, 2018, 2017 and 2016, the amounts for residential real estate loans held-for-sale included gains of \$.2 million, \$.5 million, and \$1.5 million, respectively, in pretax earnings that are attributable to changes in instrument-specific credit risk. The portion of the fair value adjustments related to credit risk was determined based on estimated default rates and estimated loss severities. Interest income on residential real estate loans held-for-sale measured at fair value is calculated based on the note rate of the loan and is recorded in the interest income section of the Consolidated Statements of Income as interest on loans held-for-sale.

## Note 24 ☐ Fair Value of Assets and Liabilities (continued)

FHN has elected to account for retained interest-only strips from guaranteed SBA loans recorded in available-for-sale securities at fair value through earnings. Since these securities are subject to the risk that prepayments may result in FHN not recovering all or a portion of its recorded investment, the fair value election results in a more timely recognition of the effects of estimated prepayments through earnings rather than being recognized through other comprehensive income with periodic review for other-than-temporary impairment. Gains or losses are recognized through fixed income revenues and are presented in the recurring measurements table.

### Determination of Fair Value

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

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

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

Trading securities also include retained interests in prior mortgage securitizations that qualify as financial assets, which include primarily principal-only strips. FHN uses inputs including yield curves, credit spreads, and prepayment speeds to determine the fair value of principal-only strips.

**Securities available-for-sale.** Securities available-for-sale includes the investment portfolio accounted for as available-for-sale under ASC 320-10-25. Valuations of available-for-sale securities are performed using observable inputs obtained from market transactions in similar securities. Typical inputs include LIBOR and U.S. treasury curves, consensus prepayment estimates, and credit spreads. When available, broker quotes are used to support these valuations.

Interest only strips are valued at elected fair value based on an income approach using an internal valuation model. The internal valuation model includes assumptions regarding projections of future cash flows, prepayment rates, default rates and interest only strip terms. These securities bear the risk of loan prepayment or default that may result in the Company not recovering all or a portion of its recorded investment. When appropriate, valuations are adjusted for various factors including default or prepayment status of the underlying SBA loans. Because of the inherent uncertainty of valuation, those estimated values may be higher or lower than the values that would have been used had a ready market for the securities existed, and may change in the near term.

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

## Note 24 ☐ Fair Value of Assets and Liabilities (continued)

appropriate fair value for severely delinquent loans and loans in foreclosure. The valuation of HELOCs also incorporates estimated cancellation rates for loans expected to become delinquent.

Non-mortgage consumer loans held-for-sale are valued using committed bids for specific loans or loan portfolios or current market pricing for similar assets with adjustments for differences in credit standing (delinquency, historical default rates for similar loans), yield, collateral values and prepayment rates. If pricing for similar assets is not available, a discounted cash flow methodology is utilized, which incorporates all of these factors into an estimate of investor required yield for the discount rate.

The Company utilizes quoted market prices of similar instruments or broker and dealer quotations to value the SBA and USDA guaranteed loans. The Company values SBA-unguaranteed interests in loans held-for-sale based on individual loan characteristics, such as industry type and pay history which generally follows an income approach. Furthermore, these valuations are adjusted for changes in prepayment estimates and are reduced due to restrictions on trading. The fair value of other non-residential real estate loans held-for-sale is approximated by their carrying values based on current transaction values.

**Collateral-Dependent loans.** For loans measured using the estimated fair value of collateral less costs to sell, fair value is estimated using appraisals of the collateral. Collateral values are monitored and additional write-downs are recognized if it is determined that the estimated collateral values have declined further. Estimated costs to sell are based on current amounts of disposal costs for similar assets. Carrying value is considered to reflect fair value for these loans.

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

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

**OREO.** OREO primarily consists of properties that have been acquired in satisfaction of debt. These properties are carried at the lower of the outstanding loan amount or estimated fair value less estimated costs to sell the real estate. Estimated fair value is determined using appraised values with subsequent adjustments for deterioration in values that are not reflected in the most recent appraisal.

**Nonearning assets.** For disclosure purposes, for periods prior to 2018, nonearning financial assets include cash and due from banks, accrued interest receivable, and fixed income receivables. Due to the short-term nature of cash and due from banks, accrued interest receivable, and fixed income receivables, the fair value is approximated by the book value.

**Other assets.** For disclosure purposes, other assets consist of tax credit investments, FRB and FHLB Stock, deferred compensation mutual funds and equity investments (including other mutual funds) with readily determinable fair values. Tax credit investments accounted for under the equity method are written down to estimated fair value quarterly based on the estimated value of the associated tax credits which incorporates estimates of required yield for hypothetical investors. The fair value of all other tax credit investments is estimated

## Note 24 ☐ Fair Value of Assets and Liabilities (continued)

using recent transaction information with adjustments for differences in individual investments. Deferred compensation mutual funds are recognized at fair value, which is based on quoted prices in active markets.

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

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

**Undefined maturity deposits.** For periods prior to 2018, in accordance with ASC 825, the fair value of these deposits is approximated by the book value. For the purpose of this disclosure, undefined maturity deposits include demand deposits, checking interest accounts, savings accounts, and money market accounts.

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

**Other noninterest-bearing liabilities.** For disclosure purposes for periods prior to 2018, other noninterest-bearing financial liabilities include accrued interest payable and fixed income payables. Due to the short-term nature of these liabilities, the book value is considered to approximate fair value.

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

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

The following fair value estimates are determined as of a specific point in time utilizing various assumptions and estimates. The use of assumptions and various valuation techniques, as well as the absence of secondary markets for certain financial instruments, reduces the comparability of fair value disclosures between financial institutions. Due to market illiquidity, the fair values for loans, net of unearned income, loans held-for-sale, and term borrowings as of December 31, 2018 and 2017, involve the use of significant internally-developed pricing assumptions for certain components of these line items. The assumptions and valuations utilized for this disclosure are considered to reflect inputs that market participants would use in transactions involving these instruments as of the measurement date. The valuations of legacy assets, particularly consumer loans within the Non-Strategic segment and TRUPS loans, are influenced by changes in economic conditions since origination and risk perceptions of the financial sector. These considerations affect the estimate of a potential acquirer's cost of capital and cash flow volatility assumptions from these assets and the resulting fair value measurements may depart significantly from FHN's internal estimates of the intrinsic value of these assets.

