FIRST HORIZON NATIONAL CORP
Form 10-Q
August 08, 2017
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, 2017

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	**62-0803242**
(State or other jurisdiction	**(IRS Employer**
incorporation of organization)	**Identification No.)**
165 MADISON AVENUE	
MEMPHIS, TENNESSEE	**38103**
(Address of principal executive office)	**(Zip Code)**

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

(Former name, 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, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer
Smaller reporting company	Emerging Growth Company	(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2017**
Common Stock, $.625 par value	234,135,417

Table of Contents

FIRST HORIZON NATIONAL CORPORATION

INDEX

Table of Contents

PART I.

FINANCIAL INFORMATION

Item 1. Financial Statements

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

Table of Contents

CONSOLIDATED CONDENSED STATEMENTS OF CONDITION

	First Horizon National Corporation	
	(Unaudited)	
(Dollars in thousands, except per share amounts)	**June 30 2017**	December 31 2016
Assets:		
Cash and due from banks	**$ 387,053**	$ 373,274
Federal funds sold	**34,036**	50,838
Securities purchased under agreements to resell (Note 15)	**657,991**	613,682
Total cash and cash equivalents	**1,079,080**	1,037,794
Interest-bearing cash	**573,666**	1,060,034
Trading securities	**1,315,891**	897,071
Loans held-for-sale (a)	**432,771**	111,248
Securities available-for-sale (Note 3)	**3,949,592**	3,943,499
Securities held-to-maturity (Note 3)	**10,000**	14,347
Loans, net of unearned income (Note 4) (b)	**19,989,319**	19,589,520
Less: Allowance for loan losses (Note 5)	**197,257**	202,068
Total net loans	**19,792,062**	19,387,452
Goodwill (Note 6)	**236,335**	191,371
Other intangible assets, net (Note 6)	**45,121**	21,017
Fixed income receivables	**127,724**	57,411
Premises and equipment, net (June 30, 2017 and December 31, 2016 include $5.0 million and $5.8 million, respectively, classified as held-for-sale)	**292,463**	289,385
Real estate acquired by foreclosure (c)	**11,901**	16,237
Derivative assets (Note 14)	**91,653**	121,654
Other assets	**1,411,697**	1,406,711
Total assets	**$ 29,369,956**	$ 28,555,231
Liabilities and equity:		
Deposits:		
Savings	**$ 8,607,801**	$ 9,428,197
Time deposits	**1,373,618**	1,355,133
Other interest-bearing deposits	**6,049,345**	5,948,439
Interest-bearing	**16,030,764**	16,731,769
Noninterest-bearing	**6,302,585**	5,940,594
Total deposits	**22,333,349**	22,672,363
Federal funds purchased	**314,892**	414,207

Securities sold under agreements to repurchase (Note 15)	**743,684**	453,053
Trading liabilities	**555,793**	561,848
Other short-term borrowings	**1,044,658**	83,177
Term borrowings	**1,033,329**	1,040,656
Fixed income payables	**28,571**	21,002
Derivative liabilities (Note 14)	**92,717**	135,897
Other liabilities	**396,075**	467,944
Total liabilities	**26,543,068**	25,850,147
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, 2017 and December 31, 2016)	**95,624**	95,624
Common stock $.625 par value (shares authorized 400,000,000; shares issued 234,135,417 on June 30, 2017 and 233,623,686 on December 31, 2016)	**146,336**	146,015
Capital surplus	**1,395,797**	1,386,636
Undivided profits	**1,131,162**	1,029,032
Accumulated other comprehensive loss, net (Note 8)	**(237,462)**	(247,654)
Total First Horizon National Corporation Shareholders Equity	**2,531,457**	2,409,653
Noncontrolling interest	**295,431**	295,431
Total equity	**2,826,888**	2,705,084
Total liabilities and equity	**$ 29,369,956**	$ 28,555,231

See accompanying notes to consolidated condensed financial statements.

(a) June 30, 2017 and December 31, 2016 include $15.1 million and $19.3 million, respectively, of held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure.

(b) June 30, 2017 and December 31, 2016 include $28.8 million and $28.5 million, respectively, of held-to-maturity consumer mortgage loans secured by residential real estate properties in process of foreclosure.

(c) June 30, 2017 and December 31, 2016 include $6.6 million and $8.1 million, respectively, of foreclosed residential real estate.

