# 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 September 30, 2021**
**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**




**(Exact name of registrant as specified in its charter)**

| **TN** | **62-0803242** |
|---|---|
| **(State or other jurisdiction incorporation of organization)** | **(IRS Employer Identification No.)** |
| **165 Madison Avenue Memphis, Tennessee** | **38103** |
| **(Address of principal executive office)** | **(Zip Code)** |

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

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

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

| Title of Each Class | Trading Symbol(s) | Name of Exchange on which Registered |
|---|---|---|
| $.625 Par Value Common Capital Stock | FHN | New York Stock Exchange LLC |
| Depositary Shares, each representing a 1/400th interest in a share of Non-Cumulative Perpetual Preferred Stock, Series B | FHN PR B | New York Stock Exchange LLC |
| Depositary Shares, each representing a 1/400th interest in a share of Non-Cumulative Perpetual Preferred Stock, Series C | FHN PR C | New York Stock Exchange LLC |
| Depositary Shares, each representing a 1/400th interest in a share of Non-Cumulative Perpetual Preferred Stock, Series D | FHN PR D | New York Stock Exchange LLC |
| Depositary Shares, each representing a 1/4,000th interest in a share of Non-Cumulative Perpetual Preferred Stock, Series E | FHN PR E | New York Stock Exchange LLC |
| Depositary Shares, each representing a 1/4,000th interest in a share of Non-Cumulative Perpetual Preferred Stock, Series F | FHN PR F | New York Stock Exchange LLC |

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 every Interactive Data File required to be submitted 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 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 | ☐ | | |

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 October 29, 2021** |
|---|---|
| Common Stock, $.625 par value | 540,750,202 |

FIRST HORIZON CORPORATION

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## Glossary of Acronyms and Terms

The following is a list of common acronyms and terms used throughout this report:

| | |
|---|---|
| **ACL** | Allowance for credit losses |
| **ADR** | Average daily revenue |
| **AFS** | Available for sale |
| **AIR** | Accrued interest receivable |
| **ALCO** | Asset/Liability Committee |
| **ALLL** | Allowance for loan and lease losses |
| **ALM** | Asset/liability management |
| **AMERIBOR** | American Interbank Offered Rate |
| **AOCI** | Accumulated other comprehensive income |
| **ARRC** | Alternative Reference Rates Committee |
| **ASC** | FASB Accounting Standards Codification |
| **Associate** | Person employed by FHN |
| **ASU** | Accounting Standards Update |
| **Bank** | First Horizon Bank |
| **BOLI** | Bank-owned life insurance |
| **BSBY** | Bloomberg short-term bank yield index |
| **C&I** | Commercial, financial, and industrial loan portfolio |
| **CARES Act** | Coronavirus Aid, Relief, and Economic Security Act |
| **CBF** | Capital Bank Financial |
| **CCAR** | Comprehensive Capital Analysis and Review |
| **CD** | Certificate of deposit |
| **CECL** | Current expected credit loss |
| **CEO** | Chief Executive Officer |
| **CFPB** | Consumer Financial Protection Bureau |
| **CMO** | Collateralized mortgage obligations |
| **Company** | First Horizon Corporation |
| **Corporation** | First Horizon Corporation |
| **CRA** | Community Reinvestment Act |
| **CRE** | Commercial Real Estate loan portfolio |
| **CRMC** | Credit Risk Management Committee |
| **DSCR** | Debt service coverage ratios |
| **DTA** | Deferred tax asset |
| **DTL** | Deferred tax liability |
| **EPS** | Earnings per share |
| **ESOP** | Employee stock ownership plan |
| **FASB** | Financial Accounting Standards Board |
| **FDIC** | Federal Deposit Insurance Corporation |
| **Federal Reserve** | Federal Reserve Board |
| **FFP** | Federal funds purchased |
| **FFS** | Federal funds sold |
| **FHA** | Federal Housing Administration |
| **FHLB** | Federal Home Loan Bank |
| **FHLMC / Freddie Mac** | Federal Home Loan Mortgage Corporation |
| **FHN** | First Horizon Corporation |
| **FHNF** | FHN Financial; FHN's fixed income division |
| **FICO** | Fair Isaac Corporation |
| **FINRA** | Financial Industry Regulatory Authority |
| **FNMA / Fannie Mae** | Federal National Mortgage Association |
| **First Horizon** | First Horizon Corporation |
| **FRB** | Federal Reserve Bank or the Federal Reserve Board |
| **FTBNA** | First Tennessee Bank National Association (former name of the Bank) |
| **FTE** | Fully taxable equivalent |
| **FTHC** | First Tennessee Housing Corporation |
| **FTNF** | FTN Financial (former name of FHNF) |
| **FTNMC** | First Tennessee New Markets Corporation |
| **FTRESC** | FT Real Estate Securities Company, Inc. |
| **GAAP** | Generally accepted accounting principles (U.S.) |
| **GNMA** | Government National Mortgage Association or Ginnie Mae |
| **GSE** | Government sponsored enterprises, in this report references Fannie Mae and Freddie Mac |
| **HELOC** | Home equity line of credit |
| **HFS** | Held for Sale |
| **HTM** | Held to maturity |
| **HUD** | Department of Housing and Urban Development |
| **IBKC** | IBERIABANK Corporation |
| **IBKC merger** | FHN's merger of equals with IBKC that closed July 2020 |
| **ISDA** | International Swap and Derivatives Association |

| | |
|---|---|
| **IRS** | Internal Revenue Service |
| **LGD** | Loss given default |
| **LIBOR** | London Inter-Bank Offered Rate |
| **LIHTC** | Low Income Housing Tax Credit |
| **LLC** | Limited Liability Company |
| **LMC** | Loans to mortgage companies |
| **LOCOM** | Lower of cost or market |
| **LRRD** | Loan Rehab and Recovery Department |
| **LTV** | Loan-to-value |
| **MBS** | Mortgage-backed securities |
| **MD&A** | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| **MSR** | Mortgage servicing rights |
| **MSRB** | Municipal Securities Rulemaking Board |
| **NAICS** | North American Industry Classification System |
| **NII** | Net interest income |
| **NIM** | Net interest margin |
| **NM** | Not meaningful |
| **NMTC** | New Market Tax Credit |
| **NOL** | Net operating loss |
| **NPA** | Nonperforming asset |
| **Non-PCD** | Non-Purchased Credit Deteriorated Financial Assets |
| **NPL** | Nonperforming loan |
| **NSF** | Non-sufficient funds |
| **OCC** | Office of the Comptroller of the Currency |
| **OIS** | Overnight indexed swap |
| **OREO** | Other Real Estate Owned |
| **OTC** | One-time close, a mortgage product which allowed simplified conversion of a construction loan to permanent financing |
| **OTTI** | Other than temporary impairment |
| **PCAOB** | Public Company Accounting Oversight Board |
| **PCD** | Purchased Credit Deteriorated Financial Assets |
| **PCI** | Purchased credit impaired |
| **PD** | Probability of default |
| **PM** | Portfolio managers |
| **PPP** | Paycheck Protection Program |
| **PSU** | Performance Stock Unit |
| **RE** | Real estate |
| **RM** | Relationship managers |
| **ROA** | Return on assets |
| **ROCE** | Return on average common shareholders' equity |
| **ROTCE** | Return on tangible common equity |
| **RPL** | Reasonably Possible Loss |
| **RSU** | Restricted stock unit |
| **RULC** | Reserve for unfunded lending commitments |
| **RWA** | Risk-weighted assets |
| **SBA** | Small Business Administration |
| **SEC** | Securities and Exchange Commission |
| **SOFR** | Secure Overnight Funding Rate |
| **SVaR** | Stressed Value-at-Risk |
| **TA** | Tangible assets |
| **TCE** | Tangible common equity |
| **TDR** | Troubled Debt Restructuring |
| **TRUP** | Trust preferred loan |
| **UPB** | Unpaid principal balance |
| **USDA** | United States Department of Agriculture |
| **VaR** | Value-at-Risk |
| **VIE** | Variable Interest Entities |
| **we / us / our** | First Horizon Corporation |

## Forward-Looking Statements

This report, including material incorporated into it, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements pertain to FHN's beliefs, plans, goals, expectations, and estimates. Forward-looking statements are not a representation of historical information, but instead pertain to future operations, strategies, financial results, or other developments. Forward-looking statements can be identified by the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “should,” “is likely,” “will,” “going forward,” and other expressions that indicate future events and trends.

Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, operational, economic, and competitive uncertainties and contingencies, many of which are beyond FHN’s control, and many of which, with respect to future business decisions and actions (including acquisitions and divestitures), are subject to change and could cause FHN’s actual future results and outcomes to differ materially from those contemplated or implied by forward-looking statements or historical performance. Examples of uncertainties and contingencies include, among other important factors:

- the possibility that the anticipated benefits of the IBKC merger will not be realized when expected or at all, including as a result of the impact of, or problems arising from, the integration of the two companies or as a result of the strength of the economy and competitive factors in any or all of FHN’s market areas;
- the possibility that the IBKC merger may be more expensive to integrate than anticipated, including as a result of unexpected factors or events;
- potential adverse reactions or changes to business or associate relationships resulting from the IBKC merger;
- the potential impacts on FHN’s businesses and clients of the COVID-19 pandemic, including negative impacts from quarantines and other public restrictions, market declines and volatility, and changes in client behavior;
- potential claims relating to participation in government programs, especially lending or other financial services programs;
- global, general and local economic and business conditions, including economic recession or depression;
- the stability or volatility of values and activity in the residential housing and commercial real estate markets;
- expectations of and actual timing and amount of interest rate movements, including the slope and shape of the yield curve, which can have a significant impact on a financial services institution;
- market and monetary fluctuations, including fluctuations in mortgage markets;
- the financial condition of borrowers and other counterparties;
- competition within and outside the financial services industry;
- the occurrence of natural or man-made disasters, including pestilence, conflicts, or terrorist attacks, or other adverse external events;
- the effectiveness and cost-efficiency of FHN’s hedging practices;
- fraud, theft, or other incursions through conventional, electronic, or other means directly or indirectly affecting FHN or its clients, business service-providers and other counterparties, or competitors;
- FHN’s ability to adapt products and services to changing industry standards and client preferences;
- risks inherent in originating, selling, servicing, and holding loans and loan-based assets, including prepayment risks, pricing concessions, fluctuation in U.S. housing and other real estate prices, fluctuation of collateral values, and changes in client profiles;
- potential claims alleging mortgage servicing failures, individually, on a class basis, or as master servicer of securitized loans;

- changes in the regulation of the U.S. financial services industry;
- changes in laws, regulations, and administrative actions, including executive orders, whether or not specific to the financial services industry;
- changes in accounting policies, standards, and interpretations;
- evolving capital and liquidity standards under applicable regulatory rules;
- accounting policies and processes requiring management to make estimates about matters that are uncertain; and
- other factors that may affect the future results of FHN.

FHN cautions readers of this report that the list above is not exhaustive as of the date of this report. Further, FHN assumes no obligation to update or revise any forward-looking statements that are made in this report or in any other statement, release, report, or filing from time to time. Actual results could differ and FHN's estimates and expectations could change, possibly materially, because of one or more factors, including those factors listed above or presented elsewhere in this report or those factors listed in material incorporated by reference into this report. In evaluating forward-looking statements and assessing FHN's prospects, readers of this report should carefully consider the factors mentioned above along with the additional risk and uncertainty factors discussed in Item 1A of Part II of this report and in the forepart, and in Items 1, 1A, and 7, of FHN's most recent Annual Report on Form 10-K, along with any additional factors which might materially affect future results and outcomes.

## Non-GAAP Information

Certain measures included in this report are "non-GAAP," meaning they are not presented in accordance with U.S. GAAP and also are not codified in U.S. banking regulations currently applicable to FHN. Although other entities may use calculation methods that differ from those used by FHN for non-GAAP measures, FHN's management believes such measures are relevant to understanding the financial condition, capital position, and financial results of FHN and its business segments. Non-GAAP measures are reported to FHN's management and Board of Directors through various internal reports.

The non-GAAP measures presented in this report are: pre-provision net revenue, return on average tangible common equity, tangible common equity to tangible assets, adjusted tangible common equity to risk-weighted assets, tangible book value per common share, and loans and leases excluding PPP loans. Table 24 appearing in the MD&A (Item 2 of Part I) of this report provides a reconciliation of non-GAAP items presented in this report to the most comparable GAAP presentation.

Presentation of regulatory measures, even those which are not GAAP, provide a meaningful base for comparability to other financial institutions subject to the same regulations as FHN, as demonstrated by their use by banking regulators in reviewing capital adequacy of financial institutions. Although not GAAP terms, these regulatory measures are not considered "non-GAAP" under U.S. financial reporting rules as long as their presentation conforms to regulatory standards. Regulatory measures used in this report include: common equity tier 1 capital, generally defined as common equity less goodwill, other intangibles, and certain other required regulatory deductions; tier 1 capital, generally defined as the sum of core capital (including common equity and instruments that cannot be redeemed at the option of the holder) adjusted for certain items under risk based capital regulations; and risk-weighted assets, which is a measure of total on- and off-balance sheet assets adjusted for credit and market risk, used to determine regulatory capital ratios.

# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements


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**CONSOLIDATED BALANCE SHEETS**

| *(Dollars in millions, except per share amounts)* | *(Unaudited)* **September 30, 2021** | December 31, 2020 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | **$ 1,197** | $ 1,203 |
| Interest-bearing deposits with banks | **14,829** | 8,351 |
| Federal funds sold and securities purchased under agreements to resell | **361** | 445 |
| Trading securities | **1,319** | 1,176 |
| Securities available for sale at fair value | **8,494** | 8,047 |
| Securities held to maturity (fair value of $303 and $10, respectively) | **304** | 10 |
| Loans held for sale (including $301 and $405 at fair value, respectively) | **1,052** | 1,022 |
| Loans and leases (including $— and $16 at fair value, respectively) | **55,435** | 58,232 |
| Allowance for loan and lease losses | **(734)** | (963) |
| Net loans and leases | **54,701** | 57,269 |
| Premises and equipment | **692** | 759 |
| Goodwill | **1,511** | 1,511 |
| Other intangible assets | **311** | 354 |
| Other assets | **3,766** | 4,062 |
| **Total assets** | **$ 88,537** | $ 84,209 |
| | | |
| **Liabilities** | | |
| Noninterest-bearing deposits | **$ 27,348** | $ 22,173 |
| Interest-bearing deposits | **46,916** | 47,809 |
| Total deposits | **74,264** | 69,982 |
| Trading liabilities | **315** | 353 |
| Short-term borrowings | **2,225** | 2,198 |
| Term borrowings | **1,584** | 1,670 |
| Other liabilities | **1,617** | 1,699 |
| **Total liabilities** | **80,005** | 75,902 |
| | | |
| **Equity** | | |
| Preferred stock, Non-cumulative perpetual, no par value; authorized 5,000,000 shares; issued 26,750 and 26,250 shares, respectively | **520** | 470 |
| Common stock, $0.625 par value; authorized 700,000,000 shares; issued 541,859,599 and 555,030,652 shares, respectively | **339** | 347 |
| Capital surplus | **4,866** | 5,074 |
| Retained earnings | **2,753** | 2,261 |
| Accumulated other comprehensive loss, net | **(241)** | (140) |
| FHN shareholders' equity | **8,237** | 8,012 |
| Noncontrolling interest | **295** | 295 |
| **Total equity** | **8,532** | 8,307 |
| **Total liabilities and equity** | **$ 88,537** | $ 84,209 |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

| *(Dollars in millions, except per share data; shares in thousands) (Unaudited)* | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Interest income** | | | | |
| Interest and fees on loans and leases | **$ 482** | $ 557 | **$ 1,485** | $ 1,190 |
| Interest and fees on loans held for sale | **8** | 8 | **22** | 22 |
| Interest on investment securities | **31** | 26 | **88** | 78 |
| Interest on trading securities | **6** | 6 | **20** | 28 |
| Interest on other earning assets | **6** | 1 | **11** | 5 |
| Total interest income | **533** | 598 | **1,626** | 1,323 |
| **Interest expense** | | | | |
| Interest on deposits | **20** | 42 | **67** | 122 |
| Interest on trading liabilities | **1** | 1 | **4** | 5 |
| Interest on short-term borrowings | **2** | 1 | **4** | 12 |
| Interest on term borrowings | **18** | 22 | **55** | 44 |
| Total interest expense | **41** | 66 | **130** | 183 |
| **Net interest income** | **492** | 532 | **1,496** | 1,140 |
| Provision for credit losses | **(85)** | 227 | **(245)** | 502 |
| **Net interest income after provision for credit losses** | **577** | 305 | **1,741** | 638 |
| **Noninterest income** | | | | |
| Fixed income | **96** | 111 | **324** | 319 |
| Deposit transactions and cash management | **44** | 42 | **130** | 103 |
| Mortgage banking and title income | **34** | 66 | **126** | 72 |
| Brokerage, management fees and commissions | **24** | 18 | **65** | 47 |
| Bankcard income | **15** | 10 | **40** | 24 |
| Trust services and investment management | **13** | 12 | **39** | 27 |
| Securities gains (losses), net | **1** | (1) | **12** | (2) |
| Purchase accounting gain | **—** | 532 | **(1)** | 532 |
| Loss on debt extinguishment | **(23)** | — | **(23)** | — |
| Other income | **43** | 33 | **117** | 82 |
| Total noninterest income | **247** | 823 | **829** | 1,204 |
| **Noninterest expense** | | | | |
| Personnel expense | **296** | 329 | **920** | 713 |
| Net occupancy expense | **33** | 39 | **103** | 80 |
| Computer software | **30** | 26 | **87** | 58 |
| Operations services | **24** | 16 | **59** | 39 |
| Legal and professional fees | **21** | 43 | **52** | 65 |
| Contract employment and outsourcing | **21** | 6 | **47** | 16 |
| Amortization of intangible assets | **14** | 15 | **42** | 25 |
| Equipment expense | **12** | 12 | **35** | 29 |
| Communications and delivery | **9** | 10 | **28** | 21 |
| Contributions | **6** | 39 | **12** | 40 |
| Other expense | **60** | 52 | **182** | 124 |
| Total noninterest expense | **526** | 587 | **1,567** | 1,210 |
| **Income before income taxes** | **298** | 541 | **1,003** | 632 |
| Income tax expense | **63** | 2 | **222** | 20 |
| **Net income** | **$ 235** | $ 539 | **$ 781** | $ 612 |
| Net income attributable to noncontrolling interest | **3** | 3 | **9** | 8 |
| **Net income attributable to controlling interest** | **$ 232** | $ 536 | **$ 772** | $ 604 |
| Preferred stock dividends | **8** | 13 | **29** | 16 |
| **Net income available to common shareholders** | **$ 224** | $ 523 | **$ 743** | $ 588 |

| | | | | |
|---|---|---|---|---|
| **Basic earnings per common share** | **$ 0.41** | $ 0.95 | **$ 1.35** | $ 1.50 |
| **Diluted earnings per common share** | **$ 0.41** | $ 0.95 | **$ 1.34** | $ 1.50 |
| **Weighted average common shares** | **545,818** | 549,690 | **549,434** | 391,699 |
| **Diluted average common shares** | **549,819** | 550,846 | **554,199** | 392,713 |