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

**Note 24 ☐ Fair Value of Assets and Liabilities (continued)**

The following tables summarize the book value and estimated fair value of financial instruments recorded in the Consolidated Statements of Condition as of December 31, 2018 and December 31, 2017:

| <i>(Dollars in thousands)</i>  | <b>December 31, 2018</b> |                    |                    |                     |                     |
|--|--------------------------|--------------------|--------------------|---------------------|---------------------|
|  | Book Value               | Fair Value         |                    |                     | Total               |
|  |                          | Level 1            | Level 2            | Level 3             |                     |
| <b>Assets:</b>   |                          |                    |                    |                     |                     |
| Loans, net of unearned income and allowance for loan losses              |                          |                    |                    |                     |                     |
| Commercial:  |                          |                    |                    |                     |                     |
| Commercial, financial and industrial                                     | \$16,415,381             | \$ -               | \$ -               | \$16,438,272        | \$16,438,272        |
| Commercial real estate   | 3,999,559                | -                  | -                  | 3,997,736           | 3,997,736           |
| Consumer:  |                          |                    |                    |                     |                     |
| Consumer real estate   | 6,223,077                | -                  | -                  | 6,194,066           | 6,194,066           |
| Permanent mortgage   | 211,448                  | -                  | -                  | 227,254             | 227,254             |
| Credit card & other  | 505,643                  | -                  | -                  | 507,001             | 507,001             |
| <b>Total loans, net of unearned income and allowance for loan losses</b> | <b>27,355,108</b>        | <b>-</b>           | <b>-</b>           | <b>27,364,329</b>   | <b>27,364,329</b>   |
| Short-term financial assets:   |                          |                    |                    |                     |                     |
| Interest-bearing cash  | 1,277,611                | 1,277,611          | -                  | -                   | 1,277,611           |
| Federal funds sold   | 237,591                  | -                  | 237,591            | -                   | 237,591             |
| Securities purchased under agreements to resell                          | 386,443                  | -                  | 386,443            | -                   | 386,443             |
| <b>Total short-term financial assets</b>                                 | <b>1,901,645</b>         | <b>1,277,611</b>   | <b>624,034</b>     | <b>-</b>            | <b>1,901,645</b>    |
| Trading securities (a)   | 1,448,168                | -                  | 1,446,644          | 1,524               | 1,448,168           |
| Loans held-for-sale:   |                          |                    |                    |                     |                     |
| Mortgage loans (elected fair value) (a)                                  | 16,273                   | -                  | -                  | 16,273              | 16,273              |
| USDA & SBA loans- LOCOM  | 578,291                  | -                  | 582,476            | 1,015               | 583,491             |
| Other consumer loans- LOCOM  | 25,134                   | -                  | 6,422              | 18,712              | 25,134              |
| Mortgage loans- LOCOM  | 59,451                   | -                  | -                  | 59,451              | 59,451              |
| <b>Total loans held-for-sale</b>   | <b>679,149</b>           | <b>-</b>           | <b>588,898</b>     | <b>95,451</b>       | <b>684,349</b>      |
| Securities available-for-sale (a)  | 4,626,470                | -                  | 4,616,568          | 9,902               | 4,626,470           |
| Securities held-to-maturity  | 10,000                   | -                  | -                  | 9,843               | 9,843               |
| Derivative assets (a)  | 81,475                   | 28,826             | 52,649             | -                   | 81,475              |
| Other assets:  |                          |                    |                    |                     |                     |
| Tax credit investments   | 163,300                  | -                  | -                  | 159,452             | 159,452             |
| Deferred compensation mutual funds                                       | 37,771                   | 37,771             | -                  | -                   | 37,771              |
| Equity, mutual funds, and other (b)                                      | 240,780                  | 22,248             | -                  | 218,532             | 240,780             |
| <b>Total other assets</b>  | <b>441,851</b>           | <b>60,019</b>      | <b>-</b>           | <b>377,984</b>      | <b>438,003</b>      |
| <b>Total assets</b>  | <b>\$36,543,866</b>      | <b>\$1,366,456</b> | <b>\$7,328,793</b> | <b>\$27,859,033</b> | <b>\$36,554,282</b> |
| <b>Liabilities:</b>  |                          |                    |                    |                     |                     |
| Defined maturity deposits  | \$ 4,105,777             | \$ -               | \$4,082,822        | \$ -                | \$ 4,082,822        |
| Trading liabilities (a)  | 335,380                  | -                  | 335,380            | -                   | 335,380             |
| Short-term financial liabilities:  |                          |                    |                    |                     |                     |
| Federal funds purchased  | 256,567                  | -                  | 256,567            | -                   | 256,567             |
| Securities sold under agreements to repurchase                           | 762,592                  | -                  | 762,592            | -                   | 762,592             |
| Other short-term borrowings  | 114,764                  | -                  | 114,764            | -                   | 114,764             |
| <b>Total short-term financial liabilities</b>                            | <b>1,133,923</b>         | <b>-</b>           | <b>1,133,923</b>   | <b>-</b>            | <b>1,133,923</b>    |
| Term borrowings:   |                          |                    |                    |                     |                     |
| Real estate investment trust-preferred                                   | 46,168                   | -                  | -                  | 47,000              | 47,000              |
| Term borrowings – new market tax credit investment                       | 2,699                    | -                  | -                  | 2,664               | 2,664               |
| Secured borrowings   | 19,588                   | -                  | -                  | 19,588              | 19,588              |
| Junior subordinated debentures   | 143,255                  | -                  | -                  | 134,266             | 134,266             |
| Other long term borrowings   | 959,253                  | -                  | 960,483            | -                   | 960,483             |
| <b>Total term borrowings</b>   | <b>1,170,963</b>         | <b>-</b>           | <b>960,483</b>     | <b>203,518</b>      | <b>1,164,001</b>    |
| Derivative liabilities (a)   | 133,713                  | 30,236             | 71,937             | 31,540              | 133,713             |
| <b>Total liabilities</b>   | <b>\$ 6,879,756</b>      | <b>\$ 30,236</b>   | <b>\$6,584,545</b> | <b>\$ 235,058</b>   | <b>\$ 6,849,839</b> |

(a) Classes are detailed in the recurring and nonrecurring measurement tables.

(b) Level 1 primarily consists of mutual funds with readily determinable fair value. Level 3 includes restricted investments in FHLB-Cincinnati stock of \$87.9 million and FRB stock of \$130.7 million.

