

FIRST HORIZON NATIONAL CORP
Form 10-Q
August 08, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from to

Commission File Number 001-15185

First Horizon National Corporation

(Exact name of registrant as specified in its charter)

TN
(State or other jurisdiction
incorporation of organization)

62-0803242
(IRS Employer
Identification No.)

165 MADISON AVENUE

MEMPHIS, TENNESSEE
(Address of principal executive office)

38103
(Zip Code)

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

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding on June 30, 2016
Common Stock, \$.625 par value	232,019,031

Table of Contents

Table of Contents

FIRST HORIZON NATIONAL CORPORATION

INDEX

<u>Part I. Financial Information</u>	1
<u>Item 1. Financial Statements</u>	1
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	71
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	115
<u>Item 4. Controls and Procedures</u>	115
<u>Part II. Other Information</u>	116
<u>Item 1. Legal Proceedings</u>	116
<u>Item 1A. Risk Factors</u>	116
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	116
<u>Item 3. Defaults Upon Senior Securities</u>	116
<u>Item 4. Mine Safety Disclosures</u>	116
<u>Item 5. Other Information</u>	116
<u>Item 6. Exhibits</u>	117
<u>Signatures</u>	118
<u>Exhibit Index</u>	119
Exhibit 31(a)	
Exhibit 31(b)	
Exhibit 32(a)	
Exhibit 32(b)	

Table of Contents

PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

The Consolidated Condensed Statements of Condition (unaudited) 2

The Consolidated Condensed Statements of Income (unaudited) 3

The Consolidated Condensed Statements of Comprehensive Income (unaudited) 4

The Consolidated Condensed Statements of Equity (unaudited) 5

The Consolidated Condensed Statements of Cash Flows (unaudited) 6

The Notes to the Consolidated Condensed Financial Statements (unaudited) 7

Note 1 Financial Information 7

Note 2 Acquisitions and Divestitures 11

Note 3 Investment Securities 12

Note 4 Loans 15

Note 5 Allowance for Loan Losses 24

Note 6 Intangible Assets 26

Note 7 Other Income and Other Expense 27

Note 8 Components of Other Comprehensive Income/(loss) 28

Note 9 Earnings Per Share 30

Note 10 Contingencies and Other Disclosures 31

Note 11 Pension, Savings, and Other Employee Benefits 38

Note 12 Business Segment Information 40

Note 13 Variable Interest Entities 42

Note 14 Derivatives 47

Note 15 Master Netting and Similar Agreements Repurchase, Reverse Repurchase, and Securities Borrowing and Lending Transactions 53

Note 16 Fair Value of Assets & Liabilities 55

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

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF CONDITION**

	First Horizon National Corporation		
	June 30	December 31	
<i>(Dollars in thousands, except per share amounts)(Unaudited)</i>	2016	2015	2015
Assets:			
Cash and due from banks	\$ 283,648	\$ 274,256	\$ 300,811
Federal funds sold	40,570	77,039	114,479
Securities purchased under agreements to resell (Note 15)	881,732	816,991	615,773
Total cash and cash equivalents	1,205,950	1,168,286	1,031,063
Interest-bearing cash	321,743	344,944	602,836
Trading securities	1,162,959	1,133,490	881,450
Loans held-for-sale (a)	117,976	127,196	126,342
Securities available-for-sale (Note 3)	4,009,243	3,648,860	3,929,846
Securities held-to-maturity (Note 3)	14,333	4,306	14,320
Loans, net of unearned income (Note 4) (b)	18,589,337	16,936,772	17,686,502
Less: Allowance for loan losses (Note 5)	199,807	221,351	210,242
Total net loans	18,389,530	16,715,421	17,476,260
Goodwill (Note 6)	191,307	145,932	191,307
Other intangible assets, net (Note 6)	23,616	26,922	26,215
Fixed income receivables	219,939	91,069	63,660
Premises and equipment, net (June 30, 2016 includes \$10.0 million classified as held-for-sale)	279,676	269,507	275,619
Real estate acquired by foreclosure (c)	20,053	40,268	33,063
Derivative assets (Note 14)	196,989	115,230	104,365
Other assets	1,387,756	1,405,961	1,436,291
Total assets	\$ 27,541,070	\$ 25,237,392	\$ 26,192,637
Liabilities and equity:			
Deposits:			
Savings	\$ 7,960,182	\$ 7,462,642	\$ 7,811,191
Time deposits	741,992	769,132	788,487
Other interest-bearing deposits	5,720,628	4,675,742	5,388,526
Certificates of deposit \$100,000 and more	522,643	400,021	443,389
Interest-bearing	14,945,445	13,307,537	14,431,593
Noninterest-bearing	5,684,732	5,366,936	5,535,885
Total deposits	20,630,177	18,674,473	19,967,478
Federal funds purchased	508,669	556,862	464,166