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| *(Dollars in millions) (Unaudited)* | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Net income | **$ 235** | $ 539 | **$ 781** | $ 612 |
| Other comprehensive income (loss), net of tax: | | | | |
| Net unrealized gains (losses) on securities available for sale | **(38)** | (5) | **(103)** | 82 |
| Net unrealized gains (losses) on cash flow hedges | **(1)** | (3) | **(5)** | 10 |
| Net unrealized gains (losses) on pension and other postretirement plans | **1** | 2 | **7** | 7 |
| Other comprehensive income (loss) | **(38)** | (6) | **(101)** | 99 |
| Comprehensive income | **197** | 533 | **680** | 711 |
| Comprehensive income attributable to noncontrolling interest | **3** | 3 | **9** | 8 |
| Comprehensive income attributable to controlling interest | **$ 194** | $ 530 | **$ 671** | $ 703 |
| **Income tax expense (benefit) of items included in other comprehensive income:** | | | | |
| Net unrealized gains (losses) on securities available for sale | **$ (12)** | $ (2) | **$ (33)** | $ 26 |
| Net unrealized gains (losses) on cash flow hedges | **—** | (1) | **(2)** | 3 |
| Net unrealized gains (losses) on pension and other postretirement plans | **1** | 2 | **2** | 4 |

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**Nine Months Ended September 30, 2021**

| *(Dollars in millions, except per share data; shares in thousands) (unaudited)* | Preferred Stock Shares | Preferred Stock Amount | Common Stock Shares | Common Stock Amount | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) (a) | Noncontrolling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2020 | 26,250 | $ 470 | 555,031 | $ 347 | $ 5,074 | $ 2,261 | $ (140) | $ 295 | $ 8,307 |
| Net income | — | — | — | — | — | 233 | — | 3 | 236 |
| Other comprehensive income (loss) | — | — | — | — | — | — | (101) | — | (101) |
| Comprehensive income (loss) | — | — | — | — | — | 233 | (101) | 3 | 135 |
| Cash dividends declared: | | | | | | | | | |
| Preferred stock | — | — | — | — | — | (8) | — | — | (8) |
| Common stock ($0.15 per share) | — | — | — | — | — | (84) | — | — | (84) |
| Common stock repurchased (b) | — | — | (3,864) | (2) | (60) | — | — | — | (62) |
| Common stock issued for: | | | | | | | | | |
| Stock options and restricted stock - equity awards | — | — | 1,208 | — | 12 | — | — | — | 12 |
| Stock-based compensation expense | — | — | — | — | 10 | — | — | — | 10 |
| Dividends declared - noncontrolling interest of subsidiary preferred stock | — | — | — | — | — | — | — | (3) | (3) |
| Balance, March 31, 2021 | 26,250 | 470 | 552,375 | 345 | 5,036 | 2,402 | (241) | 295 | 8,307 |
| Net income | — | — | — | — | — | 308 | — | 3 | 311 |
| Other comprehensive income (loss) | — | — | — | — | — | — | 38 | — | 38 |
| Comprehensive income (loss) | — | — | — | — | — | 308 | 38 | 3 | 349 |
| Cash dividends declared: | | | | | | | | | |
| Preferred stock | — | — | — | — | — | (8) | — | — | (8) |
| Common stock ($0.15 per share) | — | — | — | — | — | (85) | — | — | (85) |
| Preferred stock issuance (1,500 shares issued at $100,000 per share net of offering costs) | 1,500 | 145 | — | — | — | — | — | — | 145 |
| Call of preferred stock | (1,000) | (95) | — | — | — | (5) | — | — | (100) |
| Common stock repurchased (b) | — | — | (3,435) | (3) | (61) | — | — | — | (64) |
| Common stock issued for: | | | | | | | | | |
| Stock options and restricted stock - equity awards | — | — | 1,925 | 2 | 11 | — | — | — | 13 |
| Stock-based compensation expense | — | — | — | — | 11 | — | — | — | 11 |
| Dividends declared - noncontrolling interest of subsidiary preferred stock | — | — | — | — | — | — | — | (3) | (3) |
| Balance, June 30, 2021 | 26,750 | 520 | 550,865 | 344 | 4,997 | 2,612 | (203) | 295 | 8,565 |
| Net income | — | — | — | — | — | 232 | — | 3 | 235 |
| Other comprehensive income (loss) | — | — | — | — | — | — | (38) | — | (38) |
| Comprehensive income (loss) | — | — | — | — | — | 232 | (38) | 3 | 197 |
| Cash dividends declared: | | | | | | | | | |
| Preferred stock | — | — | — | — | — | (8) | — | — | (8) |
| Common stock ($0.15 per share) | — | — | — | — | — | (83) | — | — | (83) |
| Common stock repurchased (b) | — | — | (9,235) | (5) | (141) | — | — | — | (146) |
| Common stock issued for: | | | | | | | | | |
| Stock options and restricted stock - equity awards | — | — | 230 | — | — | — | — | — | — |
| Stock-based compensation expense | — | — | — | — | 10 | — | — | — | 10 |
| Dividends declared - noncontrolling interest of subsidiary preferred stock | — | — | — | — | — | — | — | (3) | (3) |
| Balance, September 30, 2021 | 26,750 | $ 520 | 541,860 | $ 339 | $ 4,866 | $ 2,753 | $ (241) | $ 295 | $ 8,532 |

(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) Includes $59 million, $57 million and $141 million repurchased under share repurchase programs for the three months ended March 31, 2021, June 30, 2021, and September 30, 2021, respectively.

See accompanying notes to consolidated financial statements.

Nine Months Ended September 30, 2020

| rs in millions, except per share data; shares in thousands) (unaudited) | Preferred Stock Shares | Preferred Stock Amount | Common Stock Shares | Common Stock Amount | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) (a) | Noncontrolling Interest | Total |
|---|---|---|---|---|---|---|---|---|---|
| ıce, December 31, 2019 | 1,000 | $ 96 | 311,469 | $ 195 | $ 2,931 | $ 1,798 | $ (239) | $ 295 | $ 5,076 |
| tment to reflect adoption of ASU 2016-13 | — | — | — | — | — | (96) | — | — | (96) |
| ıning balance, as adjusted | 1,000 | 96 | 311,469 | 195 | 2,931 | 1,702 | (239) | 295 | 4,980 |
| ıcome | — | — | — | — | — | 13 | — | 3 | 16 |
| comprehensive income (loss) | — | — | — | — | — | — | 104 | — | 104 |
| ɔrehensive income (loss) | — | — | — | — | — | 13 | 104 | 3 | 120 |
| dividends declared: | | | | | | | | | |
| ferred stock ($1,550 per share) | — | — | — | — | — | (1) | — | — | (1) |
| mmon stock ($0.15 per share) | — | — | — | — | — | (48) | — | — | (48) |
| non stock repurchased | — | — | (141) | — | (2) | — | — | — | (2) |
| non stock issued for: | | | | | | | | | |
| ck options and restricted stock - equity awards | — | — | 652 | — | 4 | — | — | — | 4 |
| -based compensation expense | — | — | — | — | 7 | — | — | — | 7 |
| ends declared - noncontrolling interest of subsidiary preferred stock | — | — | — | — | — | — | — | (3) | (3) |
| (b) | — | — | (117) | — | (1) | — | — | — | (1) |
| ıce, March 31, 2020 | 1,000 | 96 | 311,863 | 195 | 2,939 | 1,666 | (135) | 295 | 5,056 |
| ıcome | — | — | — | — | — | 54 | — | 3 | 57 |
| comprehensive income (loss) | — | — | — | — | — | — | 1 | — | 1 |
| ɔrehensive income (loss) | — | — | — | — | — | 54 | 1 | 3 | 58 |
| dividends declared: | | | | | | | | | |
| ferred stock ($1,550 per share) | — | — | — | — | — | (2) | — | — | (2) |
| mmon stock ($0.15 per share) | — | — | — | — | — | (47) | — | — | (47) |
| rred stock issuance (1,500 shares issued at 100,000 per share net of offering costs) | 1,500 | 144 | — | — | — | — | — | — | 144 |
| non stock repurchased | — | — | (183) | — | (1) | — | — | — | (1) |
| non stock issued for: | | | | | | | | | |
| ck options and restricted stock - equity awards | — | — | 679 | — | — | — | — | — | — |
| -based compensation expense | — | — | — | — | 3 | — | — | — | 3 |
| ends declared - noncontrolling interest of subsidiary preferred stock | — | — | — | — | — | — | — | (3) | (3) |
| ıce, June 30, 2020 | 2,500 | 240 | 312,359 | 195 | 2,941 | 1,671 | (134) | 295 | 5,208 |
| ıcome | — | — | — | — | — | 536 | — | 3 | 539 |
| comprehensive income (loss) | — | — | — | — | — | — | (6) | — | (6) |
| ɔrehensive income (loss) | — | — | — | — | — | 536 | (6) | 3 | 533 |
| dividends declared: | | | | | | | | | |
| ferred stock | — | — | — | — | — | (13) | — | — | (13) |
| mmon stock ($0.15 per share) | — | — | — | — | — | (83) | — | — | (83) |
| non stock repurchased | — | — | (88) | — | (1) | — | — | — | (1) |
| non stock issued for: | | | | | | | | | |
| ck options and restricted stock - equity awards | — | — | 138 | — | — | — | — | — | — |
| ued in business combination | 23,750 | 230 | 243,015 | 152 | 2,115 | — | — | — | 2,497 |
| -based compensation expense | — | — | — | — | 12 | — | — | — | 12 |
| ends declared - noncontrolling interest of subsidiary preferred stock | — | — | — | — | — | — | — | (3) | (3) |
| (c) | — | — | (636) | — | (6) | — | — | — | (6) |
| ıce, September 30, 2020 | 26,250 | $ 470 | 554,788 | $ 347 | $ 5,061 | $ 2,111 | $ (140) | $ 295 | $ 8,144 |

(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) Represents shares canceled in connection with the resolution of remaining CBF dissenters' appraisal process.

(c) Represents shares canceled to cover taxes on the IBKC equity compensation grants that automatically vested as part of the merger.

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| *(Dollars in millions) (Unaudited)* | Nine months ended September 30, **2021** | 2020 |
|---|---|---|
| **Operating Activities** | | |
| Net income | **$ 781** | $ 612 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for credit losses | **(245)** | 502 |
| Deferred income tax expense (benefit) | **(28)** | (82) |
| Depreciation and amortization of premises and equipment | **46** | 37 |
| Amortization of intangible assets | **42** | 25 |
| Net other amortization and accretion | **(50)** | (18) |
| Net (increase) decrease in derivatives | **309** | (325) |
| Purchase accounting gain | **1** | (532) |
| Stock-based compensation expense | **31** | 23 |
| Securities (gains) losses, net | **(12)** | 2 |
| Loss on debt extinguishment | **23** | — |
| Net (gains) losses on sale/disposal of fixed assets | **32** | 7 |
| (Gain) loss on BOLI | **(5)** | (4) |
| Loans held for sale: | | |
| Purchases and originations | **(4,682)** | (2,780) |
| Gross proceeds from settlements and sales | **3,288** | 1,578 |
| (Gain) loss due to fair value adjustments and other | **(142)** | (43) |
| Other operating activities, net | **1,179** | 725 |
| Total adjustments | **(213)** | (885) |
| Net cash provided by (used in) operating activities | **568** | (273) |
| **Investing Activities** | | |
| Proceeds from sales of securities available for sale | **68** | 249 |
| Proceeds from maturities of securities available for sale | **1,680** | 2,993 |
| Purchases of securities available for sale | **(2,343)** | (3,166) |
| Purchases of securities held to maturity | **(304)** | — |
| Proceeds from prepayments of securities held to maturity | **10** | — |
| Proceeds from sales of premises and equipment | **22** | 9 |
| Purchases of premises and equipment | **(46)** | (35) |
| Proceeds from BOLI | **12** | 8 |
| Net (increase) decrease in loans and leases | **2,891** | (2,310) |
| Net increase in interest-bearing deposits with banks | **(6,478)** | (3,013) |
| Cash received for acquisitions, net | **—** | 1,806 |
| Other investing activities, net | **15** | 10 |
| Net cash used in investing activities | **(4,473)** | (3,449) |
| **Financing Activities** | | |
| Common stock: | | |
| Stock options exercised | **25** | 4 |
| Cash dividends paid | **(252)** | (139) |
| Repurchase of shares | **(272)** | (4) |
| Cancellation of common shares | **—** | (8) |
| Preferred stock: | | |
| Preferred stock issuance | **145** | 145 |
| Cash dividends paid - preferred stock - noncontrolling interest | **(9)** | (9) |
| Cash dividends paid - preferred stock | **(24)** | (8) |
| Net increase in deposits | **4,287** | 5,561 |
| Net increase (decrease) in short-term borrowings | **27** | (1,585) |
| Proceeds from issuance of term borrowings | **—** | 1,241 |
| Increases (decreases) in term borrowings | **(112)** | (1,075) |
| Net cash provided by financing activities | **3,815** | 4,123 |
| Net increase (decrease) in cash and cash equivalents | **(90)** | 401 |
| Cash and cash equivalents at beginning of period | **1,648** | 1,267 |
| Cash and cash equivalents at end of period | **$ 1,558** | $ 1,668 |
| **Supplemental Disclosures** | | |
| Total interest paid | **$ 128** | $ 181 |
| Total taxes paid | **254** | 90 |
| Total taxes refunded | **28** | 1 |
| Transfer from loans to OREO | **3** | 2 |
| Transfer from loans HFS to trading securities | **1,490** | 1,083 |
| Transfer from loans to loans HFS | **(31)** | 4 |

See accompanying notes to consolidated financial statements.

**Notes to the Consolidated Financial Statements (Unaudited)**

**Note 1 – Basis of Presentation and Accounting Policies**

The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and notes necessary for complete financial statements in accordance with GAAP. In the opinion of management, the accompanying unaudited consolidated financial statements contain all significant adjustments, consisting of normal and recurring items, considered necessary for fair presentation. These interim financial statements should be read in conjunction with FHN's audited consolidated financial statements and notes in FHN's Annual Report on Form 10-K for the year ended December 31, 2020. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year.

All significant intercompany balances and transactions have been eliminated in consolidation. Certain amounts reported in prior years have been reclassified to conform to the current period presentation. See the Glossary of Acronyms and Terms included in this Report for terms used herein.

***Accounting Changes With Extended Transition Periods***

In March 2020, the FASB issued ASU 2020-04, “Facilitation of the Effects of Reference Rate Reform on Financial Reporting” which provides several optional expedients and exceptions to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. The provisions of ASU 2020-04 primarily affect 1) contract modifications (e.g., loans, leases, debt, and derivatives) made in anticipation that a reference rate (e.g., LIBOR) will be discontinued and 2) the application of hedge accounting for existing relationships affected by those modifications. The provisions of ASU 2020-04 are effective upon release and apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The expedients and exceptions provided by ASU 2020-04 do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. FHN has identified contracts affected by reference rate reform and developed modification plans for those contracts. FHN has elected to utilize the optional expedients and exceptions provided by ASU 2020-04 for certain contract modifications that have already been implemented. FHN anticipates that it will continue to utilize the expedients and exceptions for future modifications in situations where they mitigate potential accounting outcomes that do not faithfully represent management’s intent or risk management activities, consistent with the purpose of the standard.

In January 2021, the FASB issued ASU 2021-01, "Scope" to expand the scope of ASU 2020-04 to apply to certain contract modifications that were implemented in October 2020 by derivative clearinghouses for the use of Secure Overnight Funding Rate (SOFR) in discounting, margining and price alignment for centrally cleared derivatives, including derivatives utilized in hedging relationships. ASU 2021-01 also applies to derivative contracts affected by the change in discounting convention regardless of whether they are centrally cleared (i.e., bi-lateral contracts can also be modified) and regardless of whether they reference LIBOR. ASU 2021-01 was effective immediately upon issuance with retroactive application permitted. FHN elected to retroactively apply the provisions of ASU 2021-01 because FHN's centrally cleared derivatives were affected by the change in discounting convention and because FHN has other bi-lateral derivative contracts that may be modified to conform to the use of SOFR for discounting. Adoption did not have a significant effect on FHN's reported financial condition or results of operations.

**Note 2 – Acquisitions and Divestitures**

On July 1, 2020, FHN and IBERIABANK Corporation closed their merger-of-equals transaction. FHN issued approximately 243 million shares of FHN common stock, plus three new series of preferred stock (Series B, Series C, and Series D) in a transaction valued at $2.5 billion. At the time of closing, IBKC operated 319 offices in 12 states, mostly in the southern U.S.