Table of Contents

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

	First Horizon National Corporation			
	Three Months Ended June 30		Six Months End June 30	
ars and shares in thousands except per share data, unless otherwise noted) (Unaudited)	**2017**	2016	**2017**	201
est income:				
est and fees on loans	**$ 192,580**	$ 163,054	**$ 373,044**	$ 321,
est on investment securities available-for-sale	**25,657**	23,953	**51,292**	48,
est on investment securities held-to-maturity	**132**	198	**329**	
est on loans held-for-sale	**3,510**	1,198	**4,793**	2,
est on trading securities	**9,418**	8,020	**15,771**	15,
est on other earning assets	**4,044**	953	**8,923**	2,
interest income	**235,341**	197,376	**454,152**	391,
est expense:				
est on deposits:				
gs	**11,194**	4,146	**20,404**	8,
deposits	**2,918**	2,474	**5,751**	4,
interest-bearing deposits	**5,074**	2,526	**9,217**	4,
est on trading liabilities	**4,203**	3,782	**7,984**	7,
est on short-term borrowings	**2,903**	1,203	**4,295**	2,
est on term borrowings	**8,348**	6,981	**16,092**	14,
interest expense	**34,640**	21,112	**63,743**	42,
nterest income	**200,701**	176,264	**390,409**	348,
sion/(provision credit) for loan losses	**(2,000)**	4,000	**(3,000)**	7,
nterest income after provision/(provision credit) for loan losses	**202,701**	172,264	**393,409**	341,
nterest income:				
income	**55,110**	77,913	**105,788**	144,
sit transactions and cash management	**27,858**	26,991	**52,423**	53,
erage, management fees and commissions	**12,029**	10,665	**23,935**	21,
services and investment management	**7,698**	7,224	**14,351**	13,
card income	**5,605**	6,558	**11,060**	11,
-owned life insurance	**4,351**	3,743	**7,598**	7,
securities gains/(losses), net (Note 3 and Note 8)	**405**		**449**	1,
y securities gains/(losses), net (Note 3)		99		
ther income and commissions (Note 7)	**14,617**	12,321	**29,008**	25,
noninterest income	**127,673**	145,514	**244,612**	279,
sted gross income after provision/(provision credit) for loan losses	**330,374**	317,778	**638,021**	621,

nterest expense:				
oyee compensation, incentives, and benefits	**139,088**	143,370	**274,020**	280,
pancy	**12,800**	12,736	**25,140**	25,
puter software	**12,285**	11,226	**23,084**	22,
ations services	**11,524**	10,521	**22,399**	20,
ssional fees	**9,659**	4,284	**14,405**	9,
pment rentals, depreciation, and maintenance	**7,036**	7,182	**13,387**	13,
premium expense	**5,927**	4,848	**11,666**	9,
munications and courier	**4,117**	3,039	**7,917**	6,
rtising and public relations	**4,095**	4,481	**8,696**	9,
fees	**3,496**	5,891	**8,779**	10,
ract employment and outsourcing	**3,255**	2,497	**6,213**	4,
rtization of intangible assets	**1,964**	1,299	**3,196**	2,
rchase and foreclosure provision/(provision credit)	**(21,733)**	(31,400)	**(21,971)**	(31,
ther expense (Note 7)	**24,404**	46,848	**43,191**	68,
noninterest expense	**217,917**	226,822	**440,122**	453,
me/(loss) before income taxes	**112,457**	90,956	**197,899**	167,
sion/(benefit) for income taxes	**17,253**	30,016	**44,307**	54,
ncome/(loss)	**$ 95,204**	$ 60,940	**$ 153,592**	$ 113,
ncome attributable to noncontrolling interest	**2,852**	2,852	**5,672**	5,
ncome/(loss) attributable to controlling interest	**$ 92,352**	$ 58,088	**$ 147,920**	$ 107,
rred stock dividends	**1,550**	1,550	**3,100**	3,
ncome/(loss) available to common shareholders	**$ 90,802**	$ 56,538	**$ 144,820**	$ 104,
earnings/(loss) per share (Note 9)	**$ 0.39**	$ 0.24	**$ 0.62**	$ (
ed earnings/(loss) per share (Note 9)	**$ 0.38**	$ 0.24	**$ 0.61**	$ (
hted average common shares (Note 9)	**233,482**	231,573	**233,280**	233,
ed average common shares (Note 9)	**236,263**	233,576	**236,225**	235,
dividends declared per common share	**$ 0.09**	$ 0.07	**$ 0.18**	$ (