**Note 24 ☐ Fair Value of Assets and Liabilities (continued)**

| <i>(Dollars in thousands)</i>                                     | December 31, 2017   |                    |                     |                     |                     |
|---|---------------------|--------------------|---------------------|---------------------|---------------------|
|   | Book<br>Value       | Fair Value         |                     |                     | Total               |
|   |                     | Level 1            | Level 2             | Level 3             |                     |
| <b>Assets:</b>  |                     |                    |                     |                     |                     |
| Loans, net of unearned income and allowance for loan losses       |                     |                    |                     |                     |                     |
| Commercial:   |                     |                    |                     |                     |                     |
| Commercial, financial and industrial                              | \$15,959,062        | \$ -               | \$ -                | \$15,990,991        | \$15,990,991        |
| Commercial real estate  | 4,186,268           | -                  | -                   | 4,215,367           | 4,215,367           |
| Consumer:   |                     |                    |                     |                     |                     |
| Consumer real estate  | 6,330,384           | -                  | -                   | 6,320,308           | 6,320,308           |
| Permanent mortgage  | 383,742             | -                  | -                   | 388,396             | 388,396             |
| Credit card & other   | 609,918             | -                  | -                   | 607,955             | 607,955             |
| Total loans, net of unearned income and allowance for loan losses | 27,469,374          | -                  | -                   | 27,523,017          | 27,523,017          |
| Short-term financial assets:                                      |                     |                    |                     |                     |                     |
| Interest-bearing cash   | 1,185,600           | 1,185,600          | -                   | -                   | 1,185,600           |
| Federal funds sold  | 87,364              | -                  | 87,364              | -                   | 87,364              |
| Securities purchased under agreements to resell                   | 725,609             | -                  | 725,609             | -                   | 725,609             |
| Total short-term financial assets                                 | 1,998,573           | 1,185,600          | 812,973             | -                   | 1,998,573           |
| Trading securities (a)  | 1,416,345           | -                  | 1,414,194           | 2,151               | 1,416,345           |
| Loans held-for-sale:  |                     |                    |                     |                     |                     |
| Mortgage loans  | 88,173              | -                  | 6,902               | 81,271              | 88,173              |
| USDA & SBA loans  | 466,977             | -                  | 467,227             | 1,510               | 468,737             |
| Other consumer loans  | 144,227             | -                  | 9,965               | 134,262             | 144,227             |
| Securities available-for-sale (a) (b)                             | 5,170,255           | 27,017             | 4,903,115           | 240,123             | 5,170,255           |
| Securities held-to-maturity                                       | 10,000              | -                  | -                   | 9,901               | 9,901               |
| Derivative assets (a)   | 81,634              | 10,161             | 71,473              | -                   | 81,634              |
| Other assets:   |                     |                    |                     |                     |                     |
| Tax credit investments  | 119,317             | -                  | -                   | 112,292             | 112,292             |
| Deferred compensation assets                                      | 39,822              | 39,822             | -                   | -                   | 39,822              |
| Total other assets  | 159,139             | 39,822             | -                   | 112,292             | 152,114             |
| Nonearning assets:  |                     |                    |                     |                     |                     |
| Cash & due from banks   | 639,073             | 639,073            | -                   | -                   | 639,073             |
| Fixed income receivables  | 68,693              | -                  | 68,693              | -                   | 68,693              |
| Accrued interest receivable                                       | 97,239              | -                  | 97,239              | -                   | 97,239              |
| Total nonearning assets   | 805,005             | 639,073            | 165,932             | -                   | 805,005             |
| <b>Total assets</b>   | <b>\$37,809,702</b> | <b>\$1,901,673</b> | <b>\$ 7,851,781</b> | <b>\$28,104,527</b> | <b>\$37,857,981</b> |
| <b>Liabilities:</b>   |                     |                    |                     |                     |                     |
| Deposits:   |                     |                    |                     |                     |                     |
| Defined maturity  | \$ 3,322,921        | \$ -               | \$ 3,293,650        | \$ -                | \$ 3,293,650        |
| Undefined maturity  | 27,297,441          | -                  | 27,297,431          | -                   | 27,297,431          |
| Total deposits  | 30,620,362          | -                  | 30,591,081          | -                   | 30,591,081          |
| Trading liabilities (a)   | 638,515             | -                  | 638,515             | -                   | 638,515             |
| Short-term financial liabilities:                                 |                     |                    |                     |                     |                     |
| Federal funds purchased   | 399,820             | -                  | 399,820             | -                   | 399,820             |
| Securities sold under agreements to repurchase                    | 656,602             | -                  | 656,602             | -                   | 656,602             |
| Other short-term borrowings                                       | 2,626,213           | -                  | 2,626,213           | -                   | 2,626,213           |
| Total short-term financial liabilities                            | 3,682,635           | -                  | 3,682,635           | -                   | 3,682,635           |
| Term borrowings:  |                     |                    |                     |                     |                     |
| Real estate investment trust-preferred                            | 46,100              | -                  | -                   | 48,880              | 48,880              |
| Term borrowings – new market tax credit investment                | 18,000              | -                  | -                   | 17,930              | 17,930              |
| Secured borrowings  | 18,642              | -                  | -                   | 18,305              | 18,305              |
| Junior subordinated debentures                                    | 187,281             | -                  | -                   | 187,281             | 187,281             |
| Other long term borrowings  | 948,074             | -                  | 966,292             | -                   | 966,292             |
| Total term borrowings   | 1,218,097           | -                  | 966,292             | 272,396             | 1,238,688           |
| Derivative liabilities (a)  | 85,061              | 9,535              | 69,881              | 5,645               | 85,061              |
| Other noninterest-bearing liabilities:                            |                     |                    |                     |                     |                     |
| Fixed income payables   | 48,996              | -                  | 48,996              | -                   | 48,996              |
| Accrued interest payable  | 16,270              | -                  | 16,270              | -                   | 16,270              |
| Total other noninterest-bearing liabilities                       | 65,266              | -                  | 65,266              | -                   | 65,266              |
| <b>Total liabilities</b>  | <b>\$36,309,936</b> | <b>\$ 9,535</b>    | <b>\$36,013,670</b> | <b>\$ 278,041</b>   | <b>\$36,301,246</b> |

(a) Classes are detailed in the recurring and nonrecurring measurement tables.

(b) Level 3 includes restricted investments in FHLB-Cincinnati stock of \$87.9 million and FRB stock of \$134.6 million.



