FIRST HORIZON NATIONAL CORP
Form 10-K
March 08, 2006

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

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005
- or -

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition period from __________ to__________

Commission File Number **001-15185**

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

TENNESSEE (State or other jurisdiction of incorporation or organization)	**62-0803242** (I.R.S. Employer Identification Number)
165 Madison Avenue, Memphis, Tennessee (Address of principal executive offices)	**38103** (Zip Code)

Registrant s telephone number, including Area Code: **901-523-4444**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on which Registered
$0.625 Par Value Common Capital Stock (including rights attached thereto)	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
x YES o NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
o YES x NO

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. x YES o NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
x Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer

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

At June 30, 2005, the aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates of the registrant was approximately $5.2 billion.

At February 24, 2006, the registrant had 126,698,027 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the 2005 Annual Report to shareholders Parts I, II, and IV

Portions of Proxy Statement to be furnished to shareholders in connection with Annual Meeting of Shareholders scheduled for 4/18/06 Part III

PART I

ITEM 1

BUSINESS

General.

First Horizon National Corporation (the Corporation, we, or us) is a Tennessee corporation headquartered in Memphis, Tennessee and incorporated in 1968. The Corporation is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended, and is a financial holding company under the provisions of the Gramm-Leach-Bliley Act. At December 31, 2005, the Corporation had total assets of $36.6 billion and ranked 1st in terms of total assets among Tennessee-headquartered bank holding companies and ranked 27th nationally.

Through its principal subsidiary, First Tennessee Bank National Association (the Bank), and its other banking-related subsidiaries, the Corporation provides diversified financial services through four business segments. The segments reflect the common activities and operations of aggregated business segments across the various delivery channels: Retail/Commercial Banking, Mortgage Banking, and Capital Markets. In addition, the Corporate segment provides essential support within the Corporation. The percentage of consolidated revenues (for this purpose, the sum of net interest income and noninterest income) ascribed to each of our segments for the past three years was: Retail/Commercial Banking, 57% (2005), 53% (2004), and 42% (2003); Mortgage Banking, 28% (2005), 28% (2004), and 35% (2003); Capital Markets, 14% (2005), 17% (2004), and 22% (2003); and Corporate, 1% (2005), 2% (2004), and 1% (2003). Financial and other additional information concerning our segments appears in the response to Item 7 of Part II hereof and Note 22 to the Consolidated Financial Statements contained in the Corporation s 2005 Annual Report to shareholders. During 2005 approximately 59% of revenues were provided by fee income and approximately 41% of revenues were provided by net interest income. As a financial holding company, the Corporation coordinates the financial resources of the consolidated enterprise and maintains systems of financial, operational and administrative control intended to coordinate selected policies and activities, including as described in Item 9A of Part II hereto.

The Bank is a national banking association with principal offices in Memphis, Tennessee. It received its charter in 1864. During 2005 through its various business lines, including consolidated subsidiaries, the Bank generated gross revenue (net interest income plus noninterest income) of approximately $2.4 billion and contributed substantially all of consolidated net income from continuing operations. At December 31, 2005, the Bank had $36.3 billion in total assets, $23.4 billion in total deposits, and $20.4 billion in total net loans. Among Tennessee headquartered banks, the Bank ranked 1st in Tennessee deposit market share at June 30, 2005. On December 31, 2005, the Bank had 500 banking locations (183 financial centers and 317 off-premises ATMs) in 17 Tennessee counties, including all of the major metropolitan areas of the state; 13 banking locations in Mississippi (7 financial centers and 6 off-premises ATMs); 1 off-premises ATM in Arkansas; 1 off-premises ATM in Kentucky; 8 financial centers in Virginia; 2 off-premises ATMs in North Carolina; 8 banking locations in Georgia (6 financial centers and 2 off-premises ATMs); 6 banking locations in Texas (4 financial centers and 2 off-premises ATMs); 1 off-premises ATM in Colorado; and 2 off-premises ATMs in Arizona. At December 31, 2005, First Horizon Home Loan Corporation, a subsidiary of the Bank with principal offices in the Dallas, Texas metropolitan area, and its affiliates provided mortgage banking services through 413 offices, including satellite branches, in 44 states and, at December 31, 2005, ranked in the top 20 nationally in retail mortgage loan originations and top 15 nationally in mortgage loan servicing, as reported by *Inside Mortgage Finance*. FTN Financial products and services, at December 31, 2005, were offered through 18 offices in 15 states, and FTN Financial Capital Markets, a division of the Bank, ranked as one of the leading underwriters of U.S. agency debt.