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

	First Horizon National Corporation			
	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands) (Unaudited)	**2017**	2016	**2017**	2016
Net income/(loss)	**$ 95,204**	$ 60,940	**$ 153,592**	$ 113,153
Other comprehensive income/(loss), net of tax:				
Net unrealized gains/(losses) on securities available-for-sale	**8,938**	16,037	**7,375**	55,197
Net unrealized gains/(losses) on cash flow hedges	**2,155**	1,226	**241**	4,691
Net unrealized gains/(losses) on pension and other postretirement plans	**1,403**	844	**2,576**	1,970
Other comprehensive income/(loss)	**12,496**	18,107	**10,192**	61,858
Comprehensive income	**107,700**	79,047	**163,784**	175,011
Comprehensive income attributable to noncontrolling interest	**2,852**	2,852	**5,672**	5,703
Comprehensive income attributable to controlling interest	**$ 104,848**	$ 76,195	**$ 158,112**	$ 169,308
Income tax expense/(benefit) of items included in Other comprehensive income:				
Net unrealized gains/(losses) on securities available-for-sale	**$ 5,543**	$ 9,967	**$ 4,573**	$ 34,304
Net unrealized gains/(losses) on cash flow hedges	**1,336**	762	**149**	2,915
Net unrealized gains/(losses) on pension and other postretirement plans	**870**	525	**1,597**	1,225

See accompanying notes to consolidated condensed financial statements.

Table of Contents

CONSOLIDATED CONDENSED STATEMENTS OF EQUITY

	First Horizon National Corporation					
	2017			2016		
ollars in thousands except per share data) (Unaudited)	Controlling Interest	Noncontrolling Interest	Total	Controlling Interest	Noncontrolling Interest	Total
ance, January 1	**$ 2,409,653**	**$ 295,431**	**$ 2,705,084**	$ 2,344,155	$ 295,431	$ 2,639,58
t income/(loss)	**147,920**	**5,672**	**153,592**	107,450	5,703	113,15
ner comprehensive income/(loss) (a)	**10,192**		**10,192**	61,858		61,85
mprehensive income	**158,112**	**5,672**	**163,784**	169,308	5,703	175,01
sh dividends declared:						
ferred stock ($3,100 per share for the six months ended e 30, 2017 and 2016)	**(3,100)**		**(3,100)**	(3,100)		(3,10
mmon stock ($.18 and $.14 per share for the six months led June 30, 2017 and 2016, respectively)	**(42,404)**		**(42,404)**	(32,991)		(32,99
mmon stock repurchased (b)	**(4,953)**		**(4,953)**	(89,698)		(89,69
mmon stock issued for:						
ck options and restricted stock equity awards	**4,309**		**4,309**	1,509		1,50
ck-based compensation expense	**9,840**		**9,840**	7,796		7,79
vidends declared noncontrolling interest of subsidiary ferred stock		**(5,672)**	**(5,672)**		(5,703)	(5,70
x benefit/(benefit reversal) stock based compensation pense				(486)		(48
lance, June 30	**$ 2,531,457**	**$ 295,431**	**$ 2,826,888**	$ 2,396,493	$ 295,431	$ 2,691,92

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 includes $86.4 million repurchased under share repurchase programs.

5

Table of Contents

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	First Horizon National Corporation	
	Six Months Ended June 30	
(Dollars in thousands) (Unaudited)	**2017**	2016
Operating Activities		
Net income/(loss)	**$ 153,592**	$ 113,153
Adjustments to reconcile net income/(loss) to net cash provided/(used) by operating activities:		
Provision/(provision credit) for loan losses	**(3,000)**	7,000
Provision/(benefit) for deferred income taxes	**(16,862)**	34,366
Depreciation and amortization of premises and equipment	**16,617**	16,036
Amortization of intangible assets	**3,196**	2,599
Net other amortization and accretion	**14,288**	10,722
Net (increase)/decrease in derivatives	**(13,683)**	564
Repurchase and foreclosure provision/(provision credit)	**(20,000)**	(31,400)
(Gains)/losses and write-downs on other real estate, net	**180**	(788)
Litigation and regulatory matters	**(753)**	25,652
Stock-based compensation expense	**9,840**	7,796
Equity securities (gains)/losses, net		(19)
Debt securities (gains)/losses, net	**(449)**	(1,654)
Net (gains)/losses on sale/disposal of fixed assets	**(71)**	4,155
Loans held-for-sale:		
Purchases and originations	**(549,331)**	(5,953)
Gross proceeds from settlements and sales	**461,119**	14,668
(Gain)/loss due to fair value adjustments and other	**2,777**	(349)
Net (increase)/decrease in:		
Trading securities	**(280,135)**	(283,283)
Fixed income receivables	**(70,313)**	(156,279)
Interest receivable	**(2,443)**	6,751
Other assets	**1,324**	(36,559)
Net increase/(decrease) in:		
Trading liabilities	**(6,055)**	223,521
Fixed income payables	**(88,920)**	67,328
Interest payable	**1,303**	(5,025)
Other liabilities	**(52,669)**	(36,422)
Total adjustments	**(594,040)**	(136,573)
Net cash provided/(used) by operating activities	**(440,448)**	(23,420)
Investing Activities		
Available-for-sale securities:		
Sales	**63**	1,543
Maturities	**268,155**	315,301
Purchases	**(265,770)**	(311,592)