**Note 24 ☐ Fair Value of Assets and Liabilities (continued)**

| <i>(Dollars in thousands)</i> | Contractual Amount       |                   | Fair Value               |                   |
|-------------------------------|--------------------------|-------------------|--------------------------|-------------------|
|                               | <b>December 31, 2018</b> | December 31, 2017 | <b>December 31, 2018</b> | December 31, 2017 |
| <b>Unfunded Commitments:</b>  |                          |                   |                          |                   |
| Loan commitments              | <b>\$10,884,975</b>      | \$10,678,485      | <b>\$2,551</b>           | \$2,617           |
| Standby and other commitments | <b>446,958</b>           | 420,728           | <b>5,043</b>             | 4,037             |

**Note 25 ☐ Parent Company Financial Information**

Following are statements of the parent company:

| <b>Statements of Condition</b>                  | December 31        |                    |
|---|--------------------|--------------------|
|   | 2018               | 2017               |
| <i>(Dollars in thousands)</i>                   |                    |                    |
| <b>Assets:</b>                                  |                    |                    |
| Cash  | \$ 334,485         | \$ 254,938         |
| Securities available-for-sale (a)               | -                  | 1,836              |
| Notes receivable                                | 2,888              | 3,067              |
| Allowance for loan losses                       | (925)              | (925)              |
| Investments in subsidiaries:                    |                    |                    |
| Bank  | 4,741,105          | 4,618,249          |
| Non-bank  | 20,281             | 22,932             |
| Other assets (a)                                | 180,757            | 207,878            |
| <b>Total assets</b>                             | <b>\$5,278,591</b> | <b>\$5,107,975</b> |
| <b>Liabilities and equity:</b>                  |                    |                    |
| Accrued employee benefits and other liabilities | \$ 158,648         | \$ 149,124         |
| Term borrowings                                 | 629,994            | 673,794            |
| Total liabilities                               | 788,642            | 822,918            |
| Total equity                                    | 4,489,949          | 4,285,057          |
| <b>Total liabilities and equity</b>             | <b>\$5,278,591</b> | <b>\$5,107,975</b> |

(a) Equity investments were reclassified to Other assets upon adoption of ASU 2016-01 on January 1, 2018.

| <b>Statements of Income</b>   | Year Ended December 31 |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2018                   | 2017             | 2016             |
| <i>(Dollars in thousands)</i>   |                        |                  |                  |
| Dividend income:  |                        |                  |                  |
| Bank  | \$420,000              | \$250,000        | \$250,000        |
| Non-bank  | 1,386                  | 1,097            | 1,361            |
| Total dividend income   | 421,386                | 251,097          | 251,361          |
| Other income/(loss)   | 112                    | 190              | (207)            |
| Total income  | 421,498                | 251,287          | 251,154          |
| Interest expense:   |                        |                  |                  |
| Term borrowings   | 31,315                 | 17,936           | 14,238           |
| Total interest expense  | 31,315                 | 17,936           | 14,238           |
| Compensation, employee benefits and other expense                       | 53,401                 | 43,783           | 38,926           |
| Total expense   | 84,716                 | 61,719           | 53,164           |
| Income/(loss) before income taxes                                       | 336,782                | 189,568          | 197,990          |
| Income tax(benefit)/expense   | (38,509)               | 512              | (22,981)         |
| Income/(loss) before equity in undistributed net income of subsidiaries | 375,291                | 189,056          | 220,971          |
| Equity in undistributed net income/(loss) of subsidiaries:              |                        |                  |                  |
| Bank  | 170,939                | (24,255)         | 9,508            |
| Non-bank  | (1,188)                | 714              | (3,433)          |
| <b>Net income/(loss) attributable to the controlling interest</b>       | <b>\$545,042</b>       | <b>\$165,515</b> | <b>\$227,046</b> |

**Note 25 ☐ Parent Company Financial Information (continued)**
**Statements of Cash Flows**

Year Ended December 31

| <i>(Dollars in thousands)</i>   | <b>2018</b>       | 2017       | 2016       |
|---|-------------------|------------|------------|
| <b>Operating activities:</b>  |                   |            |            |
| Net income/(loss)   | <b>\$ 545,042</b> | \$ 165,515 | \$ 227,046 |
| Less undistributed net income/(loss) of subsidiaries                          | <b>169,751</b>    | (23,541)   | 6,075      |
| Income/(loss) before undistributed net income of subsidiaries                 | <b>375,291</b>    | 189,056    | 220,971    |
| Adjustments to reconcile income to net cash provided by operating activities: |                   |            |            |
| Depreciation, amortization, and other   | <b>15</b>         | 15         | 53         |
| (Gain)/loss on securities   | <b>(28)</b>       | (109)      | 148        |
| Provision for deferred income taxes   | <b>3,212</b>      | 7,727      | -          |
| Stock-based compensation expense  | <b>22,398</b>     | 19,625     | 16,719     |
| Net (increase)/decrease in interest receivable and other assets               | <b>18,214</b>     | 8,605      | (2,228)    |
| Net (decrease)/increase in interest payable and other liabilities             | <b>(10,702)</b>   | 13,172     | (2,842)    |
| Total adjustments   | <b>33,109</b>     | 49,035     | 11,850     |
| Net cash provided/(used) by operating activities                              | <b>408,400</b>    | 238,091    | 232,821    |
| <b>Investing activities:</b>  |                   |            |            |
| Securities:   |                   |            |            |
| Sales and prepayments   | <b>65</b>         | 318        | 275        |
| Purchases   | -                 | -          | (400)      |
| Premises and equipment:   |                   |            |            |
| Sales/(purchases)   | <b>(43)</b>       | 7          | (17)       |
| Return on investment in subsidiary  | <b>1,597</b>      | 1,871      | 129        |
| Investment in subsidiary  | -                 | -          | -          |
| Cash paid for business combination, net                                       | <b>(39,916)</b>   | (126,149)  | -          |
| Net cash provided/(used) by investing activities                              | <b>(38,297)</b>   | (123,953)  | (13)       |
| <b>Financing activities:</b>  |                   |            |            |
| Preferred stock:  |                   |            |            |
| Cash dividends  | <b>(6,200)</b>    | (6,200)    | (6,200)    |
| Common stock:   |                   |            |            |
| Exercise of stock options   | <b>4,482</b>      | 6,132      | 22,479     |
| Cash dividends  | <b>(138,706)</b>  | (79,904)   | (63,504)   |
| Repurchase of shares  | <b>(104,768)</b>  | (5,554)    | (97,396)   |
| Term borrowings:  |                   |            |            |
| Repayment of term borrowings  | <b>(45,364)</b>   | -          | -          |
| Net cash (used)/provided by financing activities                              | <b>(290,556)</b>  | (85,526)   | (144,621)  |
| Net increase/(decrease) in cash and cash equivalents                          | <b>79,547</b>     | 28,612     | 88,187     |
| Cash and cash equivalents at beginning of year                                | <b>254,938</b>    | 226,326    | 138,139    |
| Cash and cash equivalents at end of year                                      | <b>\$ 334,485</b> | \$ 254,938 | \$ 226,326 |
| Total interest paid   | <b>\$ 29,186</b>  | \$ 17,321  | \$ 13,261  |
| Income taxes received from subsidiaries                                       | <b>49,056</b>     | 23,020     | 27,126     |