At December 31, 2005, the Corporation provided the following services through its subsidiaries:

- general banking services for consumers, businesses, financial institutions, and governments
- mortgage banking services
- through FTN Financial sales, trading, and underwriting of bank-eligible securities and other fixed-income securities eligible for underwriting by financial subsidiaries; mortgage loans; advisory services; equity sales, trading, and research; and various investment banking services
- transaction processing - credit card merchant processing, nationwide check clearing services, and remittance processing
- trust, fiduciary, and agency services
- credit card products
- discount brokerage and full-service brokerage
- venture capital
- equipment finance
- investment and financial advisory services, including investment advisor to First Funds, a proprietary family of mutual funds
- mutual fund sales as agent
- retail and commercial insurance sales as agent
- private mortgage reinsurance
- services related to health savings accounts

At the date of the filing of this report on Form 10-K, the Corporation has previously announced the sale of its credit card merchant processing business and a transaction which, if closed, would result in the Corporation no longer providing advisory services to mutual funds or offering its proprietary family of mutual funds.

An element of the Corporation s business strategy is to seek acquisitions and consider divestitures that would enhance long-term shareholder value. The Corporation has a department charged with this responsibility which is constantly reviewing and developing opportunities to achieve this element of the Corporation s strategy. Acquisitions and divestitures which closed during the past three years are described in Note 2 to the Consolidated Financial Statements.

All of the Corporation s operating subsidiaries are listed in Exhibit 21. The Bank has filed notice with the Comptroller of the Currency (Comptroller or OCC) as a government securities broker/dealer. The FTN Financial Capital Markets division of the Bank is registered with the Securities and Exchange Commission (SEC) as a municipal securities dealer. The Bank is supervised and regulated as described below. Highland Capital Management Corp., Martin and Company, Inc., First Tennessee Advisory Services, a separately identifiable department of the Bank, and First Tennessee Brokerage, Inc. are registered with the SEC as investment advisers. Hickory Venture Capital Corporation is licensed as a Small Business Investment Company. First Tennessee Brokerage, Inc., FTN Financial Securities Corp. and FTN Midwest Securities Corp. are registered as broker-dealers with the SEC and all states where they conduct business for which registration is required. Pursuant to federal law, First Horizon Home Loan Corporation is regulated by the Comptroller and, under regulations promulgated by the Comptroller, is exempt from licensing as a mortgage lender in all states where it does business. First Tennessee Insurance Services, Inc. (FTIS) and First Horizon Insurance Services, Inc. (FHIS) are licensed as insurance agencies in all states where they do business for which licensing is required. FT Reinsurance Company is licensed by the state of South Carolina as a monoline insurance company. FT Insurance Corporation is licensed as an insurance agency in Alabama. Synaxis Group, Inc. s subsidiaries, which include Synaxis, Inc., Synaxis Insurance Services, Inc., Synaxis Risk Services, Inc., Merritt & McKenzie, Inc., and Van Meter Insurance, Inc., are licensed as insurance agencies in all states where they do business for which licensing is required. FTN Financial Securities Corp., FTN Midwest Securities Corp., FHIS, and FTIS and all of the subsidiaries listed in the preceding sentence are financial subsidiaries under the Gramm-Leach-Bliley Act. First Tennessee Brokerage, Inc. is licensed as an insurance agency in the states where it does business for which licensing is required for the sale of annuity products.

Expenditures for research and development activities were not material in any of the last three fiscal years ended December 31, 2005.

Neither the Corporation nor any of its significant subsidiaries is dependent upon a single customer or very few customers.

At December 31, 2005, the Corporation and its subsidiaries had 13,501 employees and 13,175 full-time-equivalent employees, not including contract labor for certain services.

For additional information on the business of the Corporation, refer to the Management s Discussion and Analysis of Results of Operations and Financial Condition and Glossary sections contained in pages 3 through 51 of the Corporation s 2005 Annual Report to shareholders, which sections are incorporated herein by reference.

The Corporation s current internet address is www.fhnc.com. The Corporation makes available free of charge on its Internet website its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments thereto as soon as reasonably practicable after the Corporation files such material with, or furnishes such material to, the Securities and Exchange Commission, as applicable.

Supervision and Regulation.