Held-to-maturity securities:				
Prepayments and maturities		**4,740**		
Premises and equipment:				
Sales		**2,103**		2,786
Purchases		**(20,498)**		(27,034)
Proceeds from sales of other real estate		**7,340**		18,095
Net (increase)/decrease in:				
Loans		**(404,379)**		(921,015)
Interests retained from securitizations classified as trading securities		**397**		1,774
Interest-bearing cash		**490,500**		281,093
Cash (paid)/received for acquisition, net		**(123,971)**		
Net cash provided/(used) by investing activities		**(41,320)**		(639,049)
Financing Activities				
Common stock:				
Stock options exercised		**2,823**		807
Cash dividends paid		**(37,809)**		(30,960)
Repurchase of shares (a)		**(4,953)**		(89,698)
Cash dividends paid preferred stock noncontrolling interest		**(5,672)**		(5,672)
Cash dividends paid Series A preferred stock		**(3,100)**		(3,100)
Term borrowings:				
Payments/maturities		**(7,239)**		(259,938)
Net increase/(decrease) in:				
Deposits		**(338,689)**		663,246
Short-term borrowings		**917,693**		562,671
Net cash provided/(used) by financing activities		**523,054**		837,356
Net increase/(decrease) in cash and cash equivalents		**41,286**		174,887
Cash and cash equivalents at beginning of period		**1,037,794**		1,031,063
Cash and cash equivalents at end of period	**$**	**1,079,080**	$	1,205,950
Supplemental Disclosures				
Total interest paid	**$**	**61,908**	$	47,355
Total taxes paid		**21,805**		11,334
Total taxes refunded		**8,200**		2,425
Transfer from loans to other real estate owned		**3,184**		4,297

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

See accompanying notes to consolidated condensed financial statements.

(a) 2016 includes $86.4 million repurchased under share repurchase programs.

Table of Contents

Notes to the Consolidated Condensed Financial Statements (Unaudited)

Note 1 Financial Information

Basis of Accounting. The unaudited interim consolidated condensed financial statements of First Horizon National Corporation (FHN), including its subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America and follow general practices within the industries in which it operates. This preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates and assumptions are based on information available as of the date of the financial statements and could differ from actual results. In the opinion of management, all necessary adjustments have been made for a fair presentation of financial position and results of operations for the periods presented. These adjustments are of a normal recurring nature unless otherwise disclosed in this Quarterly Report on Form 10-Q. The operating results for the interim 2017 period are not necessarily indicative of the results that may be expected going forward. For further information, refer to the audited consolidated financial statements in Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2016.

Summary of Accounting Changes. Effective January 1, 2017, FHN adopted the provisions of Accounting Standards Update (ASU) 2016-09, Improvements to Employee Share-Based Payment Accounting, which makes several revisions to equity compensation accounting. Under the new guidance all excess tax benefits and deficiencies that occur when an award vests, is exercised, or expires are recognized in income tax expense as discrete period items. Previously, these transactions were typically recorded directly within equity. Consistent with this change, excess tax benefits and deficiencies are no longer included within estimated proceeds when performing the treasury stock method for calculation of diluted earnings per share. Excess tax benefits are also recognized at the time an award is exercised or vests compared to the previous requirement to delay recognition until the deduction reduces taxes payable. The presentation of excess tax benefits in the statement of cash flows shifted to an operating activity from the prior classification as a financing activity.