## CONSOLIDATED HISTORICAL STATEMENTS OF INCOME (Unaudited)

|  | 2018            | 2017            | 2016            | 2015           | 2014            | Growth Rates |             |
|--|-----------------|-----------------|-----------------|----------------|-----------------|--------------|-------------|
| <i>(Dollars in millions except per share data)</i>           |                 |                 |                 |                |                 | 18/17        | 18/14**     |
| <b>Interest income:</b>                                      |                 |                 |                 |                |                 |              |             |
| Interest and fees on loans                                   | \$ 1,286.5      | \$ 816.8        | \$ 679.9        | \$ 600.3       | \$ 571.8        | 58%          | 22%         |
| Interest on investment securities available-for-sale         | 130.4           | 105.0           | 96.7            | 93.6           | 93.2            | 24%          | 9%          |
| Interest on investment securities held-to-maturity           | 0.5             | 0.6             | 0.8             | 0.3            | 0.3             | (17)%        | 14%         |
| Interest on loans held-for-sale                              | 45.1            | 17.5            | 5.5             | 5.5            | 11.2            | NM           | 42%         |
| Interest on trading securities                               | 58.7            | 35.0            | 30.8            | 35.1           | 32.0            | 68%          | 16%         |
| Interest on other earning assets                             | 24.9            | 15.0            | 4.2             | 1.7            | 0.7             | 66%          | NM          |
| Total interest income  | 1,546.0         | 989.9           | 817.9           | 736.4          | 709.2           | 56%          | 22%         |
| <b>Interest expense:</b>                                     |                 |                 |                 |                |                 |              |             |
| Interest on deposits:  |                 |                 |                 |                |                 |              |             |
| Savings  | 107.7           | 42.5            | 19.6            | 12.0           | 11.5            | NM           | 75%         |
| Time deposits  | 53.1            | 13.1            | 10.0            | 8.7            | 12.2            | NM           | 44%         |
| Other interest-bearing deposits                              | 55.7            | 24.5            | 10.4            | 4.5            | 3.1             | NM           | NM          |
| Interest on trading liabilities                              | 19.4            | 15.5            | 15.0            | 16.0           | 15.4            | 25%          | 6%          |
| Interest on short-term borrowings                            | 36.7            | 16.0            | 4.7             | 3.2            | 4.7             | NM           | 67%         |
| Interest on term borrowings                                  | 53.0            | 36.0            | 29.1            | 38.4           | 34.6            | 47%          | 11%         |
| Total interest expense                                       | 325.7           | 147.6           | 88.8            | 82.7           | 81.5            | NM           | 41%         |
| <b>Net interest income</b>                                   | <b>1,220.3</b>  | <b>842.3</b>    | <b>729.1</b>    | <b>653.7</b>   | <b>627.7</b>    | <b>45%</b>   | <b>18%</b>  |
| Provision for loan losses                                    | 7.0             | -               | 11.0            | 9.0            | 27.0            | NM           | (29)%       |
| <b>Net interest income after provision for loan losses</b>   | <b>1,213.3</b>  | <b>842.3</b>    | <b>718.1</b>    | <b>644.7</b>   | <b>600.7</b>    | <b>44%</b>   | <b>19%</b>  |
| <b>Noninterest income:</b>                                   |                 |                 |                 |                |                 |              |             |
| Fixed income   | 167.9           | 216.6           | 268.6           | 231.3          | 200.6           | (22)%        | (4)%        |
| Deposit transactions and cash management                     | 133.3           | 110.6           | 108.6           | 112.8          | 111.9           | 21%          | 4%          |
| Brokerage, management fees and commissions                   | 54.8            | 48.5            | 42.9            | 46.5           | 49.1            | 13%          | 3%          |
| Trust services and investment management                     | 29.8            | 28.4            | 27.7            | 27.6           | 27.8            | 5%           | 2%          |
| Bankcard income  | 26.7            | 25.5            | 24.4            | 22.2           | 23.7            | 5%           | 3%          |
| Bank-owned life insurance                                    | 19.0            | 15.1            | 14.7            | 14.7           | 16.4            | 26%          | 4%          |
| Debt securities gains/(losses), net                          | 0.1             | 0.5             | 1.5             | 1.8            | -               | (89)%        | NM          |
| Equity securities gains/(losses), net                        | 212.9           | 0.1             | (0.1)           | (0.5)          | 2.9             | NM           | NM          |
| All other income and commissions                             | 78.4            | 44.9            | 64.2            | 60.7           | 117.7           | 75%          | (10)%       |
| Total noninterest income                                     | 722.8           | 490.2           | 552.4           | 517.3          | 550.1           | 47%          | 7%          |
| <b>Adjusted gross income after provision for loan losses</b> | <b>1,936.1</b>  | <b>1,332.5</b>  | <b>1,270.5</b>  | <b>1,162.0</b> | <b>1,150.8</b>  | <b>45%</b>   | <b>14%</b>  |
| <b>Noninterest expense:</b>                                  |                 |                 |                 |                |                 |              |             |
| Employee compensation, incentives, and benefits              | 658.2           | 587.5           | 563.8           | 512.8          | 477.8           | 12%          | 8%          |
| Occupancy  | 85.0            | 54.6            | 50.9            | 51.1           | 54.0            | 56%          | 12%         |
| Computer software  | 60.6            | 48.2            | 45.1            | 44.7           | 42.9            | 26%          | 9%          |
| Operations services  | 56.3            | 43.8            | 41.9            | 39.3           | 35.2            | 29%          | 12%         |
| Professional fees  | 45.8            | 47.9            | 19.2            | 18.9           | 23.3            | (4)%         | 18%         |
| Equipment rentals, depreciation, and maintenance             | 39.1            | 29.5            | 27.4            | 30.9           | 30.0            | 33%          | 7%          |
| FDIC premium expense   | 31.6            | 26.8            | 21.6            | 18.0           | 11.4            | 18%          | 29%         |
| Communications and courier                                   | 30.0            | 17.6            | 14.3            | 15.8           | 16.1            | 70%          | 17%         |
| Amortization of intangible assets                            | 25.9            | 8.7             | 5.2             | 5.3            | 4.2             | NM           | 58%         |
| Advertising and public relations                             | 24.8            | 19.2            | 21.6            | 19.2           | 18.7            | 29%          | 7%          |
| Contract employment and outsourcing                          | 18.5            | 15.0            | 10.1            | 14.5           | 19.4            | 23%          | (1)%        |
| Legal fees   | 11.1            | 12.1            | 21.6            | 16.3           | 20.9            | (8)%         | (15)%       |
| Repurchase and foreclosure provision/(provision credit)      | (1.0)           | (22.5)          | (32.7)          | -              | (4.3)           | 96%          | 31%         |
| All other expense  | 136.0           | 135.1           | 115.4           | 267.0          | 82.9            | 1%           | 13%         |
| Total noninterest expense                                    | 1,222.0         | 1,023.7         | 925.2           | 1,053.8        | 832.5           | 19%          | 10%         |
| <b>Income/(loss) before income taxes</b>                     | <b>714.1</b>    | <b>308.9</b>    | <b>345.3</b>    | <b>108.3</b>   | <b>318.2</b>    | <b>NM</b>    | <b>22%</b>  |
| Provision/(benefit) for income taxes                         | 157.6           | 131.9           | 106.8           | 10.9           | 84.2            | 19%          | 17%         |
| <b>Net income/(loss)</b>                                     | <b>556.5</b>    | <b>177.0</b>    | <b>238.5</b>    | <b>97.3</b>    | <b>234.0</b>    | <b>NM</b>    | <b>24%</b>  |
| Net income attributable to noncontrolling interest           | 11.5            | 11.5            | 11.5            | 11.4           | 11.5            | *            | *           |
| Net income/(loss) attributable to controlling interest       | 545.0           | 165.5           | 227.0           | 85.9           | 222.5           | NM           | 25%         |
| Preferred Stock Dividends                                    | 6.2             | 6.2             | 6.2             | 6.2            | 6.2             | *            | *           |
| <b>Net income/(loss) available to common shareholders</b>    | <b>\$ 538.8</b> | <b>\$ 159.3</b> | <b>\$ 220.8</b> | <b>\$ 79.7</b> | <b>\$ 216.3</b> | <b>NM</b>    | <b>26%</b>  |
| <b>Fully taxable equivalent adjustment</b>                   | <b>\$ 8.8</b>   | <b>\$ 13.6</b>  | <b>\$ 11.6</b>  | <b>\$ 10.7</b> | <b>\$ 9.6</b>   | <b>(35)%</b> | <b>(2)%</b> |
| <b>Basic earnings/(loss) per common share</b>                | <b>\$ 1.66</b>  | <b>\$ 0.66</b>  | <b>\$ 0.95</b>  | <b>\$ 0.34</b> | <b>\$ 0.92</b>  | <b>NM</b>    | <b>16%</b>  |
| <b>Diluted earnings/(loss) per common share</b>              | <b>\$ 1.65</b>  | <b>\$ 0.65</b>  | <b>\$ 0.94</b>  | <b>\$ 0.34</b> | <b>\$ 0.91</b>  | <b>NM</b>    | <b>16%</b>  |