The following summary sets forth certain of the material elements of the regulatory framework applicable to bank holding companies and financial holding companies and their subsidiaries and to companies engaged in securities and insurance activities and provides certain specific information about the Corporation. The bank regulatory framework is intended primarily for the protection of depositors and the Federal Deposit Insurance Funds and not for the protection of security holders. In addition, certain activities of the Corporation and its subsidiaries are subject to various securities and insurance laws and are regulated by the Securities and Exchange Commission and the state insurance departments of the states in which they operate. To the extent that the following information describes statutory and regulatory provisions, it is qualified in its entirety by express reference to each of the particular statutory and regulatory provisions. A change in applicable statutes, regulations or regulatory policy may have a material effect on the business of the Corporation.

General

The Corporation is a bank holding company and financial holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the BHCA) and is registered with the Board of Governors of the Federal Reserve System (the Federal Reserve). The Corporation is subject to the regulation and supervision of and examination by the Federal Reserve under the BHCA. The Corporation is required to file with the Federal Reserve annual reports and such additional information as the Federal Reserve may require pursuant to the BHCA.

Under the BHCA, prior to March 13, 2000, bank holding companies could not in general directly or indirectly acquire the ownership or control of more than 5% of the voting shares or substantially all of the assets of any company, including a bank, without the prior approval of the Federal Reserve, and a bank holding company and its subsidiaries were generally limited to engaging in banking and activities found by the Federal Reserve to be so closely related to banking as to be a proper incident thereto. Since March 13, 2000, eligible bank holding companies that elect to become financial holding companies may affiliate with securities firms and insurance companies and engage in activities that are financial in nature generally without the prior approval of the Federal Reserve. See Gramm-Leach-Bliley Act below.

In addition, the BHCA permits the Federal Reserve to approve an application by a bank holding company to acquire a bank located outside the acquirer s principal state of operations without regard to whether the transaction is prohibited under state law. See Interstate Banking and Branching Legislation. The Tennessee Bank Structure Act of 1974, among other things, prohibits (subject to certain exceptions) a bank holding company from acquiring a bank for which the home state is Tennessee (a Tennessee bank) if, upon consummation, the company would directly or indirectly control 30% or more of the total deposits in insured depository institutions in Tennessee. As of June 30, 2005, the Corporation estimates that it held approximately 22.5% of such deposits. Subject to certain exceptions, the Tennessee Bank Structure Act prohibits a bank holding company from acquiring a bank in Tennessee which has been in operation for less than three years. Tennessee law permits a Tennessee bank to establish branches in any county in Tennessee. See also - Interstate Banking and Branching Legislation below.

The Bank is a national banking association subject to regulation, examination and supervision by the Comptroller as its primary federal regulator. In addition, the Bank is insured by, and subject to regulation by, the Federal Deposit Insurance Corporation (the FDIC). The Bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon and limitations on the types of investments that may be made, activities that may be engaged in, and types of services that may be offered. Various consumer laws and regulations also affect the operations of the Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve as it attempts to control the money supply and credit availability in order to influence the economy.

Payment of Dividends

The Corporation is a legal entity separate and distinct from its banking and other subsidiaries. The principal source of cash flow of the Corporation, including cash flow to pay dividends on its stock or principal (premium, if any) and interest on debt securities, is dividends from the Bank. There are statutory and regulatory limitations on the payment of dividends by the Bank to the Corporation, as well as by the Corporation to its shareholders.

As a national bank, the Bank is required by federal law to obtain the prior approval of the Comptroller for the payment of dividends if the total of all dividends declared by the board of directors of the Bank in any year will exceed the total of (i) its net profits (as defined and interpreted by regulation) for that year plus (ii) the retained net profits (as defined and interpreted by regulation) for the preceding two years, less any required transfers to surplus. A national bank also can pay dividends only to the extent that retained net profits (including the portion transferred to surplus) exceed bad debts (as defined by regulation).

If, in the opinion of the applicable federal bank regulatory authority, a depository institution or a holding company is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the depository institution or holding company, could include the payment of dividends), such authority may require that such institution or holding company cease and desist from such practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution s or holding company s capital base to an inadequate level would be such an unsafe and unsound banking practice. Moreover, the Federal Reserve, the Comptroller and the FDIC have issued policy statements which provide that bank holding companies and insured depository institutions generally should only pay dividends out of current operating earnings.

In addition, under the Federal Deposit Insurance Act (FDIA), an FDIC-insured depository institution may not make any capital distributions (including the payment of dividends) or pay any management fees to its holding company or pay any dividend if it is undercapitalized or if such payment would cause it to become undercapitalized.