ASU 2016-09 also provides an accounting policy election to recognize forfeitures of awards as they occur when estimating stock-based compensation expense rather than the previous requirement to estimate forfeitures from inception. Further, ASU 2016-09 permits employers to use a net-settlement feature to withhold taxes on equity compensation awards up to the maximum statutory tax rate without affecting the equity classification of the award. Under previous guidance, withholding of equity awards in excess of the minimum statutory requirement resulted in liability classification for the entire award. The related cash remittance by the employer for employee taxes is treated as a financing activity in the statement of cash flows. Transition to the new guidance was accomplished through a combination of retrospective (cash flows), cumulative-effect adjustment to equity (forfeitures) and prospective methodologies (tax windfalls and shortfalls). FHN estimates, based on currently enacted tax rates, that adoption of ASU 2016-09 in 2017 will result in an incremental effect on tax provision ranging from $2.0 million of tax benefit to $1.0 million of additional tax provision. The actual effects of adoption in 2017 will primarily depend upon the share price of the FHN s common stock, which affects the vesting of certain performance awards, probability of exercise of certain stock options and the magnitude of windfalls for all awards upon either vesting or exercise. The effects on earnings per share calculations and election to account for forfeitures as incurred have not been significant.

Effective January 1, 2017, FHN early adopted the provisions of ASU 2016-16, Intra-Entity Transfers of Assets Other Than Inventory which requires recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Therefore, ASU 2016-16 reverses the previous requirement to delay recognition of the tax consequences of these transactions until the associated assets are sold to an outside party. Adoption of ASU 2016-16 did not have a significant effect on FHN.

Accounting Changes Issued but Not Currently Effective

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. 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

Table of Contents

Note 1 Financial Information (Continued)

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. These ASUs are effective in annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early application is permitted for annual reporting periods beginning after December 15, 2016, and associated interim periods. Transition to the new requirements may be made by retroactively revising prior financial statements (with certain practical expedients permitted) or by a cumulative effect through retained earnings. If the latter option is selected, additional disclosures are required for comparability. FHN will not early adopt these ASUs and is evaluating their effects on its revenue recognition practices. Currently, FHN anticipates that it will elect to adopt the provisions of the revenue recognition standards through a cumulative effect to retained earnings with comparability disclosures provided throughout 2018.

In February 2017, the FASB issued ASU 2017-05, Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets which 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 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. ASU 2017-05 has the same effective date and transition provisions as ASU 2014-09 and the two standards must be adopted simultaneously although the transition methods may be different. FHN is evaluating the effects of ASU 2017-05 on its revenue recognition practices. Currently, FHN anticipates that it will elect to adopt the provisions of ASU 2017-05 through a cumulative effect to retained earnings with comparability disclosures provided throughout 2018.

In January 2016, the FASB issued 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

Table of Contents

Note 1 Financial Information (Continued)

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. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Transition will be 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, will have any initial fair value marks recorded through earnings prospectively after adoption.

Upon adoption, FHN will reclassify all equity investments out of available-for-sale securities, leaving only debt securities within this classification. FHN has evaluated the nature of its current equity investments and determined that substantially all qualify for the election available to assets without readily determinable fair values, including its holdings of Visa Class B shares. Accordingly, FHN intends to apply this election and any fair value marks for these investments will be recognized through earnings on a prospective basis subsequent to adoption. FHN continues to evaluate the appropriate characteristics of similar instruments as well as related valuation inputs and methodologies for its equity investments without readily determinable fair values. The requirements of ASU 2016-01 related to assessment of deferred tax assets and disclosure of the fair value of financial instruments will not have a significant effect on FHN because its current accounting and disclosure practices conform to the requirements of ASU 2016-01. FHN also continues to evaluate the impact of ASU 2016-01 on other aspects of its current accounting and disclosure practices.

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 transition to ASU 2016-02, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes 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 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. FHN is evaluating the impact of ASU 2016-02 on its current accounting and disclosure practices.

In March 2016, the FASB issued 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. ASU 2016-04 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. FHN is evaluating the impact of ASU 2016-04 on its current accounting and disclosure practices.

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

Table of Contents

Note 1 Financial Information (Continued)

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 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 is still evaluating the impact of ASU 2016-13 on its current accounting and disclosure practices.

In August 2016, the FASB issued 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. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The provisions of ASU 2016-15 will be applied retroactively and will result in proceeds from bank-owned life insurance (BOLI) being classified as an investing activity rather than their prior classification as an operating activity.

In March 2017, the FASB issued 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. The presentation requirements of ASU 2017-07 must be applied retrospectively and adoption is required for annual periods beginning after December 15, 2017, including interim periods within those annual periods. 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. These amounts are currently included in Employee compensation, incentives, and benefits expense in the Consolidated Condensed Statements of Income. Upon adoption of ASU 2017-07 FHN will reclassify the expense components

Table of Contents

Note 1 Financial Information (Continued)

other than service cost into All other expense and revise its disclosures accordingly. The amounts to be reclassified are presented in Note 11 Pension, Savings, and Other Employee Benefits in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2017 and in Note 18 Pension, Savings, and Other Employee Benefits in Exhibit 13 to FHN s Annual Report on Form 10-K for the year ended December 31, 2016.