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

Numbers may not add to total due to rounding.

NM – not meaningful

\* Amount is less than one percent.

\*\* Compound annual growth rate.

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**CONSOLIDATED AVERAGE BALANCE SHEET AND RELATED YIELDS AND RATES (Unaudited)**

| (Fully taxable equivalent)<br>(Dollars in millions)         | 2018            |                             |                          |
|---|-----------------|-----------------------------|--------------------------|
|   | Average Balance | Interest Income/<br>Expense | Average Yields/<br>Rates |
| <b>Assets:</b>  |                 |                             |                          |
| Earning assets:   |                 |                             |                          |
| Loans, net of unearned income (a)                           | \$27,213.8      | \$1,294.5                   | 4.76%                    |
| Loans held-for-sale   | 724.0           | 45.1                        | 6.23                     |
| Investment securities:                                      |                 |                             |                          |
| U.S. government agencies                                    | 4,644.8         | 125.4                       | 2.70                     |
| States and municipalities                                   | 11.0            | 0.4                         | 4.03                     |
| Corporates and other debt                                   | 65.5            | 2.9                         | 4.42                     |
| Other   | 7.0             | 2.3                         | 31.65                    |
| Total investment securities                                 | 4,728.3         | 131.0                       | 2.77                     |
| Trading securities  | 1,603.8         | 59.3                        | 3.70                     |
| Other earning assets:                                       |                 |                             |                          |
| Federal funds sold  | 37.6            | 0.9                         | 2.47                     |
| Securities purchased under agreements to resell (b)         | 745.5           | 12.2                        | 1.63                     |
| Interest-bearing cash                                       | 623.6           | 11.8                        | 1.89                     |
| Total other earning assets                                  | 1,406.7         | 24.9                        | 1.77                     |
| Total earning assets  | 35,676.6        | 1,554.8                     | 4.36                     |
| Allowance for loan losses                                   | (187.7)         |                             |                          |
| Cash and due from banks                                     | 585.4           |                             |                          |
| Fixed income receivables                                    | 55.9            |                             |                          |
| Premises and equipment, net                                 | 521.8           |                             |                          |
| Other assets  | 3,573.5         |                             |                          |
| Total assets/Interest income                                | \$40,225.5      | \$1,554.8                   |                          |
| <b>Liabilities and shareholders' equity:</b>                |                 |                             |                          |
| Interest-bearing liabilities:                               |                 |                             |                          |
| Interest-bearing deposits:                                  |                 |                             |                          |
| Savings   | \$11,289.3      | \$ 107.7                    | 0.95%                    |
| Other interest-bearing deposits                             | 7,931.6         | 55.7                        | 0.70                     |
| Time deposits   | 3,681.7         | 53.1                        | 1.44                     |
| Total interest-bearing deposits                             | 22,902.6        | 216.5                       | 0.95                     |
| Federal funds purchased                                     | 405.1           | 7.7                         | 1.89                     |
| Securities sold under agreements to repurchase              | 713.8           | 10.0                        | 1.40                     |
| Fixed income trading liabilities                            | 682.9           | 19.4                        | 2.83                     |
| Other short-term borrowings                                 | 1,046.6         | 19.1                        | 1.82                     |
| Term borrowings   | 1,211.9         | 53.0                        | 4.38                     |
| Total interest-bearing liabilities                          | 26,962.9        | 325.7                       | 1.21                     |
| Noninterest-bearing deposits                                | 8,000.6         |                             |                          |
| Fixed income payables                                       | 20.2            |                             |                          |
| Other liabilities   | 624.3           |                             |                          |
| Total liabilities   | 35,608.0        |                             |                          |
| Shareholders' equity  | 4,322.1         |                             |                          |
| Noncontrolling interest                                     | 295.4           |                             |                          |
| Total equity  | 4,617.5         |                             |                          |
| Total liabilities and equity/Interest expense               | \$40,225.5      | \$ 325.7                    |                          |
| Net interest income-tax equivalent basis/Yield              |                 | \$1,229.1                   | 3.45%                    |
| Fully taxable equivalent adjustment                         |                 | (8.8)                       |                          |
| Net interest income   |                 | \$1,220.3                   |                          |
| Net interest spread   |                 |                             | 3.15%                    |
| Effect of interest-free sources used to fund earning assets |                 |                             | 0.30                     |
| Net interest margin   |                 |                             | 3.45%                    |

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

Yields and corresponding income amounts are adjusted to a FTE basis assuming a statutory federal income tax rate of 21 percent in 2018 and 35 percent prior to 2018, and, where applicable, state income taxes.