At December 31, 2005, under dividend restrictions imposed under applicable federal laws, the Bank, without obtaining regulatory approval, could legally declare aggregate dividends of approximately $815.3 million.

Under Tennessee law, the Corporation is not permitted to pay dividends if, after giving effect to such payment, it would not be able to pay its debts as they become due in the usual course of business or the Corporation s total assets would be less than the sum of its total liabilities plus any amounts needed to satisfy any preferential rights if the Corporation was dissolving.

The payment of dividends by the Corporation and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines and debt covenants.

Transactions with Affiliates

There are various legal restrictions on the extent to which the Corporation and its nonbank subsidiaries (including for purposes of this paragraph, in certain situations, subsidiaries of the Bank) can borrow or otherwise obtain credit from the Bank. There are also legal restrictions on the Bank s purchases of or investments in the securities of and purchases of assets from the Corporation and its nonbank subsidiaries, the Bank s loans or extensions of credit to third parties collateralized by the securities or obligations of the Corporation and its nonbank subsidiaries, the issuance of guaranties, acceptances and letters of credit on behalf of the Corporation and its nonbank subsidiaries, and certain bank transactions with the Corporation and its nonbank subsidiaries, or with respect to which the Corporation and its nonbank subsidiaries act as agent, participate or have a financial interest. Subject to certain limited exceptions, the Bank (including for purposes of this paragraph all subsidiaries of the Bank) may not extend credit to the Corporation or to any other affiliate (other than another subsidiary bank and certain exempted affiliates) in an amount which exceeds 10% of the Bank s capital stock and surplus and may not extend credit in the aggregate to all such affiliates in an amount which exceeds 20% of its capital stock and surplus. Further, there are legal requirements as to the type, amount and quality of collateral which must secure such extensions of credit by the Bank to the Corporation or to such other affiliates. Also, extensions of credit and other transactions between the Bank and the Corporation or such other affiliates must be on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the Bank as those prevailing at the time for comparable transactions with non-affiliated companies. Also, the Bank and certain of its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with extensions of credit, leases or sales of property, or furnishing of services.

Capital Adequacy

The Federal Reserve has adopted risk-based capital guidelines for bank holding companies. The minimum guideline for the ratio of total capital (Total Capital) to risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8%, and the minimum ratio of Tier 1 Capital (defined below) to risk-weighted assets is 4%. At least half of the Total Capital must be composed of common stock, minority interests in the equity accounts of consolidated subsidiaries, non-cumulative perpetual preferred stock and a limited amount of cumulative perpetual preferred stock and trust preferred securities, less any amounts of goodwill, other intangible assets, and other items that are required to be deducted (Tier 1 Capital). The remainder may consist of qualifying subordinated debt, certain types of mandatory convertible securities and perpetual debt, other preferred stock and a limited amount of loan loss reserves. At December 31, 2005, the Corporation s consolidated Tier 1 Capital and Total Capital ratios were 8.55% and 12.30%, respectively.

The Federal Reserve Board, the FDIC, and the OCC have adopted rules to incorporate market and interest-rate risk components into their risk-based capital standards and that explicitly identify concentration of credit risk and certain risks arising from non-traditional activities, and the management of such risks, as important factors to consider in assessing an institution s overall capital adequacy. Under the market risk requirements, capital is allocated to support the amount of market risk related to a financial institution s ongoing trading activities for banks with relatively large trading activities. Institutions are able to satisfy any additional capital requirement, in part, by issuing short-term subordinated debt that qualifies as Tier 3 capital. Based on present practices and activity levels, these trading-related market risk rules have no significant impact on the Corporation s regulatory capital requirements.

In addition, the Federal Reserve has established minimum leverage ratio guidelines for bank holding companies. These guidelines provide for a minimum ratio of Tier 1 Capital to quarterly average assets, less goodwill and certain other intangible assets (the Leverage Ratio), of 3% for bank holding companies that meet certain specific criteria, including having the highest regulatory rating. All other bank holding companies generally are required to maintain a Leverage Ratio of at least 3%, plus an additional cushion of 100 to 200 basis points. The Corporation s Leverage Ratio at December 31, 2005 was 6.67%. The guidelines also provide that bank holding companies experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. Furthermore, the Federal Reserve has indicated that it will consider a tangible Tier 1 Capital leverage ratio (deducting all intangibles) and other indicia of capital strength in evaluating proposals for expansion or new activities.