In March 2017, the FASB issued 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 debt securities where the prepayment date is not preset or the price is not known in advance, which includes debt securities that qualify for amortization based on estimated prepayment rates. ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 with early adoption permitted. Transition is accomplished through a cumulative-effect adjustment directly to retained earnings as of the beginning of the year of adoption. Based upon the current composition of its debt securities portfolios, FHN does not anticipate a significant effect upon adoption.

Table of Contents

Note 2 Acquisitions and Divestitures

On May 4, 2017, FHN and Capital Bank Financial Corp. (Capital Bank or CBF) announced that they had entered into an agreement and plan of merger. Under the agreement FHN will acquire Capital Bank, which is headquartered in Charlotte, North Carolina, and reported approximately $10 billion of assets at March 31, 2017. At the time of announcement Capital Bank operated 193 branches in North and South Carolina, Tennessee, Florida and Virginia. Collectively, Capital Bank shareholders will receive approximately $411 million in cash plus FHN common shares which are expected to represent approximately 29 percent of FHN s outstanding common shares immediately after consummation of the merger. The total transaction value, measured at the time of announcement, was approximately $2.2 billion. The agreement calls for two members of Capital Bank s board of directors to join FHN s board after closing. The transaction is expected to close in fourth quarter 2017, subject to regulatory approvals, approval by shareholders of FHN and of Capital Bank, and other customary conditions.

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.

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

	Coastal Securities, Inc. Purchase Accounting/		
(Dollars in thousands)	As Acquired	Fair Value Adjustments	As recorded by FHN
Assets:			
Cash and due from banks	$ 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
Total assets acquired	$ 438,183	$ (19,765)	$ 418,418
Liabilities:			
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

Total liabilities assumed	379,709	(47,800)	331,909
Net Assets Acquired	$ 58,474	$ 28,035	86,509
Consideration paid:			
Cash			(131,473)
Goodwill			$ 44,964

The valuation of other intangible assets, including customer relationships and noncompete agreements, are preliminary as management continues to review the valuation assumptions and methodologies for these assets. In relation to the acquisition,

Table of Contents

Note 2 Acquisitions and Divestitures (Continued)

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 6 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.

In second quarter 2016, FHN recognized $6.4 million of acquisition-related expenses primarily associated with the CBF and Coastal acquisitions. These expenses were primarily included in Professional fees, Legal fees, and Employee compensation, incentives and benefits on the Consolidated Condensed Statements of Income.

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 combination or divestitures but are not material to FHN individually or in the aggregate.

Table of Contents

Note 3 Investment Securities

The following tables summarize FHN s investment securities on June 30, 2017 and December 31, 2016:

	June 30, 2017			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. treasuries	$ 100	$	$	$ 100
Government agency issued mortgage-backed securities (MBS)	2,130,894	13,160	(14,438)	2,129,616
Government agency issued collateralized mortgage obligations (CMO)	1,646,533	4,754	(19,464)	1,631,823
Equity and other (a)	186,892		(2)	186,890
	$ 3,964,419	**$ 17,914**	**$ (33,904)**	3,948,429
AFS debt securities recorded at fair value through earnings:				
SBA-interest only strips (b)				1,163
Total securities available-for-sale (c)				**$ 3,949,592**
Securities held-to-maturity:				
Corporate bonds	$ 10,000	$	$ (9)	$ 9,991
Total securities held-to-maturity	**$ 10,000**	**$**	**$ (9)**	**$ 9,991**

(a) Includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $68.6 million. The remainder is money market, mutual funds, and cost method investments.
(b) SBA-interest only strips are recorded at elected fair value. See Note 16 Fair Value for additional information.
(c) Includes $3.5 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

	December 31, 2016			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available-for-sale:				
U.S. treasuries	$ 100	$	$	$ 100
Government agency issued MBS	2,217,593	14,960	(23,866)	2,208,687
Government agency issued CMO	1,566,986	4,909	(23,937)	1,547,958

Equity and other (a)	186,756		(2)	186,754
Total securities available-for-sale (b)	**$ 3,971,435**	**$ 19,869**	**$ (47,805)**	**$ 3,943,499**
Securities held-to-maturity:				
States and municipalities	$ 4,347	$ 393	$	$ 4,740
Corporate bonds	10,000	33		10,033
Total securities held-to-maturity	**$ 14,347**	**$ 426**	**$**	**$ 14,773**

(a) Includes restricted investments in FHLB-Cincinnati stock of $87.9 million and FRB stock of $68.6 million. The remainder is money market, mutual funds, and cost method investments.