Earning asset yields are expressed net of unearned income. Rates are expressed net of unamortized debenture cost for long-term debt. Net interest margin is computed using total net interest income.

| 2017            |                         |                      | 2016            |                         |                      | Average Balance Growth | Average Balance Growth |
|-----------------|-------------------------|----------------------|-----------------|-------------------------|----------------------|------------------------|------------------------|
| Average Balance | Interest Income/Expense | Average Yields/Rates | Average Balance | Interest Income/Expense | Average Yields/Rates | 18/17                  | 18/16 (b)              |
| \$20,104.0      | \$ 829.0                | 4.12%                | \$18,303.9      | \$689.9                 | 3.77%                | 35%                    | 22%                    |
| 370.6           | 17.5                    | 4.73                 | 124.3           | 5.5                     | 4.43                 | 95%                    | NM                     |
| 3,824.8         | 98.1                    | 2.56                 | 3,814.8         | 91.7                    | 2.40                 | 21%                    | 10%                    |
| 1.1             | 0.1                     | 9.36                 | 5.1             | 0.4                     | 7.95                 | NM                     | 47%                    |
| 15.0            | 0.8                     | 4.98                 | 10.0            | 0.5                     | 5.25                 | NM                     | NM                     |
| 191.8           | 6.7                     | 3.49                 | 186.5           | 5.0                     | 2.67                 | (96)%                  | (81)%                  |
| 4,032.7         | 105.7                   | 2.62                 | 4,016.4         | 97.6                    | 2.43                 | 17%                    | 9%                     |
| 1,195.4         | 36.3                    | 3.04                 | 1,212.9         | 32.3                    | 2.66                 | 34%                    | 15%                    |
| 27.2            | 0.4                     | 1.63                 | 23.4            | 0.3                     | 1.11                 | 38%                    | 27%                    |
| 752.1           | 5.2                     | 0.69                 | 827.6           | 0.5                     | 0.06                 | (1)%                   | (5)%                   |
| 979.0           | 9.4                     | 0.96                 | 671.6           | 3.4                     | 0.51                 | (36)%                  | (4)%                   |
| 1,758.3         | 15.0                    | 0.85                 | 1,522.6         | 4.2                     | 0.28                 | (20)%                  | (4)%                   |
| 27,461.0        | 1,003.5                 | 3.65                 | 25,180.1        | 829.5                   | 3.29                 | 30%                    | 19%                    |
| (198.6)         |                         |                      | (203.1)         |                         |                      | NM                     | NM                     |
| 377.9           |                         |                      | 320.5           |                         |                      | 55%                    | 35%                    |
| 60.1            |                         |                      | 76.5            |                         |                      | (7)%                   | (15)%                  |
| 310.5           |                         |                      | 278.0           |                         |                      | 68%                    | 37%                    |
| 1,913.9         |                         |                      | 1,775.2         |                         |                      | 87%                    | 42%                    |
| \$29,924.8      | \$1,003.5               |                      | \$27,427.2      | \$829.5                 |                      | 34%                    | 21%                    |
| \$ 9,113.9      | \$ 42.5                 | 0.47%                | \$ 8,371.2      | \$ 19.6                 | 0.23%                | 24%                    | 16%                    |
| 6,062.9         | 24.5                    | 0.40                 | 5,468.0         | 10.4                    | 0.19                 | 31%                    | 20%                    |
| 1,463.8         | 13.1                    | 0.90                 | 1,298.7         | 10.0                    | 0.77                 | NM                     | 68%                    |
| 16,640.6        | 80.1                    | 0.48                 | 15,137.9        | 40.0                    | 0.26                 | 38%                    | 23%                    |
| 447.1           | 4.7                     | 1.06                 | 589.2           | 3.1                     | 0.52                 | (9)%                   | (17)%                  |
| 578.6           | 4.2                     | 0.72                 | 425.5           | 0.3                     | 0.08                 | 23%                    | 30%                    |
| 685.9           | 15.5                    | 2.26                 | 771.0           | 15.0                    | 1.95                 | *                      | (6)%                   |
| 554.5           | 7.1                     | 1.28                 | 198.4           | 1.3                     | 0.67                 | 89%                    | NM                     |
| 1,077.3         | 36.0                    | 3.35                 | 1,130.2         | 29.1                    | 2.58                 | 12%                    | 4%                     |
| 19,984.0        | 147.6                   | 0.74                 | 18,252.2        | 88.8                    | 0.49                 | 35%                    | 22%                    |
| 6,431.5         |                         |                      | 5,760.9         |                         |                      | 24%                    | 18%                    |
| 35.3            |                         |                      | 48.1            |                         |                      | (43)%                  | (35)%                  |
| 503.7           |                         |                      | 674.6           |                         |                      | 24%                    | (4)%                   |
| 26,954.5        |                         |                      | 24,735.8        |                         |                      | 32%                    | 20%                    |
| 2,674.9         |                         |                      | 2,396.0         |                         |                      | 62%                    | 34%                    |
| 295.4           |                         |                      | 295.4           |                         |                      | *                      | *                      |
| 2,970.3         |                         |                      | 2,691.4         |                         |                      | 55%                    | 31%                    |
| \$29,924.8      | \$ 147.6                |                      | \$27,427.2      | \$ 88.8                 |                      | 34%                    | 21%                    |
|                 | \$ 855.9                | 3.12%                |                 | \$740.7                 | 2.94%                |                        |                        |
|                 | (13.6)                  |                      |                 | (11.6)                  |                      |                        |                        |
|                 | \$ 842.3                |                      |                 | \$729.1                 |                      |                        |                        |
|                 |                         | 2.91%                |                 |                         | 2.80%                |                        |                        |
|                 |                         | 0.21                 |                 |                         | 0.14                 |                        |                        |
|                 |                         | 3.12%                |                 |                         | 2.94%                |                        |                        |

NM – Not meaningful

\* Amount is less than one percent.