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Securities sold under agreements to repurchase (Note 15)	451,129	311,760	338,133
Trading liabilities	789,540	732,564	566,019
Other short-term borrowings	543,033	150,350	137,861
Term borrowings	1,076,943	1,555,272	1,312,677
Fixed income payables	90,400	54,301	23,072
Derivative liabilities (Note 14)	170,619	109,815	108,339
Other liabilities	588,636	574,090	635,306
Total liabilities	24,849,146	22,719,487	23,553,051

Equity:

First Horizon National Corporation Shareholders Equity:			
Preferred stock Series A, non-cumulative perpetual, no par value, liquidation preference of \$100,000 per share (shares authorized 1,000; shares issued 1,000 on June 30, 2016, June 30, 2015 and December 31, 2015)	95,624	95,624	95,624
Common stock \$.625 par value (shares authorized 400,000,000; shares issued 232,019,031 on June 30, 2016; 234,020,798 on June 30, 2015; and 238,586,637 on December 31, 2015)	145,012	146,263	149,117
Capital surplus	1,362,528	1,371,712	1,439,303
Undivided profits	945,663	797,123	874,303
Accumulated other comprehensive loss, net (Note 8)	(152,334)	(188,248)	(214,192)
Total First Horizon National Corporation Shareholders Equity	2,396,493	2,222,474	2,344,155
Noncontrolling interest	295,431	295,431	295,431
Total equity	2,691,924	2,517,905	2,639,586
Total liabilities and equity	\$ 27,541,070	\$ 25,237,392	\$ 26,192,637

Certain previously reported amounts have been revised to reflect the retroactive effect of the adoption of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. See Note 1 Financial Information for additional information.

See accompanying notes to consolidated condensed financial statements.

- (a) June 30, 2016 and 2015 and December 31, 2015 include \$21.2 million, \$20.2 million and \$22.4 million, respectively, of held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure.
- (b) June 30, 2016 and 2015 and December 31, 2015 include \$31.1 million, \$28.3 million and \$29.7 million, respectively, of held-to-maturity consumer mortgage loans secured by residential real estate properties in process of foreclosure.
- (c) June 30, 2016 and 2015 and December 31, 2015 include \$9.6 million, \$18.7 million and \$14.6 million, respectively, of foreclosed residential real estate.

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

	First Horizon National Corporation			
	Three Months Ended		Six Months Ended	
	June 30		June 30	
<i>Assets and shares in thousands except per share data, unless otherwise noted)(Unaudited)</i>	2016	2015	2016	2015
Interest income:				
Interest and fees on loans	\$ 163,054	\$ 153,283	\$ 321,477	\$ 297,000
Interest on investment securities available-for-sale	23,953	23,288	48,427	46,000
Interest on investment securities held-to-maturity	198	66	395	1,000
Interest on loans held-for-sale	1,198	1,350	2,459	2,000
Interest on trading securities	8,020	8,951	15,771	18,000
Interest on other earning assets	953	92	2,511	1,000
Interest income	197,376	187,030	391,040	365,000
Interest expense:				
Interest on deposits:				
Savings	4,146	2,970	8,336	6,000
Time deposits	1,148	1,324	2,260	2,000
Other interest-bearing deposits	2,526	1,104	4,830	2,000
Certificates of deposit \$100,000 and more	1,326	830	2,537	1,000
Interest on trading liabilities	3,782	3,770	7,821	7,000
Interest on short-term borrowings	1,203	726	2,331	1,000
Interest on term borrowings	6,981	9,666	14,587	19,000
Interest expense	21,112	20,390	42,702	41,000
Interest income	176,264	166,640	348,338	323,000
Provision for loan losses	4,000	2,000	7,000	7,000
Interest income after provision for loan losses	172,264	164,640	341,338	316,000
Other income:				
Net fee income	77,913	56,241	144,890	117,000
Net deposit transactions and cash management	26,991	28,430	53,828	54,000
Net interchange, management fees and commissions	10,665	12,456	21,080	23,000
Net advisory services and investment management	7,224	7,416	13,789	14,000
Net credit card income	6,558	5,884	11,817	11,000
Net investment-owned life insurance	3,743	3,391	7,132	6,000
Net other service charges	2,996	3,043	5,709	5,000
Net insurance commissions	552	654	1,039	1,000
Net equity securities gains/(losses), net (Note 3)	99	8	19	1,000
Net fixed income securities gains/(losses), net (Note 3)	99	8	19	1,000
Net other securities gains/(losses), net (Note 3)	99	8	19	1,000
Net other income and commissions (Note 7)	8,773	12,778	18,862	23,000