(b) Includes $3.3 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

Table of Contents

Note 3 Investment Securities (Continued)

The amortized cost and fair value by contractual maturity for the available-for-sale and held-to-maturity securities portfolios on June 30, 2017 are provided below:

	Held-to-Maturity		Available-for-Sale	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	$	$	$ 100	$ 100
After 1 year; within 5 years				9
After 5 years; within 10 years	10,000	9,991		582
After 10 years				572
Subtotal	10,000	9,991	100	1,263
Government agency issued MBS and CMO (a)			3,777,427	3,761,439
Equity and other			186,892	186,890
Total	**$ 10,000**	**$ 9,991**	**$ 3,964,419**	**$ 3,949,592**

(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 investment securities for the three and six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands)	**2017**	2016	**2017**	2016
Gross gains on sales of securities	**$ 405**	$ 162	**$ 449**	$ 3,999
Gross (losses) on sales of securities		(63)		(2,326)
Net gain/(loss) on sales of securities (a) (b)	**$ 405**	$ 99	**$ 449**	$ 1,673

(a) Cash proceeds from the sale of available for sale securities for the three and six months ended June 30, 2017 were $.1 million. Cash proceeds from the sale of available for sale securities for the three and six months ended June 30, 2016 were $.6 million and $1.5 million, respectively. Six months ended June 30, 2016 includes a $1.7 million gain from an exchange of approximately $294 million of AFS debt securities.

(b)

Three and six months ended June 30, 2017 includes a $.4 million gain associated with the call of a $4.4 million held-to-maturity municipal bond.

The following tables provide information on investments within the available-for-sale portfolio that had unrealized losses as of June 30, 2017 and December 31, 2016:

	As of June 30, 2017					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued CMO	$ 981,771	$ (14,899)	$ 128,377	$ (4,565)	$ 1,110,148	$ (19,464)
Government agency issued MBS	1,599,386	(14,438)			1,599,386	(14,438)
Total debt securities	2,581,157	(29,337)	128,377	(4,565)	2,709,534	(33,902)
Equity	7	(2)			7	(2)
Total temporarily impaired securities	**$ 2,581,164**	**$ (29,339)**	**$ 128,377**	**$ (4,565)**	**$ 2,709,541**	**$ (33,904)**

Table of Contents

Note 3 Investment Securities (Continued)

	As of December 31, 2016					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government agency issued CMO	$ 1,059,471	$ (19,052)	$ 116,527	$ (4,885)	$ 1,175,998	$ (23,937)
Government agency issued MBS	1,912,126	(23,866)			1,912,126	(23,866)
Total debt securities	2,971,597	(42,918)	116,527	(4,885)	3,088,124	(47,803)
Equity	7	(2)			7	(2)
Total temporarily impaired securities	$ 2,971,604	$ (42,920)	$ 116,527	$ (4,885)	$ 3,088,131	$ (47,805)

FHN has reviewed 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. For equity securities, FHN has both the ability and intent to hold these securities for the time necessary to recover the amortized cost.

Note 4 Loans

The following table provides the balance of loans, net of unearned income, by portfolio segment as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)	**June 30 2017**	December 31 2016
Commercial:		
Commercial, financial, and industrial	**$ 12,598,219**	$ 12,148,087
Commercial real estate	**2,211,996**	2,135,523
Consumer:		
Consumer real estate (a)	**4,417,459**	4,523,752
Permanent mortgage	**408,095**	423,125
Credit card & other	**353,550**	359,033
Loans, net of unearned income	**$ 19,989,319**	$ 19,589,520
Allowance for loan losses	**197,257**	202,068
Total net loans	**$ 19,792,062**	$ 19,387,452

(a) Balances as of June 30, 2017 and December 31, 2016, include $28.8 million and $35.9 million of restricted real estate loans, respectively. See Note 13 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 (22 percent of total loans). Loans to finance and insurance companies total $2.7 billion (22 percent of the C&I portfolio, or 14 percent of the total loans). FHN had loans to mortgage companies totaling

$2.1 billion (17 percent of the C&I segment, or 10 percent of total loans) as of June 30, 2017. As a result, 39 percent of the C&I segment is sensitive to impacts on the financial services industry.