The merger-of-equals transaction was accounted for as a business combination. Accordingly, the assets acquired and liabilities assumed are generally presented at their fair values as of the merger date. The determination of fair value requires management to make estimates about discount rates, future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

The following schedule details the allocation of merger consideration to the valuations of the identifiable tangible and intangible assets acquired and liabilities assumed from IBKC as of July 1, 2020.

| *(Dollars in millions)* | | IBERIABANK Corporation |
|---|---|---|
| **Assets:** | | |
| Cash and due from banks | $ | 395 |
| Interest-bearing deposits with banks | | 1,683 |
| Securities available for sale at fair value | | 3,544 |
| Loans held for sale | | 320 |
| Loans and leases (a) | | 25,921 |
| Allowance for loan and lease losses | | (284) |
| Other intangible assets | | 240 |
| Premises and equipment | | 311 |
| OREO | | 9 |
| Other assets | | 1,153 |
| Total assets acquired | $ | 33,292 |
| **Liabilities:** | | |
| Deposits | $ | 28,232 |
| Short-term borrowings | | 209 |
| Term borrowings | | 1,200 |
| Other liabilities | | 618 |
| Total liabilities assumed | $ | 30,259 |
| Net assets acquired | $ | 3,033 |
| **Consideration paid:** | | |
| Consideration for outstanding common stock | $ | 2,243 |
| Consideration for equity awards | | 28 |
| Consideration for preferred stock | | 231 |
| Total consideration paid | $ | 2,502 |
| Purchase accounting gain | $ | (531) |

(a) Includes $1.3 billion of initial net investments in sales-type and direct financing leases.

In relation to the merger-of-equals transaction, FHN recorded a $531 million purchase accounting gain, representing the shortfall of the purchase price under the acquisition accounting value of net assets acquired, net of deferred taxes. The purchase accounting gain is not taxable. The valuation of the IBKC merger-of-equals transaction was final as of June 30, 2021. See Note 2, Acquisitions and Divestitures, in the 2020 Annual Report on Form 10-K for the year ended December 31, 2020, for a description of the methods used to determine the fair values of significant assets acquired and liabilities assumed presented above.

On July 17, 2020, First Horizon Bank completed its purchase of 30 branches from Truist Bank. As of

**Note 2 – Acquisitions and Divestitures (Continued)**

December 31, 2020, the valuation of the acquired assets and liabilities assumed from the Truist branches acquisition was final. In relation to the acquisition, FHN recorded $78 million in goodwill, representing the excess of acquisition consideration over the estimated fair value of net assets acquired. All goodwill has been attributed to FHN's Regional Banking segment (refer to Note 7 - Goodwill and Other Intangible Assets for additional information). This goodwill was the result of expected synergies, operational efficiencies and other factors.

Expenses related to FHN's merger and integration activities are recorded in FHN's Corporate segment.

Total merger and integration expense recognized for the three and nine months ended September 30, 2021 and 2020 are presented in the following table:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2021** | 2020 | **2021** | 2020 |
| Personnel expense (a) | **$ 10** | $ 35 | **$ 47** | $ 41 |
| Legal and professional fees (b) | **9** | 31 | **15** | 38 |
| Contribution expense (c) | **—** | 20 | **—** | 20 |
| Other expense (d) | **27** | 15 | **85** | 22 |
| Total | **$ 46** | $ 101 | **$ 147** | $ 121 |

Certain previously reported amounts have been reclassified to agree with current presentation.
(a) Primarily comprised of fees for severance and retention.
(b) Primarily comprised of fees for legal, accounting, and merger consultants.
(c) Comprised of contribution expense related to the establishment of the First Horizon Louisiana Foundation.
(d) Consists of fees for operations services, communications and delivery, equipment rentals, depreciation and maintenance, supplies, travel and entertainment, computer software, advertising and public relations, contract termination charges, internal technology development costs, costs of shareholder matters and asset impairments.

In addition to the transactions mentioned above, FHN acquires or divests assets from time to time in transactions that are considered business combinations or divestitures but are not material to FHN individually or in the aggregate.

**Note 3 – Investment Securities**

The following tables summarize FHN's investment securities as of September 30, 2021 and December 31, 2020:

| | September 30, 2021 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Securities available for sale:** | | | | |
| U.S. treasuries | $ 603 | $ — | $ — | $ 603 |
| Government agency issued MBS | 4,324 | 58 | (37) | 4,345 |
| Government agency issued CMO | 2,234 | 14 | (31) | 2,217 |
| Other U.S. government agencies | 794 | 6 | (12) | 788 |
| States and municipalities | 516 | 10 | (1) | 525 |
| | **$ 8,471** | **$ 88** | **$ (81)** | 8,478 |
| **AFS securities recorded at fair value through earnings:** | | | | |
| SBA interest-only strips (a) | | | | 16 |
| **Total securities available for sale (b)** | | | | **$ 8,494** |
| | | | | |
| **Securities held to maturity:** | | | | |
| Government agency issued MBS | **$ 229** | **$ —** | **$ (1)** | **$ 228** |
| Government agency issued CMO | **75** | **—** | **—** | **75** |
| **Total securities held to maturity** | **$ 304** | **$ —** | **$ (1)** | **$ 303** |

(a) SBA interest-only strips are recorded at elected fair value. See Note 17 - Fair Value of Assets and Liabilities for additional information.
(b) Includes $7.5 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

**Note 3 – Investment Securities (Continued)**

| (Dollars in millions) | December 31, 2020 Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities available for sale: | | | | |
| U.S. treasuries | $ 613 | $ — | $ — | $ 613 |
| Government agency issued MBS | 3,722 | 92 | (2) | 3,812 |
| Government agency issued CMO | 2,380 | 29 | (3) | 2,406 |
| Other U.S. government agencies | 672 | 12 | — | 684 |
| Corporate and other debt | 40 | 1 | (1) | 40 |
| States and municipalities | 445 | 15 | — | 460 |
| | $ 7,872 | $ 149 | $ (6) | 8,015 |
| **AFS securities recorded at fair value through earnings:** | | | | |
| SBA interest-only strips (a) | | | | 32 |
| **Total securities available for sale (b)** | | | | $ 8,047 |
| | | | | |
| **Securities held to maturity:** | | | | |
| Corporates and other debt | $ 10 | $ — | $ — | $ 10 |
| **Total securities held to maturity** | $ 10 | $ — | $ — | $ 10 |

(a) SBA interest-only strips are recorded at elected fair value. See Note 17 - Fair Value of Assets and Liabilities for additional information.
(b) Includes $6.4 billion of securities pledged to secure public deposits, securities sold under agreements to repurchase, and for other purposes.

The amortized cost and fair value by contractual maturity for the debt securities portfolio as of September 30, 2021 is provided below:

| (Dollars in millions) | Held to Maturity Amortized Cost | Held to Maturity Fair Value | Available for Sale Amortized Cost | Available for Sale Fair Value |
|---|---|---|---|---|
| Within 1 year | $ — | $ — | $ 654 | $ 654 |
| After 1 year through 5 years | — | — | 152 | 153 |
| After 5 years through 10 years | | — | 347 | 355 |
| After 10 years | — | — | 760 | 770 |
| Subtotal | — | — | 1,913 | 1,932 |
| Government agency issued MBS and CMO (a) | 304 | 303 | 6,558 | 6,562 |
| Total | **$ 304** | **$ 303** | **$ 8,471** | **$ 8,494** |

(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.

Gross gains and losses on sales of AFS securities for the three and nine months ended September 30, 2021 and 2020 were insignificant. Cash proceeds from sales of AFS securities were $35 million and $68 million for the three and nine months ended September 30, 2021, respectively. Cash proceeds from sales of AFS securities for the three and nine months ended September 30, 2020 were $240 million and $249 million, respectively.

**Note 3 – Investment Securities (Continued)**

The following tables provide information on investments within the available-for-sale portfolio that had unrealized losses as of September 30, 2021 and December 31, 2020:

| | As of September 30, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| *(Dollars in millions)* | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Government agency issued MBS | $ 2,101 | $ (33) | $ 99 | $ (4) | $ 2,200 | $ (37) |
| Government agency issued CMO | 1,243 | (25) | 179 | (6) | 1,422 | (31) |
| Other U.S. government agencies | 495 | (12) | — | — | 495 | (12) |
| States and municipalities | 107 | (1) | — | — | 107 | (1) |
| Total | **$ 3,946** | **$ (71)** | **$ 278** | **$ (10)** | **$ 4,224** | **$ (81)** |

| | As of December 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| *(Dollars in millions)* | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. treasuries | $ 307 | $ — | $ — | $ — | $ 307 | $ — |
| Government agency issued MBS | 426 | (2) | — | — | 426 | (2) |
| Government agency issued CMO | 586 | (3) | — | — | 586 | (3) |
| Other U.S. government agencies | 80 | (1) | — | — | 80 | (1) |
| States and municipalities | 1 | — | — | — | 1 | — |
| Total | $ 1,400 | $ (6) | $ — | $ — | $ 1,400 | $ (6) |

FHN has evaluated all AFS debt securities that were in unrealized loss positions in accordance with its accounting policy for recognition of credit losses. No AFS debt securities were determined to have credit losses because the primary cause of the decline in value was attributable to changes in interest rates. Total AIR not included in the fair value or amortized cost basis of AFS debt securities was $23 million and $22 million as of September 30, 2021 and December 31, 2020, respectively. Consistent with FHN's review of the related securities, there were no credit-related write downs of AIR for AFS debt securities during the reporting period. Additionally, for AFS 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. Therefore, no write downs of these investments to fair value occurred during the reporting period.

For HTM securities, an allowance for credit losses is required to absorb estimated lifetime credit losses. FHN has assessed the risk of credit loss and has determined that no allowance for credit losses for HTM securities was necessary as of September 30, 2021 and December 31, 2020.

The carrying amount of equity investments without a readily determinable fair value was $73 million and $57 million at September 30, 2021 and December 31, 2020, respectively. The year-to-date 2021 and 2020 gross amounts of upward and downward valuation adjustments were not significant.

Unrealized gains of $1 million were recognized in the three months ended September 30, 2021 and 2020. Unrealized gains of $7 million were recognized for the nine months ended September 30, 2021, and unrealized losses of $4 million were recognized for the nine months ended September 30, 2020, respectively, for equity investments with readily determinable fair values.

## Note 4 – Loans and Leases

The loans and lease portfolio is disaggregated into portfolio 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 a disaggregation of a portfolio segment and is generally determined based on risk characteristics of the loan and FHN's method for monitoring and assessing credit risk and performance. FHN's loan and lease portfolio segments are commercial and consumer. The classes of loans and leases are: (1) commercial, financial, and industrial, which includes commercial and industrial loans and leases and loans to mortgage companies, (2) commercial real estate, (3) consumer real estate, which includes both real estate installment and home equity lines of credit, and (4) credit card and other.

The following table provides the amortized cost basis of loans and leases by portfolio segment and class as of September 30, 2021 and December 31, 2020, excluding accrued interest of $143 million and $180 million, respectively, which is included in other assets in the Consolidated Balance Sheets.

| *(Dollars in millions)* | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Commercial: | | |
| Commercial and industrial (a) (b) | **$ 26,377** | $ 27,700 |
| Loans to mortgage companies | **5,139** | 5,404 |
| Total commercial, financial, and industrial | **31,516** | 33,104 |
| Commercial real estate | **12,194** | 12,275 |
| Consumer: | | |
| HELOC | **2,041** | 2,420 |
| Real estate installment loans | **8,746** | 9,305 |
| Total consumer real estate | **10,787** | 11,725 |
| Credit card and other | **938** | 1,128 |
| Loans and leases | **$ 55,435** | $ 58,232 |
| Allowance for loan and lease losses | **(734)** | (963) |
| Net loans and leases | **$ 54,701** | $ 57,269 |

(a) Includes equipment financing leases of $719 million and $587 million, respectively, as of September 30, 2021 and December 31, 2020.
(b) Includes PPP loans fully guaranteed by the SBA of $2.0 billion and $4.1 billion as of September 30, 2021 and December 31, 2020, respectively.

### Restrictions

Loans and leases with carrying values of $37.4 billion and $38.6 billion were pledged as collateral for borrowings at September 30, 2021 and December 31, 2020, respectively.

### Concentrations of Credit Risk

Most of FHN's business activity is with clients located in the southern United States. FHN's lending activity is concentrated in its market areas within those states. As of September 30, 2021, FHN had loans to mortgage companies of $5.1 billion and loans to finance and insurance companies of $3.2 billion. As a result, 26% of the C&I portfolio is sensitive to impacts on the financial services industry.

### Credit Quality Indicators

FHN employs a dual grade commercial risk grading methodology to assign an estimate for the probability of default and the loss given default for each commercial loan using factors specific to various industry, portfolio, or product segments that result in a rank ordering of risk and the assignment of grades PD 1 to PD 16. This credit grading system is intended to identify and measure the credit quality of the loan and lease portfolio by analyzing the migration between grading categories. It is also integral to the estimation methodology utilized in determining the ALLL since an allowance is established for pools of commercial loans based on the credit grade assigned. Each PD grade corresponds to an estimated one-year default probability percentage. PD grades are continually evaluated but require a formal scorecard annually. As a response to the COVID-19 pandemic, FHN identified a segment of its commercial portfolio that requires a quarterly re-grading process. As borrowers recover, they can be removed from the quarterly re-grading process with credit officer concurrence.

**Note 4 – Loans and Leases (Continued)**

PD 1 through PD 12 are “pass” grades. PD grades 13-16 correspond to the regulatory-defined categories of special mention (13), substandard (14), doubtful (15), and loss (16). Special mention loans and leases have potential weaknesses that, if left uncorrected, may result in deterioration of FHN's credit position at some future date. Substandard commercial loans and leases have well-defined weaknesses and are characterized by the distinct possibility that FHN will sustain some loss if the deficiencies are not corrected. Doubtful commercial loans and leases have the same weaknesses as substandard loans and leases with the added characteristics that the probability of loss is high and collection of the full amount is improbable.

The following tables provide the amortized cost basis of the commercial loan portfolio by year of origination and credit quality indicator as of September 30, 2021 and December 31, 2020:

| | September 30, 2021 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | C&I | | | | | | | | | |
| *(Dollars in millions)* | 2021 | 2020 | 2019 | 2018 | 2017 | Prior to 2017 | LMC (a) | Revolving Loans | Revolving Loans Converted to Term Loans (b) | Total |
| Credit Quality Indicator: | | | | | | | | | | |
| Pass (PD grades 1 through 12) (c) | $ 5,822 | $ 4,208 | $ 3,809 | $ 1,682 | $ 1,294 | $ 2,551 | $ 5,139 | $ 5,972 | $ 13 | $ 30,490 |
| Special Mention (PD grade 13) | 20 | 37 | 74 | 59 | 38 | 48 | — | 154 | 4 | 434 |
| Substandard, Doubtful, or Loss (PD grades 14,15, and 16) | 41 | 111 | 74 | 106 | 30 | 53 | — | 129 | 48 | 592 |
| Total C&I loans | $ 5,883 | $ 4,356 | $ 3,957 | $ 1,847 | $ 1,362 | $ 2,652 | $ 5,139 | $ 6,255 | $ 65 | $ 31,516 |

(a) LMC includes non-revolving 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. The loans are of short duration with maturities less than one year.
(b) C&I loans converted from revolving to term in 2021 were not material.
(c) 2021 and 2020 balances include PPP loans.

**Note 4 – Loans and Leases (Continued)**

| | December 31, 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | C&I | | | | | | | | | |
| *ars in millions)* | 2020 | 2019 | 2018 | 2017 | 2016 | Prior to 2016 | LMC (a) | Revolving Loans | Revolving Loans Converted to Term Loans (b) | Total |
| lit Quality Indicator: | | | | | | | | | | |
| s (PD grades 1 through 12) (c) | $ 9,06 | 5,13 | 2,62 | 1,74 | 1,16 | 2,14 | 5,40 | 4,57 | $ 60 | $ 31,915 |
| cial Mention (PD grade 13) | 89 | 93 | 70 | 31 | 37 | 64 | — | 127 | 1 | 512 |
| standard, Doubtful, or Loss (PD grades 14,15, and 16) | 182 | 77 | 114 | 50 | 42 | 58 | — | 95 | 59 | 677 |
| l C&I loans | $ 9,33 | 5,30 | 2,81 | 1,82 | 1,24 | 2,26 | 5,40 | 4,79 | 120 | $ 33,104 |

(a) LMC includes non-revolving 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. The loans are of short duration with maturities less than one year.
(b) $50 million of C&I loans were converted from revolving to term in 2020.
(c) 2020 balances include PPP loans.

| | **September 30, 2021** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **CRE** | | | | | | | | |
| *(Dollars in millions)* | **2021** | **2020** | **2019** | **2018** | **2017** | **Prior to 2017** | **Revolving Loans** | **Revolving Loans Converted to Term Loans** | **Total** |
| Credit Quality Indicator: | | | | | | | | | |
| Pass (PD grades 1 through 12) | **$ 2,21** | **2,26** | **2,81** | **1,20** | **80** | **2,05** | **259** | **$ —** | **$ 11,621** |
| Special Mention (PD grade 13) | **4** | **26** | **50** | **171** | **69** | **91** | **—** | **—** | **411** |
| Substandard, Doubtful, or Loss (PD grades 14,15, and 16) | **10** | **17** | **12** | **16** | **38** | **44** | **25** | **—** | **162** |
| Total CRE loans | **$ 2,23** | **2,30** | **2,87** | **1,39** | **91** | **2,18** | **284** | **$ —** | **$ 12,194** |

| | December 31, 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | CRE | | | | | | | | |
| *(Dollars in millions)* | 2020 | 2019 | 2018 | 2017 | 2016 | Prior to 2016 | Revolving Loans | Revolving Loans Converted to Term Loans | Total |
| Credit Quality Indicator: | | | | | | | | | |
| Pass (PD grades 1 through 12) | $ 2,477 | $ 3,311 | $ 1,750 | $ 1,140 | $ 946 | $ 1,800 | $ 259 | $ 19 | $ 11,702 |
| Special Mention (PD grade 13) | 48 | 24 | 117 | 75 | 71 | 54 | — | — | 389 |
| Substandard, Doubtful, or Loss (PD grades 14,15, and 16) | 30 | 13 | 21 | 42 | 27 | 33 | 18 | — | 184 |
| Total CRE loans | $ 2,555 | $ 3,348 | $ 1,888 | $ 1,257 | $ 1,044 | $ 1,887 | $ 277 | $ 19 | $ 12,275 |

**Note 4 – Loans and Leases (Continued)**

The consumer portfolio is comprised primarily of smaller-balance loans which are very similar in nature in that most are standard products and are backed by residential real estate. Because of the similarities of consumer loan-types, FHN is able to utilize the FICO score, among other attributes, to assess the credit quality of consumer borrowers. FICO scores are refreshed on a quarterly basis in an attempt to reflect the recent risk profile of the borrowers. Accruing delinquency amounts are indicators of asset quality within the credit card and other consumer portfolio.