The Bank is subject to risk-based and leverage capital requirements similar to those described above adopted by the Comptroller. The Corporation believes that the Bank was in compliance with applicable minimum capital requirements as of December 31, 2005. Neither the Corporation nor the Bank has been advised by any federal banking agency of any specific minimum Leverage Ratio requirement applicable to it.

Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including the termination of deposit insurance by the FDIC, and to certain restrictions on its business and in certain circumstances to the appointment of a conservator or receiver. See Prompt Corrective Action.

In June 1999, the Basel Committee on Banking Supervision launched its efforts to develop an improved capital adequacy framework by issuing its proposals to revise the 1988 Capital Accord. The new capital framework would consist of minimum capital requirements, a supervisory review process and the effective use of market discipline. In its proposal for minimum capital requirements, the Committee set out options from which banks could choose depending on the complexity of their business and the quality of their risk management. A standardized approach would refine the current measurement framework and introduce the use of external credit assessments to determine a bank s capital charge. Banks with more advanced risk management capabilities could make use of an internal risk-rating based approach. Under this approach, some of the key elements of credit risk, such as the probability of default of the borrower, would be estimated internally by a bank. The Committee also proposes an explicit capital charge for operational risk to provide for problems like internal systems failure.

The supervisory review aspect of the new framework would seek to ensure that a bank s capital position is consistent with its overall risk profile and strategy. The supervisory review process would also encourage early supervisory intervention when a bank s capital position deteriorates. The third aspect of the new framework, market discipline, would call for detailed disclosure of a bank s capital adequacy in order to encourage high disclosure standards and to enhance the role of market participants in encouraging banks to hold adequate capital. Banks would also be required to disclose how they evaluate their own capital adequacy.

In June 2004, the Basel Committee issued its final framework. In September 2005, the U.S. Regulators decided to delay implementation of Basel II in the United States which was expected to start in 2008 with a two-year phase in. The delay was due to reaction to the results of a simulation exercise that indicated some Basel II banks would have very low risk based capital requirements thus providing potential detrimental effects on competition in the U.S. banking sector. A Notice of Proposed Rulemaking (NPR) in now expected in early 2006. That NPR is expected to require implementation of the advanced measurement methods for large internationally active banks (core banks) and allows for other banks to opt-in should they so choose. Under the proposed rules the Corporation would not be considered a core bank that would be required to implement the new rules but could evaluate whether to opt in. For those non-core banks that do not opt in, an Advanced Notice of Proposed Rulemaking (APNR) was issued in October 2005, known as Basel IA, which proposed certain revision to the current Basel I capital rules. Going forward, the regulators plan to coordinate the issuance of the Basel II NPR with the issuance of a Basel IA NPR in a manner that will allow for some overlap in the comment period to allow the effects of the two proposals to be evaluated side by side. The proposed plan now for Basel II is a parallel run in 2008 and a three-year phase in over 2009-2011. The Corporation cannot predict at this time the final form the U.S. Regulators rules will take, or the effect they would have on the financial condition or results of operations of the Bank or the Corporation. The Corporation intends to continue to monitor the evolution of the proposed rulemaking and its potential impacts to the Corporation and the industry.

Holding Company Structure and Support of Subsidiary Banks

Because the Corporation is a holding company, its right to participate in the assets of any subsidiary upon the latter s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors (including depositors in the case of the Bank) except to the extent that the Corporation may itself be a creditor with recognized claims against the subsidiary. In addition, depositors of a bank, and the FDIC as their subrogee, would be entitled to priority over the creditors in the event of liquidation of a bank subsidiary.

Under Federal Reserve policy, the Corporation is expected to act as a source of financial strength to, and to commit resources to support, the Bank. This support may be required at times when, absent such Federal Reserve policy, the Corporation may not be inclined to provide it. In addition, any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to a priority of payment.

Cross-Guarantee Liability

Under the FDIA, a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonably expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to any commonly controlled FDIC-insured depository institution in danger of default. Default is defined generally as the appointment of a conservator or receiver and in danger of default is defined generally as the existence of certain conditions indicating that a default is likely to occur in the absence of regulatory assistance. The FDIC s claim for damages is superior to claims of shareholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institution. The Bank is currently the only depository institution owned by the Corporation. In the event that the Corporation established or acquired another depository institution, any loss suffered by the FDIC in respect of one subsidiary bank would likely result in assertion of the cross-guarantee provisions, the assessment of such estimated losses against the Corporation s other subsidiary bank(s), and a potential loss of the Corporation s investment in such subsidiary bank.