Table of Contents

Note 4 Loans (Continued)

Purchased Credit-Impaired Loans

The following table presents a rollforward of the accretable yield for the three and six months ended June 30, 2017 and 2016:

(Dollars in thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	**2017**	2016
Balance, beginning of period	**$ 5,198**	$ 8,958	**$ 6,871**	$ 8,542
Accretion	**(919)**	(996)	**(1,770)**	(2,147)
Adjustment for payoffs	**(761)**	(2,452)	**(1,034)**	(4,229)
Adjustment for charge-offs		(11)		(674)
Adjustment for pool excess recovery (a)			**(222)**	
Increase/(decrease) in accretable yield (b)	**409**	705	**114**	4,712
Other	**118**	(33)	**86**	(33)
Balance, end of period	**$ 4,045**	$ 6,171	**$ 4,045**	$ 6,171

(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 June 30, 2017, the ALLL related to PCI loans was $.5 million compared to $.7 million at December 31, 2016. A loan loss provision credit related to PCI loans of $.1 million was recognized during the three months ended June 30, 2017, as compared to $.4 million recognized during the three months ended June 30, 2016. The loan loss provision credit related to PCI loans of $.2 million was recognized during the six months ended June 30, 2017, as compared to $.3 million recognized during the six months ended June 30, 2016.

The following table reflects the outstanding principal balance and carrying amounts of the acquired PCI loans as of June 30, 2017 and December 31, 2016:

(Dollars in thousands)	**June 30, 2017**		December 31, 2016	
	Carrying value	**Unpaid balance**	Carrying value	Unpaid balance
Commercial, financial and industrial	**$ 21,143**	**$ 22,089**	$ 40,368	$ 41,608
Commercial real estate	**4,008**	**5,264**	4,763	6,514
Consumer real estate	**1,013**	**1,388**	1,172	1,677
Credit card and other	**55**	**63**	52	64

Total	**$ 26,219**	**$ 28,804**	$ 46,355	$ 49,863

18

Table of Contents

Note 4 Loans (Continued)

Impaired Loans

The following tables provide information at June 30, 2017 and December 31, 2016, 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.

	June 30, 2017			December 31, 2016		
(Dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans with no related allowance recorded:						
Commercial:						
General C&I	**$ 9,487**	**$ 16,604**	**$**	$ 10,419	$ 16,636	$
Income CRE						
Total	**$ 9,487**	**$ 16,604**	**$**	$ 10,419	$ 16,636	$
Consumer:						
HELOC (a)	**$ 9,937**	**$ 20,411**	**$**	$ 11,383	$ 21,662	$
R/E installment loans (a)	**3,933**	**4,960**		3,957	4,992	
Permanent mortgage (a)	**5,904**	**8,739**		5,311	7,899	
Total	**$ 19,774**	**$ 34,110**	**$**	$ 20,651	$ 34,553	$
Impaired loans with related allowance recorded:						
Commercial:						
General C&I	**$ 25,411**	**$ 25,880**	**$ 2,716**	$ 34,334	$ 34,470	$ 3,294
TRUPS	**3,136**	**3,700**	**925**	3,209	3,700	925
Income CRE	**1,731**	**1,731**	**57**	1,831	2,209	62
Residential CRE	**1,293**	**1,761**	**119**	1,293	1,761	132
Total	**$ 31,571**	**$ 33,072**	**$ 3,817**	$ 40,667	$ 42,140	$ 4,413
Consumer:						
HELOC	**$ 75,778**	**$ 78,449**	**$ 16,061**	$ 84,711	$ 87,126	$ 15,927
R/E installment loans	**48,351**	**49,143**	**11,088**	53,409	54,559	12,875
Permanent mortgage	**80,009**	**91,744**	**11,858**	88,615	100,983	12,470
Credit card & other	**360**	**360**	**161**	306	306	133

Total	**$ 204,498**	**$ 219,696**	**$ 39,168**	$ 227,041	$ 242,974	$ 41,405
Total commercial	**$ 41,058**	**$ 49,676**	**$ 3,817**	$ 51,086	$ 58,776	$ 4,413
Total consumer	**$ 224,272**	**$ 253,806**	**$ 39,168**	$ 247,692	$ 277,527	$ 41,405
Total impaired loans	**$ 265,330**	**$ 303,482**	**$ 42,985**	$ 298,778	$ 336,303	$ 45,818

(a) All discharged bankruptcy loans are charged down to an estimate of net realizable value and do not carry any allowance.

Table of Contents

Note 4 Loans (Continued)

	Three Months Ended June 30	Six Months Ended June 30
	2017	