The following table reflects the amortized cost basis by year of origination and refreshed FICO scores for consumer real estate loans as of September 30, 2021 and December 31, 2020. Within consumer real estate, classes include HELOC and real estate installment. HELOCs are loans which during their draw period are classified as revolving loans. Once the draw period ends and the loan enters its repayment period, the loan converts to a term loan and is classified as a revolving loan converted to a term loan. All loans classified in the following tables as revolving loans or revolving loans converted to term loans are HELOCs. Real estate installment loans are originated as fixed term loans and are classified below in their vintage year. All loans in the following tables classified in a vintage year are real estate installment loans.

| | September 30, 2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Consumer Real Estate | | | | | | | | |
| *(Dollars in millions)* | 2021 | 2020 | 2019 | 2018 | 2017 | Prior to 2017 | Revolving Loans | Revolving Loans Converted to Term Loans (a) | Total |
| FICO score 740 or greater | $ 1,037 | $ 1,085 | $ 844 | $ 500 | $ 682 | $ 1,692 | $ 1,104 | $ 130 | $ 7,074 |
| FICO score 720-739 | 135 | 143 | 111 | 78 | 107 | 119 | 164 | 24 | 881 |
| FICO score 700-719 | 98 | 109 | 78 | 55 | 117 | 131 | 146 | 25 | 759 |
| FICO score 660-699 | 99 | 137 | 101 | 97 | 148 | 147 | 215 | 48 | 992 |
| FICO score 620-659 | 15 | 33 | 51 | 23 | 65 | 67 | 71 | 31 | 356 |
| FICO score less than 620 | 226 | 52 | 30 | 41 | 193 | 100 | 48 | 35 | 725 |
| Total | $ 1,610 | $ 1,559 | $ 1,215 | $ 794 | $ 1,312 | $ 2,256 | $ 1,748 | $ 293 | $ 10,787 |

(a) $34 million of HELOC loans were converted from revolving to term in 2021.

| | December 31, 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Consumer Real Estate | | | | | | | | |
| *(Dollars in millions)* | 2020 | 2019 | 2018 | 2017 | 2016 | Prior to 2016 | Revolving Loans | Revolving Loans Converted to Term Loans | Total |
| FICO score 740 or greater | $ 1,186 | $ 1,167 | $ 703 | $ 610 | $ 674 | $ 1,719 | $ 1,275 | $ 159 | $ 7,493 |
| FICO score 720-739 | 157 | 158 | 100 | 77 | 92 | 197 | 186 | 29 | 996 |
| FICO score 700-719 | 122 | 107 | 78 | 76 | 73 | 221 | 177 | 34 | 888 |
| FICO score 660-699 | 130 | 141 | 123 | 75 | 85 | 296 | 264 | 59 | 1,173 |
| FICO score 620-659 | 45 | 61 | 37 | 28 | 35 | 127 | 92 | 36 | 461 |
| FICO score less than 620 | 107 | 36 | 52 | 54 | 95 | 261 | 61 | 48 | 714 |
| Total | $ 1,747 | $ 1,670 | $ 1,093 | $ 920 | $ 1,054 | $ 2,821 | $ 2,055 | $ 365 | $ 11,725 |

**Note 4 – Loans and Leases (Continued)**

The following tables reflect the amortized cost basis by year of origination and refreshed FICO scores for credit card and other loans as of September 30, 2021 and December 31, 2020.

| | September 30, 2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Credit Card and Other | | | | | | | | |
| *(Dollars in millions)* | 2021 | 2020 | 2019 | 2018 | 2017 | Prior to 2017 | Revolving Loans | Revolving Loans Converted to Term Loans (a) | Total |
| FICO score 740 or greater | $ 55 | $ 38 | $ 33 | $ 27 | $ 18 | $ 70 | $ 212 | $ 5 | $ 458 |
| FICO score 720-739 | 9 | 6 | 5 | 4 | 4 | 20 | 39 | 2 | 89 |
| FICO score 700-719 | 6 | 6 | 5 | 5 | 4 | 24 | 42 | 1 | 93 |
| FICO score 660-699 | 22 | 7 | 6 | 7 | 6 | 33 | 93 | 2 | 176 |
| FICO score 620-659 | 3 | 3 | 3 | 4 | 3 | 19 | 21 | 1 | 57 |
| FICO score less than 620 | 12 | 5 | 3 | 5 | 4 | 18 | 16 | 2 | 65 |
| Total | $ 107 | $ 65 | $ 55 | $ 52 | $ 39 | $ 184 | $ 423 | $ 13 | $ 938 |

(a) $4 million of other consumer loans were converted from revolving to term in 2021.

| | December 31, 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Credit Card and Other | | | | | | | | |
| *(Dollars in millions)* | 2020 | 2019 | 2018 | 2017 | 2016 | Prior to 2016 | Revolving Loans | Revolving Loans Converted to Term Loans | Total |
| FICO score 740 or greater | $ 57 | $ 52 | $ 59 | $ 37 | $ 23 | $ 116 | $ 159 | $ 5 | $ 508 |
| FICO score 720-739 | 7 | 7 | 9 | 8 | 8 | 27 | 91 | 2 | 159 |
| FICO score 700-719 | 9 | 8 | 9 | 8 | 4 | 38 | 37 | 3 | 116 |
| FICO score 660-699 | 30 | 12 | 15 | 9 | 9 | 48 | 46 | 3 | 172 |
| FICO score 620-659 | 5 | 5 | 7 | 5 | 10 | 24 | 20 | 1 | 77 |
| FICO score less than 620 | 14 | 7 | 8 | 11 | 9 | 26 | 20 | 1 | 96 |
| Total | $ 122 | $ 91 | $ 107 | $ 78 | $ 63 | $ 279 | $ 373 | $ 15 | $ 1,128 |

**Nonaccrual and Past Due Loans and Leases**

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

Past due loans are loans contractually past due as to interest or principal payments, but which have not yet been put on nonaccrual status. In accordance with revised Interagency Guidance issued in 2020, FHN is not required to designate loans with deferrals granted in response to COVID-19 as past due because of such deferrals. If a borrower defers payment, this may result in no contractual payments being past due, and as such, loans would not be considered past due during the period of deferral, and as a result, are excluded from loans past due 30-89 days and loans 90+ days past due in the tables below.

**Note 4 – Loans and Leases (Continued)**

The following table reflects accruing and non-accruing loans and leases by class on September 30, 2021 and December 31, 2020:

| | September 30, 2021 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Accruing | | | | Non-Accruing | | | | |
| *(Dollars in millions)* | Current | 30-89 Days Past Due | 90+ Days Past Due | Total Accruing | Current | 30-89 Days Past Due | 90+ Days Past Due | Total Non-Accruing | Total Loans and Leases |
| **Commercial, financial, and industrial:** | | | | | | | | | |
| C&I (a) | $ 26,196 | $ 36 | $ 1 | **$ 26,233** | $ 119 | $ 9 | $ 16 | **$ 144** | **$ 26,377** |
| Loans to mortgage companies | 5,139 | — | — | **5,139** | — | — | — | **—** | **5,139** |
| Total commercial, financial, and industrial | 31,335 | 36 | 1 | **31,372** | 119 | 9 | 16 | **144** | **31,516** |
| **Commercial real estate:** | | | | | | | | | |
| CRE (b) | 12,120 | 15 | 1 | **12,136** | 8 | — | 50 | **58** | **12,194** |
| **Consumer real estate:** | | | | | | | | | |
| HELOC (c) | 1,979 | 5 | 7 | **1,991** | 37 | 2 | 11 | **50** | **2,041** |
| Real estate installment loans (d) | 8,625 | 23 | 5 | **8,653** | 51 | 4 | 38 | **93** | **8,746** |
| Total consumer real estate | 10,604 | 28 | 12 | **10,644** | 88 | 6 | 49 | **143** | **10,787** |
| **Credit card and other:** | | | | | | | | | |
| Credit card | 274 | 3 | 2 | **279** | — | — | — | **—** | **279** |
| Other | 656 | 1 | — | **657** | — | 1 | 1 | **2** | **659** |
| Total credit card and other | 930 | 4 | 2 | **936** | — | 1 | 1 | **2** | **938** |
| **Total loans and leases** | $ 54,989 | $ 83 | $ 16 | **$ 55,088** | $ 215 | $ 16 | $ 116 | **$ 347** | **$ 55,435** |

(a) $129 million of C&I loans are nonaccrual loans that have been specifically reviewed for impairment with no related allowance.
(b) $52 million of CRE loans are nonaccrual loans that have been specifically reviewed for impairment with no related allowance.
(c) $7 million of HELOC loans are nonaccrual loans that have been specifically reviewed for impairment with no related allowance.
(d) $52 million of real estate installment loans are nonaccrual loans that have been specifically reviewed for impairment with no related allowance.

| | December 31, 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Accruing | | | | Non-Accruing | | | | |
| *(Dollars in millions)* | Current | 30-89 Days Past Due | 90+ Days Past Due | Total Accruing | Current | 30-89 Days Past Due | 90+ Days Past Due | Total Non-Accruing | Total Loans |
| **Commercial, financial, and industrial:** | | | | | | | | | |
| C&I (a) | $ 27,541 | $ 15 | $ — | $ 27,556 | $ 88 | $ 12 | $ 44 | $ 144 | $ 27,700 |
| Loans to mortgage companies | 5,404 | — | — | 5,404 | — | — | — | — | 5,404 |
| Total commercial, financial, and industrial | 32,945 | 15 | — | 32,960 | 88 | 12 | 44 | 144 | 33,104 |
| **Commercial real estate:** | | | | | | | | | |
| CRE | 12,194 | 23 | — | 12,217 | 10 | 42 | 6 | 58 | 12,275 |
| **Consumer real estate:** | | | | | | | | | |
| HELOC | 2,336 | 13 | 11 | 2,360 | 43 | 3 | 14 | 60 | 2,420 |
| Real estate installment loans | 9,138 | 40 | 5 | 9,183 | 63 | 9 | 50 | 122 | 9,305 |
| Total consumer real estate | 11,474 | 53 | 16 | 11,543 | 106 | 12 | 64 | 182 | 11,725 |
| **Credit card and other:** | | | | | | | | | |
| Credit card | 279 | 3 | 1 | 283 | — | — | — | — | 283 |
| Other | 838 | 6 | — | 844 | 1 | — | 1 | 2 | 845 |
| Total credit card and other | 1,117 | 9 | 1 | 1,127 | 1 | — | 1 | 2 | 1,128 |
| **Total loans and leases, net of unearned income** | $ 57,730 | $ 100 | $ 17 | $ 57,847 | $ 205 | $ 66 | $ 115 | $ 386 | $ 58,232 |

(a) $101 million of C&I loans are nonaccrual loans that have been specifically reviewed for impairment with no related allowance.

**Note 4 – Loans and Leases (Continued)**

**Collateral-Dependent Loans**

Collateral-dependent loans are defined as loans for which repayment is expected to be derived substantially through the operation or sale of the collateral and where the borrower is experiencing financial difficulty. At a minimum, the estimated value of the collateral for each loan equals the current book value.

As of September 30, 2021 and December 31, 2020, FHN had commercial loans with amortized cost of approximately $174 million and $167 million, respectively, that were based on the value of underlying collateral. Collateral-dependent C&I and CRE loans totaled $161 million and $13 million, respectively, at September 30, 2021. The collateral for these loans generally consists of business assets including land, buildings, equipment and financial assets. During the three and nine months ended September 30, 2021, FHN recognized charge-offs of approximately $9 million and $25 million, respectively, on these loans related to reductions in estimated collateral values.

Consumer HELOC and real estate installment loans with amortized cost based on the value of underlying real estate collateral were approximately $8 million and $21 million, respectively, as of September 30, 2021, and $9 million and $26 million, respectively, as of December 31, 2020. Charge-offs during the three and nine months ended September 30, 2021 were not significant for collateral-dependent consumer loans.

**Troubled Debt Restructurings**

As part of FHN's ongoing risk management practices, FHN attempts to work with borrowers when necessary to extend or modify loan terms to better align with their current ability to repay. Extensions and modifications to loans are made in accordance with internal policies and guidelines which conform to regulatory guidance. Each occurrence is unique to the borrower and is evaluated separately.

A modification is classified as a TDR if the borrower is experiencing financial difficulty and it is determined that FHN has granted a concession to the borrower. FHN may determine that a borrower is experiencing financial difficulty if the borrower is currently in default on any of its debt, or if it is probable that a borrower may default in the foreseeable future. Many aspects of a borrower's financial situation are assessed when determining whether they are experiencing financial difficulty. Concessions could include extension of the maturity date, reductions of the interest rate (which may make the rate lower than current market for a new loan with similar risk), reduction or forgiveness of accrued interest, or principal forgiveness. The assessments of whether a borrower is experiencing (or is likely to experience) financial difficulty, and whether a concession has been granted, are subjective in nature and management's judgment is required when determining whether a modification is classified as a TDR. In accordance with regulatory guidance, certain loan modifications that might ordinarily have qualified as TDRs were not accounted for as TDRs and have been excluded from the disclosures below. For loan modifications that were made during the three and nine months ended September 30, 2021 or the year ended December 31, 2020 that met the TDR relief provisions outlined in either the CARES Act, as extended by the CAA, or revised Interagency Guidance, FHN has excluded these modifications from consideration as TDRs, and has excluded loans with these qualifying modifications from designation as TDRs in the information and discussion that follows.

On September 30, 2021 and December 31, 2020, FHN had $239 million and $307 million of portfolio loans classified as TDRs, respectively. Additionally, $37 million and $42 million of loans held for sale as of September 30, 2021 and December 31, 2020, respectively, were classified as TDRs.

**Note 4 – Loans and Leases (Continued)**

The following tables present the end of period balance for loans modified in a TDR during the periods indicated:

| | Three Months Ended September 30, 2021 | | | Three Months Ended September 30, 2020 | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | **Number** | **Pre-Modification Outstanding Recorded Investment** | **Post-Modification Outstanding Recorded Investment** | Number | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| C&I | **5** | **$ 8** | **$ 7** | 83 | $ 130 | $ 120 |
| CRE | **—** | **—** | **—** | 14 | 12 | 12 |
| HELOC | **2** | **—** | **—** | 35 | 3 | 2 |
| Real estate installment loans | **6** | **—** | **—** | 44 | 6 | 6 |
| Credit card and other | **8** | **—** | **—** | 10 | — | — |
| **Total TDRs** | **21** | **$ 8** | **$ 7** | 186 | $ 151 | $ 140 |

| | Nine Months Ended September 30, 2021 | | | Nine Months Ended September 30, 2020 | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | **Number** | **Pre-Modification Outstanding Recorded Investment** | **Post-Modification Outstanding Recorded Investment** | Number | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| C&I | **32** | **$ 37** | **$ 34** | 87 | $ 141 | $ 129 |
| CRE | **1** | **12** | **10** | 14 | 12 | 12 |
| HELOC | **21** | **2** | **2** | 47 | 4 | 4 |
| Real estate installment loans | **41** | **8** | **8** | 94 | 15 | 15 |
| Credit card and other | **36** | **—** | **—** | 50 | — | — |
| Total TDRs | **131** | **$ 59** | **$ 54** | 292 | $ 172 | $ 160 |

The following tables present TDRs which re-defaulted during the three and nine months ended September 30, 2021 and 2020, and as to which the modification occurred 12 months or less prior to the re-default. For purposes of this disclosure, FHN generally defines payment default as 30 or more days past due.

| | Three Months Ended September 30, 2021 | | Three Months Ended September 30, 2020 | |
|---|---|---|---|---|
| *(Dollars in millions)* | **Number** | **Recorded Investment** | Number | Recorded Investment |
| C&I | **6** | **$ 3** | — | $ — |
| CRE | **4** | **10** | — | — |
| HELOC | **—** | **—** | 1 | — |
| Real estate installment loans | **1** | **1** | 6 | 1 |
| Credit card and other | **1** | **—** | 7 | — |
| **Total TDRs** | **12** | **$ 14** | 14 | $ 1 |

| | Nine Months Ended September 30, 2021 | | Nine Months Ended September 30, 2020 | |
|---|---|---|---|---|
| *(Dollars in millions)* | **Number** | **Recorded Investment** | Number | Recorded Investment |
| C&I | **18** | **$ 5** | — | $ — |
| CRE | **6** | **19** | — | — |
| HELOC | **1** | **—** | 8 | — |
| Real estate installment loans | **8** | **4** | 16 | 1 |
| Credit card and other | **2** | **—** | 21 | — |
| **Total TDRs** | **35** | **$ 28** | 45 | $ 1 |

**Note 5 – Allowance for Credit Losses**

Management's estimate of expected credit losses in the loan and lease portfolios is recorded in the ALLL and the RULC, collectively the ACL. The ALLL and the RULC are reported on the Consolidated Balance Sheets in the allowance for loan and lease losses and in other liabilities, respectively. Provision for credit losses related to the loans and leases portfolio and the unfunded lending commitments are reported in the Consolidated Statements of Income as provision for credit losses.