Prompt Corrective Action

The FDIA requires, among other things, the federal banking regulators to take prompt corrective action in respect of FDIC-insured depository institutions that do not meet minimum capital requirements. Under the FDIA, insured depository institutions are divided into five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under applicable regulations, an institution is defined to be well capitalized if it maintains a Leverage Ratio of at least 5%, a Tier 1 Capital ratio of at least 6% and a Total Capital ratio of at least 10% and is not subject to a directive, order or written agreement to meet and maintain specific capital levels. An institution is defined to be adequately capitalized if it meets all of its minimum capital requirements as described above. An institution will be considered undercapitalized if it fails to meet any minimum required measure, significantly undercapitalized if it has a Total Risk-Based Capital ratio of less than 6%, a Tier 1 Risk-Based Capital ratio of less than 3% or a Leverage Ratio of less than 3% and critically undercapitalized if it fails to maintain a level of tangible equity equal to at least 2% of total assets. An institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating.

The FDIA generally prohibits an FDIC-insured depository institution from making any capital distribution (including payment of dividends) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. An insured depository institution s holding company must guarantee the capital plan, up to an amount equal to the lesser of 5% of the depository institution s assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan, for the plan to be accepted by the applicable federal regulatory authority. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator, generally within 90 days of the date on which they become critically undercapitalized.

The Corporation believes that at December 31, 2005 the Bank had sufficient capital to qualify as well capitalized under the regulatory capital requirements discussed above.

Interstate Banking and Branching Legislation

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the IBBEA) authorized two methods of interstate expansion by banks and bank holding companies without geographic limitation.

According to IBBEA, a bank may merge with a bank in another state and continue to operate the merged bank s branches as interstate branches. IBBEA allowed states to opt out of allowing the operation of interstate branches pursuant to merger transactions, if they did so by May 31, 1997. Two states, Texas and Montana enacted such opt-out legislation, but both of these states have since enacted legislation to allow interstate branching through merger transactions. Tennessee did not opt out of interstate branching.

For merger transactions, states may impose restrictions on such transactions. Many states have requirements for a minimum period of time that a bank must have been in existence before a merger is allowed. According to IBBEA, the maximum period allowed for such age restrictions is five years. Additionally, national and state deposit concentration limits apply to interstate mergers

IBBEA also provides that a bank may establish and operate a *de novo* branch or acquire an existing branch in a state in which a bank is not headquartered and does not maintain a branch if the host state permits *de novo* branching. Various states permit *de novo* branching; and some states require reciprocal branching statutes to allow *de novo* branching. Tennessee permits *de novo* branching on a reciprocal basis.

Once a bank has established branches in a state through an interstate merger transaction or through *de novo* branching, the bank may then establish and acquire additional branches within that state to the same extent that a state chartered bank is allowed to establish or acquire branches within the state.

Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act of 1999 repealed or modified a number of significant provisions of then-current laws, including the Glass-Steagall Act and the Bank Holding Company Act of 1956, which imposed restrictions on banking organizations ability to engage in certain types of activities. The Act generally allows bank holding companies such as the Corporation broad authority to engage in activities that are financial in nature or incidental to such a financial activity, including insurance underwriting and brokerage; merchant banking; securities underwriting, dealing and market-making; real estate development; and such additional activities as the Federal Reserve in consultation with the Secretary of the Treasury determines to be financial in nature or incidental thereto. A bank holding company may engage in these activities directly or through subsidiaries by qualifying as a financial holding company. To qualify a bank holding company must file a declaration with the Federal Reserve and certify that all of its subsidiary depository institutions are well-managed and well-capitalized. The Act also permits national banks such as the Bank to engage in certain of these activities through financial subsidiaries. To control or hold an interest in a financial subsidiary, a national bank must meet the following requirements: (1) the national bank must receive approval from the Comptroller for the financial subsidiary to engage in the activities, (2) the national bank and its depository institution affiliates must each be well-capitalized and well-managed, (3) the aggregate consolidated total assets of all of the national bank s financial subsidiaries must not exceed 45% of the national bank s consolidated total assets or, if less, $50 billion, (4) the national bank must have in place adequate policies and procedures to identify and manage financial and operational risks and to preserve the separate identities and limited liability of the national bank and the financial subsidiary, and (5) if the financial subsidiary will engage in principal transactions and the national bank is one of the one hundred largest banks, the national bank must have outstanding at least one issue of unsecured long-term debt that is currently rated in one of the three highest investment grade rating categories (or if in the second fifty largest banks, an alternative requirement is that the national bank has a current long-term issuer credit rating within the three highest investment grade rating categories). No new financial activity may be commenced under the Act unless the national bank and all of its depository institution affiliates have at least satisfactory CRA ratings. Certain restrictions apply if the bank holding company or the national bank fails to continue to meet one or more of the requirements listed above. In addition, the Act contains a number of other provisions that may affect the Bank s operations, including functional regulation of the Bank s securities and investment management operations by the SEC and the Bank s insurance operations by the States and limitations on the use and disclosure to third parties of customer information. The Corporation is a financial holding company and the Bank has a number of financial subsidiaries.