noninterest income	145,514	130,301	279,819	259,819
Adjusted gross income after provision for loan losses	317,778	294,941	621,157	576,819
Interest expense:				
Employee compensation, incentives, and benefits	143,370	127,970	280,521	259,819
Depreciation and amortization	12,736	11,764	25,340	23,340
Computer software	11,226	11,340	22,813	22,813
Communications services	10,521	10,033	20,421	19,421
Equipment rentals, depreciation, and maintenance	7,182	7,983	13,341	15,341
Professional fees	5,891	4,509	10,770	8,770
Bad debt premium expense	4,848	4,952	9,769	8,769
Advertising and public relations	4,481	4,349	9,454	9,454
Professional fees	4,284	5,218	9,483	8,483
Communications and courier	3,039	3,801	6,789	7,789
Life insurance and taxes	3,014	3,455	6,327	6,327
Contract employment and outsourcing	2,497	3,337	4,922	7,922
Amortization of intangible assets	1,299	1,298	2,599	2,599
Unimproved real estate	(432)	1,329	(690)	1,329
Accrual for purchase and foreclosure provision	(31,400)		(31,400)	
Other expense (Note 7)	44,266	17,056	63,290	193,290
noninterest expense	226,822	218,394	453,749	594,819
Income/(loss) before income taxes	90,956	76,547	167,408	(18,819)
Provision/(benefit) for income taxes	30,016	21,590	54,255	(6,255)
Income/(loss)	\$ 60,940	\$ 54,957	\$ 113,153	\$ (17,074)
Income attributable to noncontrolling interest	2,852	2,851	5,703	5,703
Income/(loss) attributable to controlling interest	\$ 58,088	\$ 52,106	\$ 107,450	\$ (23,777)
Accrued stock dividends	1,550	1,550	3,100	3,100
Income/(loss) available to common shareholders	\$ 56,538	\$ 50,556	\$ 104,350	\$ (26,877)
Basic earnings/(loss) per share (Note 9)	\$ 0.24	\$ 0.22	\$ 0.45	\$ (0.10)
Diluted earnings/(loss) per share (Note 9)	\$ 0.24	\$ 0.22	\$ 0.44	\$ (0.10)
Weighted average common shares (Note 9)	231,573	232,800	233,112	232,800
Diluted average common shares (Note 9)	233,576	234,669	235,121	232,800
Dividends declared per common share	\$ 0.07	\$ 0.06	\$ 0.14	\$ 0.14

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

See accompanying notes to consolidated condensed financial statements.

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)**

	First Horizon National Corporation			
	Three Months		Six Months Ended	
	Ended		Ended	
	June 30		June 30	
<i>(Dollars in thousands) (Unaudited)</i>	2016	2015	2016	2015
Net income/(loss)	\$ 60,940	\$ 54,957	\$ 113,153	\$ (17,448)
Other comprehensive income/(loss), net of tax:				
Net unrealized gains/(losses) on securities available-for-sale	16,037	(20,100)	55,197	(2,096)
Net unrealized gains/(losses) on cash flow hedges	1,226		4,691	
Net unrealized gains/(losses) on pension and other postretirement plans	844	1,011	1,970	2,094
Other comprehensive income/(loss)	18,107	(19,089)	61,858	(2)
Comprehensive income/(loss)	79,047	35,868	175,011	(17,450)
Comprehensive income attributable to noncontrolling interest	2,852	2,851	5,703	5,609
Comprehensive income/(loss) attributable to controlling interest	\$ 76,195	\$ 33,017	\$ 169,308	\$ (23,059)
Income tax expense/(benefit) of items included in Other Comprehensive Income/(Loss):				
Net unrealized gains/(losses) on securities available-for-sale	\$ 9,967	\$(12,651)	\$ 34,304	\$(1,320)
Net unrealized gains/(losses) on cash flow hedges	762		2,915	
Net unrealized gains/(losses) on pension and other postretirement plans	525	636	1,225	1,318
See accompanying notes to consolidated condensed financial statements.				