The ACL is maintained at a level management believes to be appropriate to absorb expected lifetime credit losses over the contractual life of the loan and lease portfolio and unfunded lending commitments. The determination of the ACL is based on periodic evaluation of the loan and lease portfolios and unfunded lending commitments considering a number of relevant underlying factors, including key assumptions and evaluation of quantitative and qualitative information.

In accordance with its accounting policy elections, FHN does not recognize a separate allowance for expected credit losses for AIR and records reversals of AIR as reductions of interest income. FHN reverses previously accrued but uncollected interest when an asset is placed on nonaccrual status. As of September 30, 2021 and December 31, 2020, FHN recognized approximately $1 million in allowance for expected credit losses on COVID-19 deferrals that do not qualify for the election which is not reflected in the table below. AIR and the related allowance for expected credit losses is included as a component of other assets.

The total amount of interest reversals from loans placed on nonaccrual status and the amount of income recognized on nonaccrual loans during the three and nine months ended September 30, 2021 and 2020 were not material.

Expected credit losses for unfunded commitments are estimated for periods where the commitment is not unconditionally cancellable. The measurement of expected credit losses for unfunded commitments mirrors that of loans and leases with the additional estimate of future draw rates (timing and amount).

The decrease in the ACL as of September 30, 2021 as compared to December 31, 2020 reflects an improvement in the macroeconomic outlook, positive grade migration, and lower loan balances.
In developing credit loss estimates for its loan and lease portfolios, FHN utilized multiple Moody’s scenarios for its macroeconomic inputs. Each scenario included assumptions around the COVID-19 pandemic and its impact on various sections of the economy. The heaviest weight was placed on the baseline forecast, which assumed positive real GDP growth over the forecast horizon and return to full employment by year-end 2022.

As there can be no certainty that actual economic performance will precisely follow any specific macroeconomic forecast, FHN also evaluated other macroeconomic forecasts provided by Moody’s and adjusted the modeled outputs through a qualitative adjustment to account for uncertainties inherent in the macroeconomic forecast process.

During the year ended December 31, 2020 and the nine months ended September 30, 2021, FHN also considered stressed loan portfolios or industries that are most exposed to the effects of the COVID-19 pandemic and added qualitative adjustments, where needed, to account for the risks not captured in modeled results. Management also made qualitative adjustments to reflect estimated recoveries based on a review of prior charge off and recovery levels, for default risk associated with large balances with individual borrowers, for estimated loss amounts not reflected in historical factors due to specific portfolio risk, and for instances where limited data for acquired loans is considered to affect modeled results.

**Note 5- Allowance for Credit Losses (Continued)**

The following table provides a rollforward of the ALLL and RULC by portfolio type for the three and nine months ended September 30, 2021 and 2020:

| *(Dollars in millions)* | Commercial, Financial, and Industrial (a) | Commercial Real Estate | Consumer Real Estate | Credit Card and Other | Total |
|---|---|---|---|---|---|
| **Allowance for loan and lease losses:** | | | | | |
| Balance as of July 1, 2021 | $ 385 | $ 210 | $ 203 | $ 17 | $ 815 |
| Charge-offs | (11) | (2) | (1) | (5) | (19) |
| Recoveries | 7 | 2 | 7 | — | 16 |
| Provision for loan and lease losses | (7) | (48) | (30) | 7 | (78) |
| Balance as of September 30, 2021 | $ 374 | $ 162 | $ 179 | $ 19 | $ 734 |
| | | | | | |
| Balance as of July 1, 2020 | $ 319 | $ 57 | $ 144 | $ 18 | $ 538 |
| Initial allowance on loans purchased with credit deterioration | 138 | 100 | 44 | 5 | 287 |
| Charge-offs | (69) | (4) | (2) | (3) | (78) |
| Recoveries | 3 | 2 | 5 | 1 | 11 |
| Provision for loan losses | 98 | 53 | 74 | 5 | 230 |
| Balance as of September 30, 2020 | $ 489 | $ 208 | $ 265 | $ 26 | $ 988 |
| | | | | | |
| **Reserve for remaining unfunded commitments:** | | | | | |
| Balance as of July 1, 2021 | $ 57 | $ 9 | $ 9 | $ — | $ 75 |
| Provision for remaining unfunded commitments | (8) | 1 | — | — | (7) |
| Balance as of September 30, 2021 | $ 49 | $ 10 | $ 9 | $ — | $ 68 |
| | | | | | |
| Balance as of July 1, 2020 | $ 37 | $ 6 | $ 8 | $ — | $ 51 |
| Initial reserve on loans acquired | 12 | 26 | 3 | — | 41 |
| Provision for remaining unfunded commitments | (2) | (1) | — | — | (3) |
| Balance as of September 30, 2020 | $ 47 | $ 31 | $ 11 | $ — | $ 89 |
| | | | | | |
| **Allowance for loan and lease losses:** | | | | | |
| Balance as of January 1, 2021 | $ 453 | $ 242 | $ 242 | $ 26 | $ 963 |
| Charge-offs | (27) | (5) | (5) | (11) | (48) |
| Recoveries | 18 | 5 | 21 | 3 | 47 |
| Provision for loan and lease losses | (70) | (80) | (79) | 1 | (228) |
| Balance as of September 30, 2021 | $ 374 | $ 162 | $ 179 | $ 19 | $ 734 |
| | | | | | |
| Balance as of January 1, 2020, as adjusted (b) | $ 142 | $ 29 | $ 121 | $ 15 | $ 307 |
| Initial allowance on loans purchased with credit deterioration | 138 | 100 | 44 | 5 | 287 |
| Charge-offs | (95) | (4) | (6) | (10) | (115) |
| Recoveries | 5 | 3 | 13 | 3 | 24 |
| Provision for loan and lease losses | 299 | 80 | 93 | 13 | 485 |
| Balance as of September 30, 2020 | $ 489 | $ 208 | $ 265 | $ 26 | $ 988 |
| | | | | | |
| **Reserve for remaining unfunded commitments:** | | | | | |
| Balance as of January 1, 2021 | $ 65 | $ 10 | $ 10 | $ — | $ 85 |
| Provision for remaining unfunded commitments | (16) | — | (1) | — | (17) |
| Balance as of September 30, 2021 | $ 49 | $ 10 | $ 9 | $ — | $ 68 |
| | | | | | |
| Balance as of January 1, 2020, as adjusted (b) | $ 21 | $ 4 | $ 6 | $ — | $ 31 |
| Initial reserve on loans acquired | 12 | 26 | 3 | — | 41 |
| Provision for remaining unfunded commitments | 14 | 1 | 2 | — | 17 |
| Balance as of September 30, 2020 | $ 47 | $ 31 | $ 11 | $ — | $ 89 |

(a) C&I loans as of September 30, 2021 include $2.0 billion in PPP loans which due to the government guarantee and forgiveness provisions are considered to have no credit risk and therefore have no allowance for loan and lease losses.
(b) Balance, as adjusted, reflects the adoption of ASU 2016-13 (CECL) effective January 1, 2020.

**Note 6 – Mortgage Banking Activity**

On July 1, 2020, as part of the IBKC merger, FHN obtained IBKC's mortgage banking operations which includes origination and servicing of residential first lien mortgages that conform to standards established by GSEs that are major investors in U.S. home mortgages but can also consist of junior lien and jumbo loans secured by residential property. These loans are primarily sold to private companies that are unaffiliated with the GSEs on a servicing-released basis. Gains and losses on these mortgage loans are included in mortgage banking and title income on the Consolidated Statements of Income. Prior to the merger, FHN's mortgage banking operations were not significant. At September 30, 2021, FHN had approximately $48 million of loans that remained from pre-2009 Mortgage Business operations. Activity related to the pre-2009 mortgage loans was primarily limited to payments and write-offs in 2020 and 2021, with no new originations or loan sales, and only an insignificant amount of repurchases. These loans are excluded from the disclosure below.

The following table summarizes activity relating to residential mortgage loans held for sale as of the nine months ended September 30, 2021 and the year ended December 31, 2020.

| *(Dollars in millions)* | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Balance at beginning of period | **$ 409** | $ 4 |
| Acquired | **—** | 320 |
| Originations and purchases | **2,154** | 2,499 |
| Sales, net of gains | **(2,302)** | (2,405) |
| Mortgage loans transferred from (to) held for investment | **30** | (9) |
| **Balance at end of period** | **$ 291** | $ 409 |

**Mortgage Servicing Rights**

Effective with the IBKC merger, FHN made an election to record mortgage servicing rights at the lower of cost or market value and amortize over the remaining servicing life of the loans, with consideration given to prepayment assumptions. Mortgage servicing rights are included in other assets on the Consolidated Balance Sheets. Mortgage servicing rights had the following carrying values as of the periods indicated.

| | **September 30, 2021** | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | **Gross Carrying Amount** | **Accumulated Amortization** | **Net Carrying Amount** | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Mortgage servicing rights | **$ 36** | **$ (7)** | **$ 29** | $ 28 | $ (3) | $ 25 |

In addition, there was an insignificant amount of non-mortgage and commercial servicing rights as of September 30, 2021 and December 31, 2020. Total mortgage servicing fees included in mortgage banking and title income were $1 million for the three months ended September 30, 2021 and $2 million for the nine months ended September 30, 2021. Total mortgage servicing fees included in mortgage banking and title income were $1 million for the three and nine months ended September 30, 2020.

**Note 7 – Goodwill and Other Intangible Assets**

**Goodwill**

On July 1, 2020, FHN completed its merger-of-equals transaction with IBKC. In connection with the merger, FHN recorded a $531 million purchase accounting gain, based on fair value estimates.

On July 17, 2020, FHN completed its purchase of 30 branches from Truist Bank. In relation to the acquisition, FHN recorded $78 million in goodwill, based on fair value estimates. See Note 2 - Acquisitions and Divestitures for additional information regarding these transactions.

FHN performed the required annual goodwill impairment test as of October 1, 2020. The annual impairment test did not indicate impairment in any of FHN's reporting units as of the testing date. Following the testing date, management evaluated the events and circumstances that could indicate that goodwill might be impaired and concluded that a subsequent interim test was not necessary. FHN is currently in the process of performing its annual impairment test as of October 1, 2021.

As further discussed in Note 13 - Business Segment Information, FHN reorganized its management reporting structure during 2020 and, accordingly, its segment reporting structure and goodwill reporting units. In connection with the reorganization, management reallocated goodwill to the new reporting units using a relative fair value approach.

Accounting estimates and assumptions were made about FHN's future performance and cash flows, as well as other prevailing market factors (e.g., interest rates, economic trends, etc.) when determining fair value as part of the goodwill impairment test. While management used the best information available to estimate future performance for each reporting unit, future adjustments to management's projections may be necessary if conditions differ substantially from the assumptions used in making the estimates.

The following is a summary of goodwill by reportable segment included in the Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020.

| *(Dollars in millions)* | Regional Banking | Specialty Banking | Total |
|---|---|---|---|
| December 31, 2019 | $ 802 | $ 631 | $ 1,433 |
| Additions | 78 | — | 78 |
| December 31, 2020 | $ 880 | $ 631 | $ 1,511 |
| Additions and adjustments | — | — | — |
| **September 30, 2021** | **$ 880** | **$ 631** | **$ 1,511** |

**Other intangible assets**

The following table, which excludes fully amortized intangibles, presents other intangible assets included in the Consolidated Balance Sheets:

| | **September 30, 2021** | | | December 31, 2020 | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | **Gross Carrying Amount** | **Accumulated Amortization** | **Net Carrying Value** | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| Core deposit intangibles | **$ 371** | **$ (117)** | **$ 254** | $ 371 | $ (81) | $ 290 |
| Customer relationships | **37** | **(10)** | **27** | 37 | (8) | 29 |
| Other (a) | **41** | **(11)** | **30** | 41 | (6) | 35 |
| Total | **$ 449** | **$ (138)** | **$ 311** | $ 449 | $ (95) | $ 354 |

(a) Includes noncompete covenants and purchased credit card intangible assets. Also includes title plant intangible assets and state banking licenses which are not subject to amortization.

**Note 8 - Preferred Stock**

The following table presents a summary of FHN's non-cumulative perpetual preferred stock:

| *(Dollars in millions)* | Issuance Date | Earliest Redemption Date (a) | Annual Dividend Rate | Dividend Payments | Shares Outstanding | Liquidation Amount | September 30, 2021 Carrying Amount | December 31, 2020 Carrying Amount |
|---|---|---|---|---|---|---|---|---|
| Series A | 1/31/2013 | 4/10/2018 | 6.200 % | Quarterly | — | $ — | $ — | $ 95 |
| Series B | 7/2/2020 | 8/1/2025 | 6.625 % (b) | Semi-annually | 8,000 | 80 | 77 | 77 |
| Series C | 7/2/2020 | 5/1/2026 | 6.600 % (c) | Quarterly | 5,750 | 58 | 59 | 59 |
| Series D | 7/2/2020 | 5/1/2024 | 6.100 % (d) | Semi-annually | 10,000 | 100 | 94 | 94 |
| Series E | 5/28/2020 | 10/10/2025 | 6.500 % | Quarterly | 1,500 | 150 | 145 | 145 |
| Series F | 5/3/2021 | 7/10/2026 | 4.700 % | Quarterly | 1,500 | 150 | 145 | — |
| | | | | | 26,750 | $ 538 | $ 520 | $ 470 |

(a) Denotes earliest optional redemption date. Earlier redemption is possible, at FHN's election, if certain regulatory capital events occur.
(b) Fixed dividend rate will reset on August 1, 2025 to three-month LIBOR plus 4.262%.
(c) Fixed dividend rate will reset on May 1, 2026 to three-month LIBOR plus 4.920%.
(d) Fixed dividend rate will reset on May 1, 2024 to three-month LIBOR plus 3.859%.

During the second quarter of 2021, FHN issued $150 million of 4.70% Series F Non-Cumulative Perpetual Preferred Stock (the Series F Preferred Stock). The Series F Preferred Stock is redeemable at FHN's option, in whole or in part, on or after July 10, 2026. Earlier redemption is possible, at FHN's election, if certain regulatory capital events occur. The $145 million carrying value of the Series F Preferred Stock currently qualifies as Tier 1 Capital.

During the third quarter of 2021, FHN redeemed all outstanding shares of Series A Preferred Stock. The difference between the $100 million liquidation preference and the carrying value of the Series A Preferred Stock resulted in a $5 million deemed dividend that was included in EPS for the nine months ended September 30, 2021.

**Subsidiary Preferred Stock**

First Horizon Bank has issued 300,000 shares of Class A Non-Cumulative Perpetual Preferred Stock (Class A Preferred Stock) with a liquidation preference of $1,000 per share. Dividends on the Class A Preferred Stock, if declared, accrue and are payable each quarter, in arrears, at a floating rate equal to the greater of the three month LIBOR plus 0.85% or 3.75% per annum. These securities qualify fully as Tier 1 capital for both First Horizon Bank and FHN. On September 30, 2021 and December 31, 2020, $295 million of Class A Preferred Stock was recognized as noncontrolling interest on the Consolidated Balance Sheets.