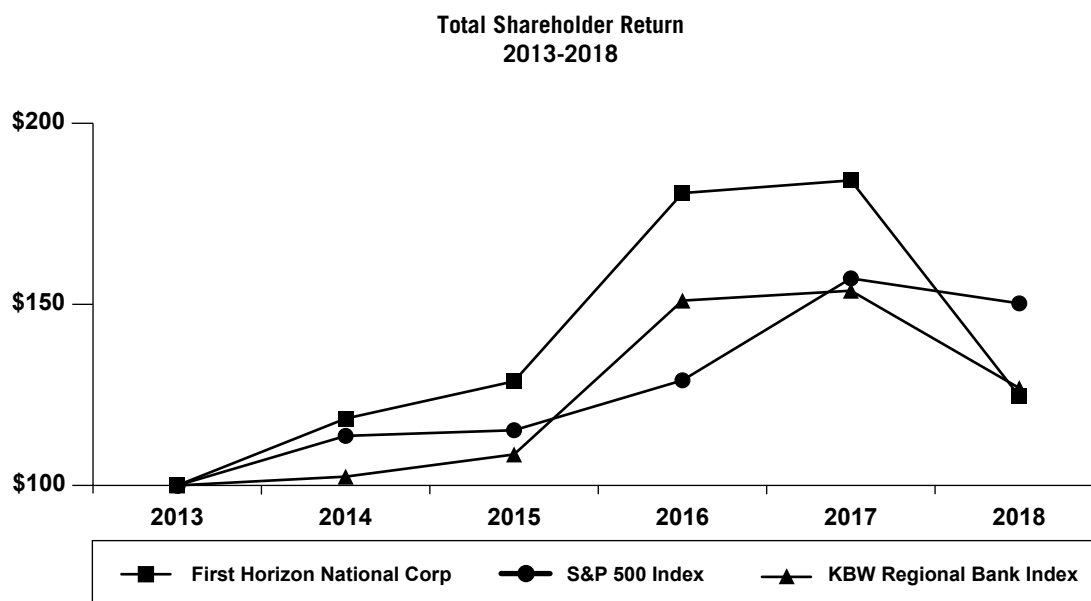
(a) Includes loans on nonaccrual status.

(b) Compound annual growth rate.

## Total Shareholder Return Performance Graph

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings by reference, including this annual report in whole or in part, the following Total Shareholder Return Performance Graph shall not be incorporated by reference into any such filings.

The following graph compares the yearly percentage change in our cumulative total shareholder return with returns based on the Standards and Poor's 500 and Keefe, Bruyette & Woods Regional Bank Indices.



| Investment Returns          | 2013     | 2014     | 2015     | 2016     | 2017     | 2018     |
|-----------------------------|----------|----------|----------|----------|----------|----------|
| First Horizon National Corp | \$100.00 | \$118.46 | \$128.75 | \$180.73 | \$184.24 | \$124.66 |
| S&P 500 Index               | \$100.00 | \$113.68 | \$115.24 | \$129.02 | \$157.17 | \$150.27 |
| KBW Regional Bank Index     | \$100.00 | \$102.43 | \$108.56 | \$151.04 | \$153.77 | \$126.88 |

Source: Bloomberg

The preceding graph assumes \$100 is invested on December 31, 2013 and dividends are reinvested. Returns are market-capitalization weighted.



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## CORPORATE OFFICERS

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As of March 1, 2019

**CLYDE A. BILLINGS, JR.**

Senior Vice President  
Assistant General Counsel  
and Corporate Secretary

**JOHN M. DANIEL**

Executive Vice President  
Chief Human Resources Officer

**JEFF L. FLEMING**

Executive Vice President  
Chief Accounting Officer and  
Corporate Controller

**D. BRYAN JORDAN**

Chairman of the Board, President  
and Chief Executive Officer

**MICHAEL E. KISBER**

President – FTN Financial

**WILLIAM C. LOSCH III**

Executive Vice President  
Chief Financial Officer

**DAVID T. POPWELL**

President – Banking

**DANE P. SMITH**

Senior Vice President  
Corporate Treasurer

**SUSAN L. SPRINGFIELD**

Executive Vice President  
Chief Credit Officer

**CHARLES T. TUGGLE, JR.**

Executive Vice President  
General Counsel

**YOUSEF A. VALINE**

Executive Vice President  
Chief Operating and Risk Officer

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## BOARD OF DIRECTORS

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As of March 1, 2019

**KENNETH A. BURDICK**

Chief Executive Officer  
WellCare Health Plans, Inc.

**JOHN C. COMPTON**

Partner  
Clayton, Dubilier & Rice, LLC

**WENDY P. DAVIDSON**

President, U.S. Specialty Channels  
Kellogg Company

**MARK A. EMKES**

Retired Commissioner  
Department of Finance and  
Administration  
State of Tennessee

**PETER N. FOSS**

General Manager  
GE/NFL Head Health Program

**CORYDON J. GILCHRIST**

Private Investor and Chartered  
Financial Analyst

**D. BRYAN JORDAN**

Chairman of the Board, President  
and Chief Executive Officer  
First Horizon National Corp.

**SCOTT M. NISWONGER**

Retired Chairman  
Landair Transport, Inc.

**VICKI R. PALMER**

President  
The Palmer Group, LLC

**COLIN V. REED**

Chairman of the Board and  
Chief Executive Officer  
Ryman Hospitality Properties, Inc.

**CECELIA D. STEWART**

Retired President  
U.S. Consumer and  
Commercial Banking  
Citigroup, Inc.

**RAJESH SUBRAMANIAM**

President and Chief Operating Officer  
FedEx Corp.

**R. EUGENE TAYLOR**

Vice Chairman of the Board  
First Horizon National Corp.

**LUKE YANCY III**

President and Chief Executive Officer  
Yancy Financial Group, Inc.

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## HOW TO REACH US

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### **HEADQUARTERS**

165 Madison Avenue • Memphis, TN 38103  
(800) 489-4040  
[www.FirstHorizon.com](http://www.FirstHorizon.com)

### **CAREER OPPORTUNITIES**

[www.FHNCareers.com](http://www.FHNCareers.com)

### **COMMUNITY RELATIONS**

(866) 365-4313  
*Email:* [Foundation@FirstHorizon.com](mailto:Foundation@FirstHorizon.com)

### **FIRST TENNESSEE BANK**

(800) 382-5465  
[www.FirstTennessee.com](http://www.FirstTennessee.com)

### **CAPITAL BANK**

(800) 639-5111  
[www.CapitalBank-US.com](http://www.CapitalBank-US.com)

### **FTN FINANCIAL**

(800) 456-5460  
[www.FTNFinancial.com](http://www.FTNFinancial.com)

### **INVESTOR RELATIONS**

*Email:* [InvestorRelations@FirstHorizon.com](mailto:InvestorRelations@FirstHorizon.com)

### **MEDIA RELATIONS**

(866) 365-4313  
*Email:* [CorporateCommunications@FirstHorizon.com](mailto:CorporateCommunications@FirstHorizon.com)

### **TRANSFER AGENT**

EQ Shareowner Services  
(877) 536-3558  
[www.ShareownerOnline.com](http://www.ShareownerOnline.com)

### **TICKER SYMBOL**

NYSE: FHN