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF EQUITY**

	First Horizon National Corporation					
	2016			2015		
	Controlling Interest	Noncontrolling Interest	Total	Controlling Interest	Noncontrolling Interest	Total
<i>(dollars in thousands except per share data)(Unaudited)</i>						
Balance, January 1	\$ 2,344,155	\$ 295,431	\$ 2,639,586	\$ 2,286,159	\$ 295,431	\$ 2,581,590
Net income/(loss)	107,450	5,703	113,153	(23,057)	5,609	(17,448)
Other comprehensive income/(loss) (a)	61,858		61,858	(2)		(2)
Comprehensive income/(loss)	169,308	5,703	175,011	(23,059)	5,609	(17,450)
Share dividends declared:						
Preferred stock (\$3,100 per share for the six months ended June 30, 2016 and 2015)	(3,100)		(3,100)	(3,100)		(3,100)
Common stock (\$.14 and \$.12 per share for the six months ended June 30, 2016 and 2015, respectively)	(32,991)		(32,991)	(28,305)		(28,305)
Common stock repurchased (b)	(89,698)		(89,698)	(20,031)		(20,031)
Common stock issued for:						
Stock options and restricted stock equity awards	1,509		1,509	4,427		4,427
Stock-based compensation expense	7,796		7,796	6,474		6,474
Dividends declared noncontrolling interest of subsidiary preferred stock		(5,703)	(5,703)		(5,609)	(5,609)
Tax benefit/(benefit reversal) stock based compensation expense	(486)		(486)	(91)		(91)
Balance, June 30	\$ 2,396,493	\$ 295,431	\$ 2,691,924	\$ 2,222,474	\$ 295,431	\$ 2,517,905

See accompanying notes to consolidated condensed financial statements.

- (a) Due to the nature of the preferred stock issued by FHN and its subsidiaries, all components of Other comprehensive income/(loss) have been attributed solely to FHN as the controlling interest holder.
- (b) 2016 and 2015 include \$86.4 million and \$15.8 million, respectively, repurchased under share repurchase programs.

Table of Contents**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

<i>(Dollars in thousands)(Unaudited)</i>	First Horizon National Corporation	
	Six Months Ended June 30	
	2016	2015
Operating Activities		
Net income/(loss)	\$ 113,153	\$ (17,448)
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Provision for loan losses	7,000	7,000
Provision/(benefit) for deferred income taxes	34,366	(1,592)
Depreciation and amortization of premises and equipment	16,036	18,229
Amortization of intangible assets	2,599	2,596
Net other amortization and accretion	10,722	11,731
Net (increase)/decrease in derivatives	564	(615)
Repurchase and foreclosure provision	(31,400)	
Fair value adjustment to foreclosed real estate	850	1,660
Litigation and regulatory matters	25,652	120
Stock-based compensation expense	7,796	6,474
(Tax benefit)/benefit reversal stock based compensation expense	486	91
Equity securities (gains)/losses, net	(19)	(284)
Debt securities (gains)/losses, net	(1,654)	
Net (gains)/losses on sale/disposal of fixed assets	4,155	(2,872)
Loans held-for-sale:		
Purchases	(5,953)	(1,178)
Gross proceeds from settlements and sales	14,668	15,561
(Gain)/loss due to fair value adjustments and other	(349)	(294)
Net (increase)/decrease in:		
Trading securities	(283,283)	59,890
Fixed income receivables	(156,279)	(48,581)
Interest receivable	6,751	9,955
Other assets	(36,559)	(48,727)
Net increase/(decrease) in:		
Trading liabilities	223,521	138,250
Fixed income payables	67,328	36,144
Interest payable	(5,025)	(7,613)
Other liabilities	(36,422)	(67,405)
Total adjustments	(134,449)	128,540
Net cash provided/(used) by operating activities	(21,296)	111,092
Investing Activities		
Available-for-sale securities:		
Sales	1,543	284
Maturities	315,301	327,315

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Purchases	(311,592)	(427,717)
Premises and equipment:		
Sales	2,786	40,369
Purchases	(27,034)	(15,751)
Net (increase)/decrease in:		
Loans	(904,558)	(722,062)
Interests retained from securitizations classified as trading securities	1,774	1,011