**Note 9 – Components of Other Comprehensive Income (Loss)**

The following table provides the changes in accumulated other comprehensive income (loss) by component, net of tax, for the three and nine months ended September 30, 2021 and 2020:

| *(Dollars in millions)* | Securities AFS | Cash Flow Hedges | Pension and Post-retirement Plans | Total |
|---|---|---|---|---|
| Balance as of July 1, 2021 | $ 43 | $ 8 | $ (254) | $ (203) |
| Net unrealized gains (losses) | (38) | — | (3) | (41) |
| Amounts reclassified from AOCI | — | (1) | 4 | 3 |
| Other comprehensive income (loss) | (38) | (1) | 1 | (38) |
| **Balance as of September 30, 2021** | **$ 5** | **$ 7** | **$ (253)** | **$ (241)** |

| *(Dollars in millions)* | Securities AFS | Cash Flow Hedges | Pension and Post-retirement Plans | Total |
|---|---|---|---|---|
| Balance as of January 1, 2021 | $ 108 | $ 12 | $ (260) | $ (140) |
| Net unrealized gains (losses) | (103) | (1) | (4) | (108) |
| Amounts reclassified from AOCI | — | (4) | 11 | 7 |
| Other comprehensive income (loss) | (103) | (5) | 7 | (101) |
| **Balance as of September 30, 2021** | **$ 5** | **$ 7** | **$ (253)** | **$ (241)** |

| *(Dollars in millions)* | Securities AFS | Cash Flow Hedges | Pension and Post-retirement Plans | Total |
|---|---|---|---|---|
| Balance as of July 1, 2020 | $ 118 | $ 16 | $ (268) | $ (134) |
| Net unrealized gains (losses) | (6) | (1) | — | (7) |
| Amounts reclassified from AOCI | 1 | (2) | 2 | 1 |
| Other comprehensive income (loss) | (5) | (3) | 2 | (6) |
| Balance as of September 30, 2020 | $ 113 | $ 13 | $ (266) | $ (140) |

| *(Dollars in millions)* | Securities AFS | Cash Flow Hedges | Pension and Post-retirement Plans | Total |
|---|---|---|---|---|
| Balance as of January 1, 2020 | $ 31 | $ 3 | $ (273) | $ (239) |
| Net unrealized gains (losses) | 81 | 14 | — | 95 |
| Amounts reclassified from AOCI | 1 | (4) | 7 | 4 |
| Other comprehensive income (loss) | 82 | 10 | 7 | 99 |
| Balance as of September 30, 2020 | $ 113 | $ 13 | $ (266) | $ (140) |

**Note 9 – Components of Other Comprehensive Income (Loss) (Continued)**

Reclassifications from AOCI, and related tax effects, were as follows:

| *(Dollars in millions)* | Three Months Ended September 30, | | Nine Months Ended September 30, | | |
|---|---|---|---|---|---|
| Details about AOCI | **2021** | 2020 | **2021** | 2020 | **Affected line item in the statement where net income is presented** |
| Securities AFS: | | | | | |
| Realized (gains) losses on securities AFS | **$ —** | $ 1 | **$ —** | $ 1 | Securities gains (losses), net |
| Tax expense (benefit) | **—** | — | **—** | — | Income tax expense |
| | **—** | 1 | **—** | 1 | |
| Cash Flow Hedges: | | | | | |
| Realized (gains) losses on cash flow hedges | **$ (2)** | $ (2) | **$ (6)** | $ (5) | Interest and fees on loans and leases |
| Tax expense (benefit) | **1** | — | **2** | 1 | Income tax expense |
| | **(1)** | (2) | **(4)** | (4) | |
| Pension and Postretirement Plans: | | | | | |
| Amortization of prior service cost and net actuarial gain (loss) | **3** | 3 | **9** | 9 | Other expense |
| Tax expense (benefit) | **1** | (1) | **2** | (2) | Income tax expense |
| | **4** | 2 | **11** | 7 | |
| Total reclassification from AOCI | **$ 3** | $ 1 | **$ 7** | $ 4 | |

**Note 10 – Earnings Per Share**

The computations of basic and diluted earnings per common share were as follows:

| *(Dollars in millions, except per share data; shares in thousands)* | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| **Net income** | **$ 235** | $ 539 | **$ 781** | $ 612 |
| Net income attributable to noncontrolling interest | **3** | 3 | **9** | 8 |
| Net income attributable to controlling interest | **232** | 536 | **772** | 604 |
| Preferred stock dividends | **8** | 13 | **29** | 16 |
| **Net income available to common shareholders** | **$ 224** | $ 523 | **$ 743** | $ 588 |
| Weighted average common shares outstanding—basic | **545,818** | 549,690 | **549,434** | 391,699 |
| Effect of dilutive securities | **4,001** | 1,156 | **4,765** | 1,014 |
| Weighted average common shares outstanding—diluted | **549,819** | 550,846 | **554,199** | 392,713 |
| **Basic earnings per common share** | **$ 0.41** | $ 0.95 | **$ 1.35** | $ 1.50 |
| **Diluted earnings per common share** | **$ 0.41** | $ 0.95 | **$ 1.34** | $ 1.50 |

The following table presents average outstanding options and other equity awards that were excluded from the calculation of diluted earnings per share because they were either anti-dilutive (the exercise price was higher than the weighted-average market price for the period) or the performance conditions have not been met:

| *(Shares in thousands)* | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Stock options excluded from the calculation of diluted EPS | **2,901** | 8,306 | **1,431** | 4,564 |
| Weighted average exercise price of stock options excluded from the calculation of diluted EPS | **$ 17.75** | $ 15.32 | **$ 20.64** | $ 17.05 |
| Other equity awards excluded from the calculation of diluted EPS | **2,464** | 6,824 | **1,394** | 4,826 |

## Note 11 – Contingencies and Other Disclosures

**CONTINGENCIES**

### Contingent Liabilities Overview

Contingent liabilities arise in the ordinary course of business. Often they are related to lawsuits, arbitration, mediation, and other forms of litigation. Various litigation matters currently are threatened or pending against FHN and its subsidiaries. Also, FHN at times receives requests for information, subpoenas, or other inquiries from federal, state, and local regulators, from other government authorities, and from other parties concerning various matters relating to FHN's current or former businesses. Certain matters of that sort are pending at most times, and FHN generally cooperates when those matters arise. Pending and threatened litigation matters sometimes are settled by the parties, and sometimes pending matters are resolved in court or before an arbitrator, or are withdrawn. Regardless of the manner of resolution, frequently the most significant changes in status of a matter occur over a short time period, often following a lengthy period of little substantive activity. In view of the inherent difficulty of predicting the outcome of these matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories or involve a large number of parties, or where claims or other actions may be possible but have not been brought, FHN cannot reasonably determine what the eventual outcome of the matters will be, what the timing of the ultimate resolution of these matters may be, or what the eventual loss or impact related to each matter may be. FHN establishes a loss contingency liability for a litigation matter when loss is both probable and reasonably estimable as prescribed by applicable financial accounting guidance. If loss for a matter is probable and a range of possible loss outcomes is the best estimate available, accounting guidance requires a liability to be established at the low end of the range.

Based on current knowledge, and after consultation with counsel, management is of the opinion that loss contingencies related to threatened or pending litigation matters should not have a material adverse effect on the consolidated financial condition of FHN but may be material to FHN's operating results for any particular reporting period depending, in part, on the results from that period.

### Material Loss Contingency Matters

Summary

As used in this Note, except for matters that are reported as having been substantially settled or otherwise substantially resolved, FHN's "material loss contingency matters" generally fall into at least one of the following categories: (i) FHN has determined material loss to be probable and has established a material loss liability in accordance with applicable financial accounting guidance; (ii) FHN has determined material loss to be probable but is not reasonably able to estimate an amount or range of material loss liability; or (iii) FHN has determined that material loss is not probable but is reasonably possible, and the amount or range of that reasonably possible material loss is estimable. As defined in applicable accounting guidance, loss is reasonably possible if there is more than a remote chance of a material loss outcome for FHN. FHN provides contingencies note disclosures for certain pending or threatened litigation matters each quarter, including all matters mentioned in categories (i) or (ii) and, occasionally, certain matters mentioned in category (iii). In addition, in this Note, certain other matters, or groups of matters, are discussed relating to FHN's pre-2009 mortgage origination and servicing businesses. In all litigation matters discussed in this Note, unless settled or otherwise resolved, FHN believes it has meritorious defenses and intends to pursue those defenses vigorously.

FHN reassesses the liability for litigation matters each quarter as the matters progress. At September 30, 2021, the aggregate amount of liabilities established for all such loss contingency matters was $1 million. These liabilities are separate from those discussed under the heading "Mortgage Loan Repurchase and Foreclosure Liability" below.

In each material loss contingency matter, except as otherwise noted, there is more than a remote chance that any of the following outcomes will occur: the plaintiff will substantially prevail; the defense will substantially prevail; the plaintiff will prevail in part; or the matter will be settled by the parties. At September 30, 2021, FHN estimates that for all material loss contingency matters, estimable reasonably possible losses in future periods in excess of currently established liabilities could aggregate in a range from zero to $6 million.

As a result of the general uncertainties discussed above and the specific uncertainties discussed for each matter mentioned below, it is possible that the ultimate future loss experienced by FHN for any particular matter may materially exceed the amount, if any, of currently established liability for that matter.

Exposures from pre-2009 Mortgage Business

FHN is contending with indemnification claims related to "other whole loans sold," which were mortgage

loans originated by FHN before 2009 and sold outside of a securitization organized by FHN. These claims generally assert that FHN-originated loans contributed to losses in connection with mortgage loans securitized by the buyer of the loans. The claims generally do not include specific deficiencies for specific loans sold by FHN. Instead, the claims generally assert that FHN is liable for a share of the claimant's loss estimated by assessing the totality of the other whole loans sold by FHN to claimant in relation to the totality of the larger number of loans securitized by claimant. FHN is unable to estimate an RPL range for these matters due to significant uncertainties regarding: the number of, and the facts underlying, the loan originations which claimants assert are indemnifiable; the applicability of FHN's contractual indemnity covenants to those facts and originations; and, in those cases where an indemnity claim may be supported, whether any legal defenses, counterclaims, other counter-positions, or third-party claims might eliminate or reduce claims against FHN or their impact on FHN.

FHN also has indemnification claims related to servicing obligations. The most significant is from Nationstar Mortgage LLC, currently doing business as "Mr. Cooper." Nationstar was the purchaser of FHN's mortgage servicing obligations and assets in 2013 and 2014 and, was FHN's subservicer. Nationstar asserts several categories of indemnity obligations in connection with mortgage loans under the subservicing arrangement and under the purchase transaction. This matter currently is not in litigation, but litigation in the future is possible. FHN is unable to estimate an RPL range for this matter due to significant uncertainties regarding: the exact nature of each of Nationstar's claims and its position in respect of each; the number of, and the facts underlying, the claimed instances of indemnifiable events; the applicability of FHN's contractual indemnity covenants to those facts and events; and, in those cases where the facts and events might support an indemnity claim, whether any legal defenses, counterclaims, other counter-positions, or third-party claims might eliminate or reduce claims against FHN or their impact on FHN.

FHN has additional potential exposures related to its pre-2009 mortgage businesses. A few of those matters have become litigation which FHN currently estimates are immaterial, some are non-litigation claims or threats, some are mere subpoenas or other requests for information, and in some areas FHN has no indication of any active or threatened dispute. Some of those matters might eventually result in settlements, and some might eventually result in adverse litigation outcomes, but none are included in the material loss contingency liabilities mentioned above or in the RPL range mentioned above.

Mortgage Loan Repurchase and Foreclosure Liability

FHN's repurchase and foreclosure liability, primarily related to its pre-2009 mortgage businesses, is comprised of accruals to cover estimated loss content in the active pipeline (consisting of mortgage loan repurchase, make-whole, foreclosure/servicing demands and certain related exposures), estimated future inflows, and estimated loss content related to certain known claims not currently included in the active pipeline. FHN compares the estimated probable incurred losses determined under the applicable loss estimation approaches for the respective periods with current reserve levels. Changes in the estimated required liability levels are recorded as necessary through the repurchase and foreclosure provision.

Based on currently available information and experience to date, FHN has evaluated its loan repurchase, make-whole, foreclosure, and certain related exposures and has accrued for losses of $16 million as of both September 30, 2021 and December 31, 2020. Accrued liabilities for FHN's estimate of these obligations are reflected in other liabilities on the Consolidated Balance Sheets. Charges/expense reversals to increase/decrease the liability are included within other income on the Consolidated Statements of Income. The estimates are based upon currently available information and fact patterns that exist as of each balance sheet date and could be subject to future changes. Changes to any one of these factors could significantly impact the estimate of FHN's liability.

## OTHER DISCLOSURES

### Indemnification Agreements and Guarantees

In the ordinary course of business, FHN enters into indemnification agreements for legal proceedings against its directors and officers and standard representations and warranties for underwriting agreements, merger and acquisition agreements, loan sales, contractual commitments, and various other business transactions or arrangements.

The extent of FHN's obligations under these agreements depends upon the occurrence of future events; therefore, it is not possible to estimate a maximum potential amount of payouts that could be required by such agreements.

**Note 12 – Retirement Plans**

FHN sponsors a noncontributory, qualified defined benefit pension plan to employees hired or re-hired on or before September 1, 2007. Pension benefits are based on years of service, average compensation near retirement or other termination, and estimated social security benefits at age 65. Benefits under the plan are "frozen" so that years of service and compensation changes after 2012 do not affect the benefit owed. Minimum contributions are based upon actuarially determined amounts necessary to fund the total benefit obligation. Decisions to contribute to the plan are based upon pension funding requirements under the Pension Protection Act, the maximum amount deductible under the Internal Revenue Code, the actual performance of plan assets, and trends in the regulatory environment. FHN made no contributions to the qualified pension plan in 2020. FHN has not made a contribution to the qualified pension plan in 2021. Management anticipates that FHN will make an immaterial contribution to the qualified pension plan during the next twelve months.

FHN also maintains non-qualified plans including a supplemental retirement plan that covers certain employees whose benefits under the qualified pension plan have been limited by tax rules. These other non-qualified plans are unfunded, and contributions to these plans cover all benefits paid under the non-qualified plans. Payments made under the non-qualified plans were $5 million for 2020. FHN anticipates making benefit payments under the non-qualified plans of $5 million in 2021.

Service cost is included in personnel expense in the Consolidated Statements of Income. All other components of net periodic benefit cost are included in other expense.

For more information on FHN's pension plan and other postretirement benefit plans, see Note 18 - Pension, Savings and Other Employee Benefits in FHN's 2020 Annual Report on Form 10-K.

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

| *(Dollars in millions)* | **2021** | 2020 |
|---|---|---|
| **Components of net periodic benefit cost** | | |
| Interest cost | **$ 4** | $ 6 |
| Expected return on plan assets | **(7)** | (7) |
| Amortization of unrecognized: | | |
| Actuarial (gain) loss | **2** | 3 |
| **Net periodic benefit cost** | **$ (1)** | $ 2 |

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

| *(Dollars in millions)* | **2021** | 2020 |
|---|---|---|
| **Components of net periodic benefit cost** | | |
| Interest cost | **$ 12** | $ 17 |
| Expected return on plan assets | **(15)** | (19) |
| Amortization of unrecognized: | | |
| Actuarial (gain) loss | **6** | 10 |
| Other | **2** | — |
| **Net periodic benefit cost** | **$ 5** | $ 8 |

**Note 13 – Business Segment Information**

FHN's operating segments are composed of the following:

- Regional Banking segment offers financial products and services, including traditional lending and deposit taking, to consumer and commercial clients primarily in the southern U.S. and other selected markets. Regional Banking also provides investment, wealth management, financial planning, trust and asset management services for consumer clients.

- Specialty Banking segment consists of lines of business that deliver product offerings and services with specialized industry knowledge. Specialty Banking's lines of business include asset-based lending, mortgage warehouse lending, commercial real estate, franchise finance, correspondent banking, equipment finance, mortgage, and title insurance. In addition to traditional lending and deposit taking, Specialty Banking also delivers treasury management solutions, loan syndications, and international banking. Additionally, Specialty Banking has a line of business focused on fixed income securities sales, trading, underwriting, and strategies for institutional clients in the U.S. and abroad, as well as loan sales, portfolio advisory services, and derivative sales.

- Corporate segment consists primarily of corporate support functions including risk management, audit, accounting, finance, executive office, and corporate communications. Shared support services such as human resources, properties, technology, credit risk and bank operations are allocated to the activities of Regional Banking, Specialty Banking and Corporate. Additionally, the Corporate segment includes centralized management of capital and funding to support the business activities of the company including management of wholesale funding, liquidity, and capital management and allocation. The Corporate segment also includes the revenue and expense associated with run-off businesses such as pre-2009 mortgage banking elements, run-off consumer and trust preferred loan portfolios, and other exited businesses.

Periodically, FHN adapts its segments to reflect managerial or strategic changes. During 2020, FHN reorganized its internal management structure and, accordingly, its segment reporting structure. Historically, FHN's reportable business segments were Regional Banking, Fixed Income, Corporate, and Non-strategic. The closing of the FHN and IBKC merger-of-equals transaction prompted organizational changes to better integrate and execute the combined Company's strategic priorities across all lines of businesses. As a result, segment information for 2020 has been reclassified to conform to the current period presentation.

FHN may also modify its methodology of allocating expenses and equity among segments which could change historical segment results. Business segment revenue, expense, asset, and equity levels reflect those which are specifically identifiable or which are allocated based on an internal allocation method. Because the allocations are based on internally developed assignments and allocations, to an extent they are subjective. Generally, all assignments and allocations have been consistently applied for all periods presented.

**Note 13 – Business Segment Information (Continued)**

The following tables reflect financial information for each reportable business segment for the three and nine months ended September 30, 2021 and 2020:

| | Three Months Ended September 30, 2021 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | **Regional Banking** | **Specialty Banking** | **Corporate** | **Consolidated** |
| Net interest income (expense) | **$ 444** | **$ 154** | **$ (106)** | **$ 492** |
| Provision for credit losses | **(52)** | **(33)** | **—** | **(85)** |
| Noninterest income | **112** | **142** | **(7)** | **247** |
| Noninterest expense | **301** | **141** | **84** | **526** |
| Income (loss) before income taxes | **307** | **188** | **(197)** | **298** |
| Income tax expense (benefit) | **72** | **45** | **(54)** | **63** |
| Net income (loss) | **$ 235** | **$ 143** | **$ (143)** | **$ 235** |
| Average assets | **$ 40,722** | **$ 20,460** | **$ 27,219** | **$ 88,401** |

| | Three Months Ended September 30, 2020 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Regional Banking | Specialty Banking | Corporate | Consolidated |
| Net interest income (expense) | $ 448 | $ 161 | $ (77) | $ 532 |
| Provision for credit losses | 194 | 34 | (1) | 227 |
| Noninterest income | 97 | 181 | 545 | 823 |
| Noninterest expense | 301 | 138 | 148 | 587 |
| Income (loss) before income taxes | 50 | 170 | 321 | 541 |
| Income tax expense (benefit) | 9 | 41 | (48) | 2 |
| Net income (loss) | $ 41 | $ 129 | $ 369 | $ 539 |
| Average assets | $ 43,703 | $ 21,693 | $ 16,287 | $ 81,683 |

| | Nine Months Ended September 30, 2021 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | **Regional Banking** | **Specialty Banking** | **Corporate** | **Consolidated** |
| Net interest income (expense) | **$ 1,314** | **$ 464** | **$ (282)** | **$ 1,496** |
| Provision for credit losses | **(172)** | **(61)** | **(12)** | **(245)** |
| Noninterest income | **320** | **476** | **33** | **829** |
| Noninterest expense (a) | **851** | **441** | **275** | **1,567** |
| Income (loss) before income taxes | **955** | **560** | **(512)** | **1,003** |
| Income tax expense (benefit) | **223** | **135** | **(136)** | **222** |
| Net income (loss) | **$ 732** | **$ 425** | **$ (376)** | **$ 781** |
| Average assets | **$ 41,757** | **$ 20,669** | **$ 24,705** | **$ 87,131** |

(a) Includes $35 million in asset impairments related to IBKC merger integration efforts in the Corporate segment.