FDIC Insurance Assessments; DIFA

The FDIC insurance premium charged on bank deposits insured by the Bank Insurance Fund (BIF) and on deposits insured by the Savings Association Insurance Fund (SAIF), including savings association deposits acquired by banks, ranges from 0 to 27 cents per $100 of deposits, depending on the institution s risk classification, based on capital and supervisory risk factors. The Deposit Insurance Funds Act of 1996 (DIFA) provides for assessments to be imposed on insured depository institutions with respect to deposits insured by the BIF (in addition to any assessments imposed on depository institutions with respect to SAIF-insured deposits) to pay for the cost of Financing Corporation (FICO) bonds. All banks are assessed to pay the interest due on FICO bonds. The cost to the Corporation on an annual basis is immaterial. In early 2006, the BIF and SAIF were merged into a new Deposit Insurance Fund (DIF).

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by a federal bank regulatory agency.

Depositor Preference

Federal law provides that deposits and certain claims for administrative expenses and employee compensation against an insured depository institution would be afforded a priority over other general unsecured claims against such an institution, including federal funds and letters of credit, in the liquidation or other resolution of such an institution by any receiver.

Securities Regulation

Certain of the Corporation s subsidiaries are subject to various securities laws and regulations and capital adequacy requirements promulgated by the regulatory and exchange authorities of the jurisdictions in which they operate.

The Corporation s registered broker-dealer subsidiaries are subject to the SEC s net capital rule, Rule 15c3-1. That rule requires the maintenance of minimum net capital and limits the ability of the broker-dealer to transfer large amounts of capital to a parent company or affiliate. Compliance with the rule could limit operations that require intensive use of capital, such as underwriting and trading.

Certain of the Corporation s subsidiaries and a division of the Bank are registered investment advisers who are regulated under the Investment Advisers Act of 1940. Among other activities, certain of these investment advisers provide investment advice to investment companies regulated under the Investment Company Act of 1940. Advisory contracts with these investment companies automatically terminate under these laws upon an assignment of the contract by the investment adviser unless appropriate consents are obtained. Subsidiaries of the Corporation are subject to certain restrictions in their dealings with investment companies advised by these affiliated investment advisers. At the date of the filing of this report on Form 10-K, the Corporation has previously announced a transaction which, if closed, would result in the Corporation no longer advising or offering its proprietary family of mutual funds.

Insurance Activities

Subsidiaries of the Corporation sell various types of insurance as agent in a number of the states. Insurance activities are subject to regulation by the states in which such business is transacted. Although most of such regulation focuses on insurance companies and their insurance products, insurance agents and their activities are also subject to regulation by the states, including, among other things, licensing and marketing and sales practices.

Competition.

The Corporation and its subsidiaries face substantial competition in all aspects of the businesses in which they engage from national and state banks located in Tennessee and large out-of-state banks as well as from savings and loan associations, credit unions, other financial institutions, consumer finance companies, trust companies, investment counseling firms, money market mutual funds, insurance companies, securities firms, mortgage banking companies and others. For certain information on the competitive position of the Corporation and the Bank, refer to the General subsection above of this Item 1. Also, refer to the subsections entitled Supervision and Regulation and Effect of Governmental Policies, both of which are relevant to an analysis of the Corporation s competitors. Due to the intense competition in the financial industry, the Corporation makes no representation that its competitive position has remained constant, nor can it predict whether its position will change in the future.

Sources and Availability of Funds.

Specific reference is made to the Management s Discussion and Analysis of Results of Operations and Financial Condition and Glossary sections, including the subsection entitled Liquidity Management, contained in pages 3 through 51 (including pages 25 through 29) of the Corporation s 2005 Annual Report to shareholders, which sections are incorporated herein by reference.

Effect of Governmental Policies.

The Bank is affected by the policies of regulatory authorities, including the Federal Reserve System and the Comptroller. An important function of the Federal Reserve System is to regulate the national money supply.