**Note 13 – Business Segment Information (Continued)**

| | Nine Months Ended September 30, 2020 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Regional Banking | Specialty Banking | Corporate | Consolidated |
| Net interest income (expense) | $ 853 | $ 400 | $ (113) | $ 1,140 |
| Provision for credit losses | 394 | 106 | 2 | 502 |
| Noninterest income | 239 | 410 | 555 | 1,204 |
| Noninterest expense | 639 | 359 | 212 | 1,210 |
| Income (loss) before income taxes | 59 | 345 | 228 | 632 |
| Income tax expense (benefit) | 7 | 84 | (71) | 20 |
| Net income (loss) | $ 52 | $ 261 | $ 299 | $ 612 |
| Average assets | $ 27,962 | $ 18,885 | $ 10,963 | $ 57,810 |

The following tables reflect a disaggregation of FHN's noninterest income by major product line and reportable segment for the three and nine months ended September 30, 2021 and 2020:

| | **Three months ended September 30, 2021** | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | **Regional Banking** | **Specialty Banking** | **Corporate** | **Consolidated** |
| **Noninterest income:** | | | | |
| Fixed income (a) | **$ —** | **$ 96** | **$ —** | **$ 96** |
| Deposit transactions and cash management | **39** | **3** | **2** | **44** |
| Mortgage banking and title income | **—** | **33** | **1** | **34** |
| Brokerage, management fees and commissions | **24** | **—** | **—** | **24** |
| Bankcard income | **14** | **1** | **—** | **15** |
| Trust services and investment management | **13** | **—** | **—** | **13** |
| Securities gains (losses), net (b) | **—** | **—** | **1** | **1** |
| Loss on debt extinguishment | **—** | **—** | **(23)** | **(23)** |
| Other income (c) | **22** | **9** | **12** | **43** |
| **Total noninterest income** | **$ 112** | **$ 142** | **$ (7)** | **$ 247** |

(a) Includes $12 million of underwriting, portfolio advisory, and other noninterest income in scope of ASC 606, "Revenue From Contracts With Customers."
(b) Represents noninterest income excluded from the scope of ASC 606. Amount is presented for informational purposes to reconcile total noninterest income.
(c) Includes other service charges, ATM and interchange fees, electronic banking fees, and insurance commissions in scope of ASC 606.

**Note 13 – Business Segment Information (Continued)**

| (Dollars in millions) | Three months ended September 30, 2020 | | | |
|---|---|---|---|---|
| | Regional Banking | Specialty Banking | Corporate | Consolidated |
| Noninterest income: | | | | |
| Fixed income (a) | $ — | $ 111 | $ — | $ 111 |
| Mortgage banking and title income | — | 66 | — | 66 |
| Deposit transactions and cash management | 38 | 2 | 2 | 42 |
| Brokerage, management fees and commissions | 18 | — | — | 18 |
| Trust services and investment management | 12 | — | — | 12 |
| Bankcard income | 10 | — | — | 10 |
| Securities gains (losses), net (b) | — | — | (1) | (1) |
| Purchase accounting gain | — | — | 532 | 532 |
| Other income (c) | 19 | 2 | 12 | 33 |
| Total noninterest income | $ 97 | $ 181 | $ 545 | $ 823 |

(a) Includes $10 million of underwriting, portfolio advisory, and other noninterest income in scope of ASC 606, "Revenue From Contracts With Customers."
(b) Represents noninterest income excluded from the scope of ASC 606. Amount is presented for informational purposes to reconcile total noninterest income.
(c) Includes other service charges, ATM and interchange fees, electronic banking fees, and insurance commissions in scope of ASC 606.

| (Dollars in millions) | **Nine Months Ended September 30, 2021** | | | |
|---|---|---|---|---|
| | **Regional Banking** | **Specialty Banking** | **Corporate** | **Consolidated** |
| **Noninterest income:** | | | | |
| Fixed income (a) | **$ 1** | **$ 323** | **$ —** | **$ 324** |
| Deposit transactions and cash management | **117** | **8** | **5** | **130** |
| Mortgage banking and title income | **—** | **124** | **2** | **126** |
| Brokerage, management fees and commissions | **65** | **—** | **—** | **65** |
| Bankcard income | **37** | **2** | **1** | **40** |
| Trust services and investment management | **39** | **—** | **—** | **39** |
| Securities gains (losses), net (b) | **—** | **—** | **12** | **12** |
| Purchase accounting gain | **—** | **—** | **(1)** | **(1)** |
| Loss on debt extinguishment | **—** | **—** | **(23)** | **(23)** |
| Other income (c) | **61** | **19** | **37** | **117** |
| **Total noninterest income** | **$ 320** | **$ 476** | **$ 33** | **$ 829** |

(a) Includes $35 million of underwriting, portfolio advisory, and other noninterest income in scope of Accounting Standards Codification ("ASC") 606, "Revenue From Contracts With Customers."
(b) Represents noninterest income excluded from the scope of ASC 606. Amount is presented for informational purposes to reconcile total noninterest income.
(c) Includes other service charges, ATM and interchange fees, electronic banking fees, and insurance commissions in scope of ASC 606.

**Note 13 – Business Segment Information (Continued)**

| *(Dollars in millions)* | Nine Months Ended September 30, 2020 | | | |
|---|---|---|---|---|
| | Regional Banking | Specialty Banking | Corporate | Consolidated |
| Noninterest income: | | | | |
| Fixed income (a) | $ 1 | $ 318 | $ — | $ 319 |
| Deposit transactions and cash management | 91 | 8 | 4 | 103 |
| Mortgage banking and title income | — | 71 | 1 | 72 |
| Brokerage, management fees and commissions | 47 | — | — | 47 |
| Trust services and investment management | 27 | — | — | 27 |
| Bankcard income | 23 | 1 | — | 24 |
| Securities gains (losses), net (b) | — | — | (2) | (2) |
| Purchase accounting gain | — | — | 532 | 532 |
| Other income (c) | 50 | 12 | 20 | 82 |
| Total noninterest income | $ 239 | $ 410 | $ 555 | $ 1,204 |

(a) Includes $29 million of underwriting, portfolio advisory, and other noninterest income in scope of Accounting Standards Codification ("ASC") 606, "Revenue From Contracts With Customers."
(b) Represents noninterest income excluded from the scope of ASC 606. Amount is presented for informational purposes to reconcile total noninterest income.
(c) Includes other service charges, ATM and interchange fees, electronic banking fees, and insurance commissions in scope of ASC 606.

## Note 14 – Variable Interest Entities

FHN makes equity investments in various entities that are considered VIEs, as defined by GAAP. A VIE typically does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The Company's variable interest arises from contractual, ownership or other monetary interests in the entity, which change with fluctuations in the fair value of the entity's net assets. FHN consolidates a VIE if FHN is the primary beneficiary of the entity. FHN is the primary beneficiary of a VIE if FHN's variable interest provides it with the power to direct the activities that most significantly impact the VIE and the right to receive benefits (or the obligation to absorb losses) that could potentially be significant to the VIE. To determine whether or not a variable interest held could potentially be significant to the VIE, FHN considers both qualitative and quantitative factors regarding the nature, size and form of its involvement with the VIE. FHN assesses whether or not it is the primary beneficiary of a VIE on an ongoing basis.

### Consolidated Variable Interest Entities

FHN has established certain rabbi trusts related to deferred compensation plans offered to its employees. FHN contributes employee cash compensation deferrals to the trusts and directs the underlying investments made by the trusts. The assets of these trusts are available to FHN's creditors only in the event that FHN becomes insolvent. These trusts are considered VIEs as there is no equity at risk in the trusts since FHN provided the equity interest to its employees in exchange for services rendered. FHN is considered the primary beneficiary of the rabbi trusts as it has the power to direct the activities that most significantly impact the economic performance of the rabbi trusts through its ability to direct the underlying investments made by the trusts. Additionally, FHN could potentially receive benefits or absorb losses that are significant to the trusts due to its right to receive any asset values in excess of liability payoffs and its obligation to fund any liabilities to employees that are in excess of a rabbi trust's assets.

The following table summarizes the carrying value of assets and liabilities associated with rabbi trusts used for deferred compensation plans which are consolidated by FHN as of September 30, 2021 and December 31, 2020:

| *(Dollars in millions)* | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| **Assets:** | | |
| Other assets | **$ 206** | $ 195 |
| **Liabilities:** | | |
| Other liabilities | **$ 175** | $ 165 |

### Nonconsolidated Variable Interest Entities

***Low Income Housing Tax Credit Partnerships.*** Through designated wholly-owned subsidiaries, First Horizon Bank makes equity investments as a limited partner in various partnerships that sponsor affordable housing projects utilizing the LIHTC. The purpose of these investments is to achieve a satisfactory return on capital and to support FHN's community reinvestment initiatives. LIHTC partnerships are managed by unrelated general partners that have the power to direct the activities which most significantly affect the performance of the partnerships. FHN is therefore not the primary beneficiary of any LIHTC partnerships. Accordingly, FHN does not consolidate these VIEs and accounts for these investments in other assets on the Consolidated Balance Sheets.

FHN accounts for all qualifying LIHTC investments under the proportional amortization method. Under this method an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance as a component of income tax expense. LIHTC investments that do not qualify for the proportional amortization method are accounted for using the equity method. Expenses associated with non-qualifying LIHTC investments were not material for the three and nine months ended September 30, 2021 and 2020.

**Note 14 – Variable Interest Entities (Continued)**

The following table summarizes the impact to income tax expense on the Consolidated Statements of Income for the three and nine months ended September 30, 2021 and 2020 for LIHTC investments accounted for under the proportional amortization method.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2021** | 2020 | **2021** | 2020 |
| Income tax expense (benefit): | | | | |
| Amortization of qualifying LIHTC investments | **$ 9** | $ 8 | **$ 26** | $ 20 |
| Low income housing tax credits | **(8)** | (7) | **(25)** | (16) |
| Other tax benefits related to qualifying LIHTC investments | **(2)** | (3) | **(7)** | (8) |

***Other Tax Credit Investments.*** Through designated subsidiaries, First Horizon Bank periodically makes equity investments as a non-managing member in various LLCs that sponsor community development projects utilizing the NMTC. First Horizon Bank also makes equity investments as a limited partner or non-managing member in entities that receive solar and historic tax credits. The purposes of these investments are to achieve a satisfactory return on capital and to support FHN's community reinvestment initiatives. These entities are considered VIEs as First Horizon Bank's subsidiaries represent the holders of the equity investment at risk, but do not have the ability to direct the activities that most significantly affect the performance of the entities.

***Small Issuer Trust Preferred Holdings***. First Horizon Bank holds variable interests in trusts which have issued mandatorily redeemable preferred capital securities ("trust preferreds") for smaller banking and insurance enterprises. First Horizon Bank has no voting rights for the trusts' activities. The trusts' only assets are junior subordinated debentures of the issuing enterprises. The creditors of the trusts hold no recourse to the assets of First Horizon Bank. Since First Horizon Bank is solely a holder of the trusts' securities, it has no rights which would give it the power to direct the activities that most significantly impact the trusts' economic performance and thus it is not considered the primary beneficiary of the trusts. First Horizon Bank has no contractual requirements to provide financial support to the trusts.

***On-Balance Sheet Trust Preferred Securitization.*** In 2007, First Horizon Bank executed a securitization of certain small issuer trust preferreds for which the underlying trust meets the definition of a VIE as the holders of the equity investment at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entity's economic performance. Since First Horizon Bank did not retain servicing or other decision-making rights, First Horizon Bank is not the primary beneficiary as it does not have the power to direct the activities that most significantly impact the trust's economic performance. Accordingly, First Horizon Bank has accounted for the funds received through the securitization as a term borrowing in its Consolidated Balance Sheets. First Horizon Bank has no contractual requirements to provide financial support to the trust.

***Holdings in Agency Mortgage-Backed Securities.*** FHN holds securities issued by various Agency securitization trusts. Based on their restrictive nature, the trusts meet the definition of a VIE since the holders of the equity investments at risk do not have the power through voting rights, or similar rights, to direct the activities that most significantly impact the entities' economic performance. FHN could potentially receive benefits or absorb losses that are significant to the trusts based on the nature of the trusts' activities and the size of FHN's holdings. However, FHN is solely a holder of the trusts' securities and does not have the power to direct the activities that most significantly impact the trusts' economic performance and is not considered the primary beneficiary of the trusts. FHN has no contractual requirements to provide financial support to the trusts.

***Commercial Loan Troubled Debt Restructurings.*** For certain troubled commercial loans, First Horizon Bank restructures the terms of the borrower's debt in an effort to increase the probability of receipt of amounts contractually due. Following a troubled debt restructuring, the borrower entity typically meets the definition of a VIE as the initial determination of whether an entity is a VIE must be reconsidered as events have proven that the entity's equity is not sufficient to permit it to finance its activities without additional subordinated financial support or a restructuring of the terms of its financing. As First Horizon Bank does not have the power to direct the activities that most significantly impact such troubled commercial borrowers' operations, it is not considered the primary beneficiary even in situations where, based on the size of the financing provided, First Horizon Bank is exposed to potentially significant benefits and losses of the borrowing entity. First Horizon Bank has no contractual requirements to

**Note 14 – Variable Interest Entities (Continued)**

provide financial support to the borrowing entities beyond certain funding commitments established upon restructuring of the terms of the debt that allows for preparation of the underlying collateral for sale.

***Proprietary Trust Preferred Issuances***. In conjunction with its acquisitions, FHN acquired junior subordinated debt underlying multiple issuances of trust preferred debt. All of the trusts are considered VIEs because the ownership interests from the capital contributions to these trusts are not considered "at risk" in evaluating whether the holders of the equity investments at risk in the trusts have the ability to direct the activities that most significantly impact the entities' economic performance. Thus, FHN cannot be the trusts' primary beneficiary because its ownership interests in the trusts are not considered variable interests as they are not considered "at risk". Consequently, none of the trusts are consolidated by FHN.

The following table summarizes FHN's nonconsolidated VIEs as of September 30, 2021:

| *(Dollars in millions)* | Maximum Loss Exposure | Liability Recognized | Classification |
|---|---|---|---|
| **Type** | | | |
| Low income housing partnerships | $ 349 | $ 116 | (a) |
| Other tax credit investments (b) | 63 | 42 | Other assets |
| Small issuer trust preferred holdings (c) | 202 | — | Loans and leases |
| On-balance sheet trust preferred securitization | 30 | 84 | (d) |
| Holdings of agency mortgage-backed securities (c) | 7,380 | — | (e) |
| Commercial loan troubled debt restructurings (f) | 117 | — | Loans and leases |
| Proprietary trust preferred issuances (g) | — | 184 | Term borrowings |

(a) Maximum loss exposure represents $233 million of current investments and $116 million of accrued contractual funding commitments. Accrued funding commitments represent unconditional contractual obligations for future funding events and are also recognized in other liabilities. FHN currently expects to be required to fund these accrued commitments by the end of 2024.
(b) Maximum loss exposure represents the value of current investments.
(c) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts' securities.
(d) Includes $112 million classified as loans and leases and $2 million classified as trading securities which are offset by $84 million classified as term borrowings.
(e) Includes $514 million classified as trading securities, $6.6 billion classified as securities available for sale and $304 million classified as held to maturity.
(f) Maximum loss exposure represents $113 million of current receivables and $4 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.
(g) No exposure to loss due to nature of FHN's involvement.

The following table summarizes FHN's nonconsolidated VIEs as of December 31, 2020:

| *(Dollars in millions)* | Maximum Loss Exposure | Liability Recognized | Classification |
|---|---|---|---|
| **Type** | | | |
| Low income housing partnerships | $ 338 | $ 132 | (a) |
| Other tax credit investments (b) | 64 | 42 | Other assets |
| Small issuer trust preferred holdings (c) | 210 | — | Loans and leases |
| On-balance sheet trust preferred securitization | 32 | 82 | (d) |
| Holdings of agency mortgage-backed securities (c) | 7,063 | — | (e) |
| Commercial loan troubled debt restructurings (f) | 186 | — | Loans and leases |
| Proprietary trust preferred issuances (g) | — | 287 | Term borrowings |

(a) Maximum loss exposure represents $206 million of current investments and $132 million of accrued contractual funding commitments. Accrued funding commitments represent unconditional contractual obligations for future funding events and are also recognized in other liabilities. FHN currently expects to be required to fund these accrued commitments by the end of 2024.
(b) Maximum loss exposure represents current investments.
(c) Maximum loss exposure represents the value of current investments. A liability is not recognized as FHN is solely a holder of the trusts' securities.
(d) Includes $112 million classified as loans and leases and $2 million classified as trading securities which are offset by $82 million classified as term borrowings.
(e) Includes $845 million classified as trading securities and $6.2 billion classified as securities available for sale.
(f) Maximum loss exposure represents $176 million of current receivables and $10 million of contractual funding commitments on loans related to commercial borrowers involved in a troubled debt restructuring.
(g) No exposure to loss due to nature of FHN's involvement.

**Note 15 – Derivatives**

In the normal course of business, FHN utilizes various financial instruments (including derivative contracts and credit-related agreements) through its fixed income and risk management operations, as part of its risk management strategy and as a means to meet clients' needs. Derivative instruments are subject to credit and market risks in excess of the amount recorded on the balance sheet as required by GAAP. The contractual or notional amounts of these financial instruments do not necessarily represent the amount of credit or market risk. However, they can be used to measure the extent of involvement in various types of financial instruments. Controls and monitoring procedures for these instruments have been established and are routinely reevaluated. The ALCO controls, coordinates, and monitors the usage and effectiveness of these financial instruments.