Among the instruments of monetary policy used by the Federal Reserve are: purchases and sales of U.S. Government securities in the marketplace; changes in the discount rate, which is the rate any depository institution must pay to borrow from the Federal Reserve; and changes in the reserve requirements of depository institutions. These instruments are effective in influencing economic and monetary growth, interest rate levels and inflation.

The monetary policies of the Federal Reserve System and other governmental policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Because of changing conditions in the national and international economy and in the money market, as well as the result of actions by monetary and fiscal authorities, it is not possible to predict with certainty future changes in interest rates, deposit levels, loan demand or the business and earnings of the Corporation and the Bank or whether the changing economic conditions will have a positive or negative effect on operations and earnings.

Various bills are from the time to time introduced in the United States Congress and the Tennessee General Assembly and other state legislatures, and regulations are proposed by the regulatory agencies which could affect the business of the Corporation and its subsidiaries. It cannot be predicted whether or in what form any of these proposals will be adopted or the extent to which the business of the Corporation and its subsidiaries may be affected thereby.

Statistical Information Required by Guide 3.

The statistical information required to be displayed under Item I pursuant to Guide 3, Statistical Disclosure by Bank Holding Companies, of the Exchange Act Industry Guides is incorporated herein by reference to the Consolidated Financial Statements and the notes thereto and the Management s Discussion and Analysis of Results of Operations and Financial Condition and Glossary sections set forth at pages 3 through 51 of the Corporation s 2005 Annual Report to shareholders. Certain information not contained in the 2005 Annual Report to shareholders, but required by Guide 3, is contained in the tables immediately following:

FIRST HORIZON NATIONAL CORPORATION
ADDITIONAL GUIDE 3 STATISTICAL INFORMATION
ON DECEMBER 31
(Unaudited)

Investment Portfolio *(Dollars in thousands)*	**2005**	**2004**	**2003**
Mortgage-backed securities & collateralized mortgage obligations	**$ 2,525,865**	$ 2,391,162	$ 2,200,862
U.S. Treasury	**41,113**	41,244	47,977
U. S. government agencies	**133,918**	40,959	1,164
States and political subdivisions	**2,525**	8,268	14,423
Other	**209,065**	199,364	205,944
Total	**$ 2,912,486**	$ 2,680,997	$ 2,470,370

Loan Portfolio *(Dollars in thousands)*	**2005**	**2004**	**2003**	**2002**	**2001**
Commercial:					
Commercial, financial and industrial	**$ 6,578,130**	$ 5,560,736	$ 4,502,917	$ 4,134,158	$ 4,176,738
Real estate commercial	**1,213,052**	960,178	968,064	1,037,341	929,036
Real estate construction	**2,108,121**	1,208,703	690,402	551,449	492,531
Retail:					
Real estate residential	**8,357,143**	7,244,716	6,817,122	4,721,307	3,732,767
Real estate construction	**1,925,060**	1,035,562	527,260	342,127	211,429
Other retail	**168,413**	168,806	212,362	286,069	459,510
Credit card receivables	**251,016**	248,972	272,398	272,994	281,132
Total	**$ 20,600,935**	$ 16,427,673	$ 13,990,525	$ 11,345,445	$ 10,283,143

Short-Term Borrowings *(Dollars in thousands)*	**2005**	**2004**	**2003**
Federal funds purchased and securities sold under agreements to repurchase	**$ 3,735,742**	$ 3,247,048	$ 3,079,248
Commercial paper	**10,695**	23,712	31,793
Trading liabilities	**793,638**	426,343	127,717
Other short-term borrowings	**791,322**	116,064	102,418
Total	**$ 5,331,397**	$ 3,813,167	$ 3,341,176

Maturities of Certificates of Deposits $100,000 and more on December 31, 2005

(Dollars in thousands)	**0-3 Months**	**3-6 Months**	**6-12 Months**	**Over 12 Months**	**Total**

Certificates of deposit $100,000 and more	$ 10,293,604	$ 134,939	$ 119,704	$ 383,448	$ 10,931,695

Contractual Maturities of Commercial & Real Estate Construction Loans on December 31, 2005

(Dollars in thousands)	Within 1 Year	After 1 Year Within 5 Years	After 5 Years	Total
Commercial, financial and industrial	$ 3,921,567	$ 2,239,351	$ 417,212	$ 6,578,130
Real estate commercial	371,184	682,431	159,437	1,213,052
Commercial real estate construction	1,561,911	542,852	3,358	2,108,121
Retail real estate construction	1,918,278			