Credit risk represents the potential loss that may occur if a party to a transaction fails to perform according to the terms of the contract. The measure of credit exposure is the replacement cost of contracts with a positive fair value. FHN manages credit risk by entering into financial instrument transactions through national exchanges, primary dealers or approved counterparties, and by using mutual margining and master netting agreements whenever possible to limit potential exposure. FHN also maintains collateral posting requirements with certain counterparties to limit credit risk. Daily margin posted or received with central clearinghouses is considered a legal settlement of the related derivative contracts which results in a net presentation for each contract in the Consolidated Balance Sheets. Treatment of daily margin as a settlement has no effect on hedge accounting or gains/losses for the applicable derivative contracts. On September 30, 2021 and December 31, 2020, respectively, FHN had $180 million and $280 million of cash receivables and $111 million and $166 million of cash payables related to collateral posting under master netting arrangements, inclusive of collateral posted related to contracts with adjustable collateral posting thresholds and over-collateralized positions, with derivative counterparties. With exchange-traded contracts, the credit risk is limited to the clearinghouse used. For non-exchange traded instruments, credit risk may occur when there is a gain in the fair value of the financial instrument and the counterparty fails to perform according to the terms of the contract and/or when the collateral proves to be of insufficient value. See additional discussion regarding master netting agreements and collateral posting requirements later in this note under the heading "Master Netting and Similar Agreements." Market risk represents the potential loss due to the decrease in the value of a financial instrument caused primarily by changes in interest rates or the prices of debt instruments. FHN manages market risk by establishing and monitoring limits on the types and degree of risk that may be undertaken. FHN continually measures this risk through the use of models that measure value-at-risk and earnings-at-risk.

***Derivative Instruments.*** FHN enters into various derivative contracts both to facilitate client transactions and as a risk management tool. Where contracts have been created for clients, FHN enters into upstream transactions with dealers to offset its risk exposure. Contracts with dealers that require central clearing are novated to a clearing agent who becomes FHN's counterparty. Derivatives are also used as a risk management tool to hedge FHN's exposure to changes in interest rates or other defined market risks.

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

Trading Activities

FHNF trades U.S. Treasury, U.S. Agency, government-guaranteed loan, mortgage-backed, corporate and municipal fixed income securities, and other securities for distribution to clients. When these securities settle on a delayed basis, they are considered forward contracts. FHNF also enters into interest rate contracts, including caps, swaps, and floors, for its clients. In addition, FHNF enters into futures and option contracts to economically hedge interest rate risk associated with a portion of its securities inventory. These transactions are measured at fair value, with changes in fair value

**Note 15 – Derivatives (Continued)**

recognized in noninterest income. Related assets and liabilities are recorded on the Consolidated Balance Sheets as derivative assets and derivative liabilities within other assets and other liabilities. The FHNF Risk Committee and the Credit Risk Management Committee collaborate to mitigate credit risk related to these transactions. Credit risk is controlled through credit approvals, risk control limits, and ongoing monitoring procedures. Total trading revenues were $85 million and $99 million for the three months ended September 30, 2021 and 2020, and $291 million and $278 million for the nine months ended September 30, 2021 and 2020, respectively. Trading revenues are inclusive of both derivative and non-derivative financial instruments and are included in fixed income on the Consolidated Statements of Income.

The following tables summarize derivatives associated with FHNF's trading activities as of September 30, 2021 and December 31, 2020:

| | **September 30, 2021** | | |
|---|---|---|---|
| *(Dollars in millions)* | **Notional** | **Assets** | **Liabilities** |
| Customer interest rate contracts | **$ 3,806** | **$ 113** | **$ 36** |
| Offsetting upstream interest rate contracts | **3,806** | **3** | **17** |
| Option contracts purchased | **23** | **—** | **—** |
| Forwards and futures purchased | **9,173** | **6** | **31** |
| Forwards and futures sold | **9,737** | **37** | **4** |

| | December 31, 2020 | | |
|---|---|---|---|
| *(Dollars in millions)* | Notional | Assets | Liabilities |
| Customer interest rate contracts | $ 3,950 | $ 207 | $ 7 |
| Offsetting upstream interest rate contracts | 3,950 | 2 | 17 |
| Forwards and futures purchased | 10,795 | 62 | — |
| Forwards and futures sold | 11,633 | 1 | 65 |

Interest Rate Risk Management

FHN's ALCO focuses on managing market risk by controlling and limiting earnings volatility attributable to changes in interest rates. Interest rate risk exists to the extent that interest-earning assets and interest-bearing liabilities have different maturity or repricing characteristics. FHN uses derivatives, primarily swaps, that are designed to moderate the impact on earnings as interest rates change. Interest paid or received for swaps utilized by FHN to hedge the fair value of long term debt is recognized as an adjustment of the interest expense of the liabilities whose risk is being managed. FHN's interest rate risk management policy is to use derivatives to hedge interest rate risk or market value of assets or liabilities, not to speculate. In addition, FHN has entered into certain interest rate swaps and caps as a part of a product offering to commercial clients that includes customer derivatives paired with upstream offsetting market instruments that, when completed, are designed to mitigate interest rate risk. These contracts do not qualify for hedge accounting and are measured at fair value with gains or losses included in current earnings in noninterest expense on the Consolidated Statements of Income.

FHN had designated a derivative transaction in a hedging strategy to manage interest rate risk on $500 million of senior debt prior to its maturity in December 2020. This transaction qualified for hedge accounting using the long-haul method. FHN early redeemed the $500 million senior debt in November 2020.

**Note 15 – Derivatives (Continued)**

The following tables summarize FHN's derivatives associated with interest rate risk management activities as of September 30, 2021 and December 31, 2020:

| | September 30, 2021 | | |
|---|---|---|---|
| *(Dollars in millions)* | **Notional** | **Assets** | **Liabilities** |
| **Customer Interest Rate Contracts Hedging** | | | |
| *Hedging Instruments and Hedged Items:* | | | |
| Customer interest rate contracts | **$ 7,745** | **$ 260** | **$ 16** |
| Offsetting upstream interest rate contracts | **7,685** | **3** | **26** |

| | December 31, 2020 | | |
|---|---|---|---|
| *(Dollars in millions)* | Notional | Assets | Liabilities |
| **Customer Interest Rate Contracts Hedging** | | | |
| *Hedging Instruments and Hedged Items:* | | | |
| Customer interest rate contracts | $ 6,868 | $ 436 | $ 1 |
| Offsetting upstream interest rate contracts | 6,868 | 5 | 35 |

The following table summarizes gains (losses) on FHN's derivatives associated with interest rate risk management activities for the three and nine months ended September 30, 2021 and 2020:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| *(Dollars in millions)* | **Gains (Losses)** | Gains (Losses) | **Gains (Losses)** | Gains (Losses) |
| **Customer Interest Rate Contracts Hedging** | | | | |
| *Hedging Instruments and Hedged Items:* | | | | |
| Customer interest rate contracts (a) | **$ (29)** | $ (14) | **$ (197)** | $ 197 |
| Offsetting upstream interest rate contracts (a) | **29** | 14 | **$ 197** | $ (197) |
| **Debt Hedging** | | | | |
| *Hedging Instruments:* | | | | |
| Interest rate swaps (b) | **$ —** | $ (1) | **$ —** | $ 3 |
| *Hedged Items:* | | | | |
| Term borrowings (a) (c) | **—** | 1 | **—** | (2) |

(a) Gains (losses) included in other expense within the Consolidated Statements of Income.
(b) Gains (losses) included in interest expense.
(c) Represents gains and losses attributable to changes in fair value due to interest rate risk as designated in ASC 815-20 hedging relationships.

*Cash Flow Hedges*

Prior to 2021, FHN had pay floating, receive fixed interest rate swaps designed to manage its exposure to the variability in cash flows related to interest payments on debt instruments, which primarily consisted of held-to-maturity trust preferred loans. In conjunction with the IBKC merger, FHN acquired interest rate contracts (floors and collars) which have been re-designated as cash flow hedges. The debt instruments primarily consist of held-to-maturity commercial loans that have variable interest payments based on 1-month LIBOR.

In a cash flow hedge, the entire change in the fair value of the interest rate swap included in the assessment of hedge effectiveness is initially recorded in OCI and is subsequently reclassified from OCI to current period earnings (interest income or interest expense) in the same period that the hedged item affects earnings.

**Note 15 – Derivatives (Continued)**

The following tables summarize FHN's derivative activities associated with cash flow hedges as of September 30, 2021 and December 31, 2020:

| | September 30, 2021 | | |
|---|---|---|---|
| *(Dollars in millions)* | **Notional** | **Assets** | **Liabilities** |
| **Cash Flow Hedges** | | | |
| *Hedging Instruments:* | | | |
| Interest rate contracts | **$ 1,100** | **$ 19** | **$ —** |
| *Hedged Items:* | | | |
| Variability in cash flows related to debt instruments (primarily loans) | **N/A** | **$ 1,100** | **N/A** |

| | December 31, 2020 | | |
|---|---|---|---|
| *(Dollars in millions)* | Notional | Assets | Liabilities |
| **Cash Flow Hedges** | | | |
| *Hedging Instruments:* | | | |
| Interest rate contracts | $ 1,250 | $ 32 | $ — |
| *Hedged Items:* | | | |
| Variability in cash flows related to debt instruments (primarily loans) | N/A | $ 1,250 | N/A |

The following table summarizes gains (losses) on FHN's derivatives associated with cash flow hedges for the three and nine months ended September 30, 2021 and 2020:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| *(Dollars in millions)* | **Gains (Losses)** | Gains (Losses) | **Gains (Losses)** | Gains (Losses) |
| **Cash Flow Hedges** | | | | |
| *Hedging Instruments:* | | | | |
| Interest rate contracts (a) | **$ (6)** | $ (8) | **$ (20)** | $ 10 |
| Gain (loss) recognized in other comprehensive income (loss) | **—** | (1) | **(1)** | 14 |
| Gain (loss) reclassified from AOCI into interest income | **(1)** | (2) | **(4)** | (4) |

(a) Approximately $20 million of pre-tax gains are expected to be reclassified into earnings in the next twelve months.

Other Derivatives

As part of the IBKC merger, FHN acquired mortgage banking operations that include the origination and sale of loans into the secondary market. As part of the origination of loans, FHN enters into interest rate lock commitments with borrowers. Additionally, FHN enters into forward sales contracts with buyers for delivery of loans at a future date.

Both of these contracts qualify as freestanding derivatives and are recognized at fair value through earnings. The notional and fair values of these contracts are presented in the table below. Balances and activity for periods prior to the IBKC merger were not significant.

**Note 15 – Derivatives (Continued)**

| (Dollars in millions) | September 30, 2021 Notional | Assets | Liabilities |
|---|---|---|---|
| **Mortgage Banking Hedges** | | | |
| Option contracts written | **$ 419** | **$ 7** | **$ —** |
| Forward contracts purchased | **522** | **3** | **—** |

| (Dollars in millions) | December 31, 2020 Notional | Assets | Liabilities |
|---|---|---|---|
| **Mortgage Banking Hedges** | | | |
| Option contracts written | $ 667 | $ 20 | $ — |
| Forward contracts purchased | 725 | — | 6 |

The following table summarizes gains (losses) on FHN's derivatives associated with mortgage banking activities for the three and nine months ended September 30, 2021.

| (Dollars in millions) | **Three Months Ended September 30, 2021 Gains (Losses)** | Three Months Ended September 30, 2020 Gains (Losses) | **Nine Months Ended September 30, 2021 Gains (Losses)** | Nine months ended September 30, 2020 Gains (Losses) |
|---|---|---|---|---|
| **Mortgage Banking Hedges** | | | | |
| Option contracts written | **$ (3)** | $ 7 | **$ (12)** | $ 7 |
| Forward contracts purchased | **(2)** | (10) | **10** | (10) |

In conjunction with pre-2020 sales of Visa Class B shares, FHN entered into derivative transactions whereby FHN will make or receive cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. As of September 30, 2021 and December 31, 2020, the derivative liabilities associated with the sales of Visa Class B shares were $16 million and $13 million, respectively. See Note 17 - Fair Value of Assets and Liabilities for discussion of the valuation inputs and processes for these Visa-related derivatives.

FHN utilizes cross currency swaps and cross currency interest rate swaps to economically hedge its exposure to foreign currency risk and interest rate risk associated with non-U.S. dollar denominated loans. As of September 30, 2021 and December 31, 2020, these loans were valued at $10 million and $12 million, respectively. The balance sheet amount and the gains/losses associated with these derivatives were not significant.

Related to its loan participation/syndication activities, FHN enters into risk participation agreements under which it assumes exposure for, or receives indemnification for, borrowers' performance on underlying interest rate derivative contracts. As of September 30, 2021 and December 31, 2020, the notional values of FHN's risk participations were $234 million and $233 million of derivative assets and $512 million and $464 million of derivative liabilities, respectively. Assuming all underlying third party customers referenced in the swap contracts defaulted at September 30, 2021 and December 31, 2020, the exposure from these agreements would not be material based on the fair value of the underlying swaps.

In conjunction with the IBKC merger, FHN obtained certain certificates of deposit with the rate of return based on an equity index which is considered an embedded derivative as a written option that must be separately recognized. The risks of the written option are offset by purchasing an option with terms that mirror the written option, which is also carried at fair value on the Company's Consolidated Balance Sheets. As of September 30, 2021 and December 31, 2020, FHN had recognized $1 million of both assets and liabilities associated with these contracts.

Master Netting and Similar Agreements

FHN uses master netting agreements, mutual margining agreements and collateral posting requirements to minimize credit risk on derivative contracts. Master netting and similar agreements are used when counterparties have multiple derivatives contracts that allow for a "right of setoff," meaning that a counterparty may net offsetting positions and collateral with the same counterparty under the contract to determine a net receivable or payable.

**Note 15 – Derivatives (Continued)**

The following discussion provides an overview of these arrangements which may vary due to the derivative type and market in which a derivative transaction is executed.

Interest rate derivatives are subject to agreements consistent with standard agreement forms of the ISDA. Currently, all interest rate derivative contracts are entered into as over-the-counter transactions and collateral posting requirements are based on the net asset or liability position with each respective counterparty. For contracts that require central clearing, novation to a counterparty with access to a clearinghouse occurs and initial margin is posted.
Cash margin received (posted) that is considered settlements for the derivative contracts is included in the respective derivative asset (liability) value. Cash margin that is considered collateral received (posted) for interest rate derivatives is recognized as a liability (asset) on FHN's Consolidated Balance Sheets.

Interest rate derivatives with clients that are smaller financial institutions typically require posting of collateral by the counterparty to FHN. This collateral is subject to a threshold with daily adjustments based upon changes in the level or fair value of the derivative position. Positions and related collateral can be netted in the event of default. Collateral pledged by a counterparty is typically cash or securities. The securities pledged as collateral are not recognized within FHN's Consolidated Balance Sheets. Interest rate derivatives associated with lending arrangements share the collateral with the related loan(s). The derivative and loan positions may be netted in the event of default. For disclosure purposes, the entire collateral amount is allocated to the loan.

Interest rate derivatives with larger financial institutions entered into prior to required central clearing typically contain provisions whereby the collateral posting thresholds under the agreements adjust based on the credit ratings of both counterparties. If the credit rating of FHN and/or First Horizon Bank is lowered, FHN could be required to post additional collateral with the counterparties. Conversely, if the credit rating of FHN and/or First Horizon Bank is increased, FHN could have collateral released and be required to post less collateral in the future. Also, if a counterparty's credit ratings were to decrease, FHN and/or First Horizon Bank could require the posting of additional collateral; whereas if a counterparty's credit ratings were to increase, the counterparty could require the release of excess collateral. Collateral for these arrangements is adjusted daily based on changes in the net fair value position with each counterparty.

The net fair value, determined by individual counterparty, of all derivative instruments with adjustable collateral posting thresholds was $93 million of assets and $17 million of liabilities on September 30, 2021, and $200 million of assets and $5 million of liabilities on December 31, 2020. As of September 30, 2021 and December 31, 2020, FHN had received collateral of $221 million and $320 million and posted collateral of $3 million and $34 million, respectively, in the normal course of business related to these agreements.

Certain agreements entered into prior to required central clearing also contain accelerated termination provisions, inclusive of the right of offset, if a counterparty's credit rating falls below a specified level. If a counterparty's debt rating (including FHN's and First Horizon Bank's) were to fall below these minimums, these provisions would be triggered, and the counterparties could terminate the agreements and require immediate settlement of all derivative contracts under the agreements. The net fair value, determined by individual counterparty, of all interest rate derivative instruments with credit-risk-related contingent accelerated termination provisions was $103 million of assets and $20 million of liabilities on September 30, 2021, and $216 million of assets and $17 million of liabilities on December 31, 2020. As of September 30, 2021 and December 31, 2020, FHN had received collateral of $232 million and $343 million and posted collateral of $6 million and $53 million, respectively, in the normal course of business related to these contracts.

FHNF buys and sells various types of securities for its clients. When these securities settle on a delayed basis, they are considered forward contracts, and are generally not subject to master netting agreements. For futures and options, FHN transacts through a third party, and the transactions are subject to margin and collateral maintenance requirements. In the event of default, open positions can be offset along with the associated collateral.

For this disclosure, FHN considers the impact of master netting and other similar agreements which allow FHN to settle all contracts with a single counterparty on a net basis and to offset the net derivative asset or liability position with the related securities and cash collateral. The application of the collateral cannot reduce the net derivative asset or liability position below zero, and therefore any excess collateral is not reflected in the following tables.

**Note 15 – Derivatives (Continued)**

The following table provides details of derivative assets and collateral received as presented on the Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020:

| *(Dollars in millions)* | Gross amounts of recognized assets | Gross amounts offset in the Balance Sheets | Net amounts of assets presented in the Balance Sheets (a) | Gross amounts not offset in the Balance Sheets: Derivative liabilities available for offset | Gross amounts not offset in the Balance Sheets: Collateral received | Net amount |
|---|---|---|---|---|---|---|
| Derivative assets: | | | | | | |
| **September 30, 2021** | | | | | | |
| Interest rate derivative contracts | **$ 408** | **$ —** | **$ 408** | **$ (31)** | **$ (217)** | **$ 160** |
| Forward contracts | **43** | **—** | **43** | **(20)** | **(4)** | **19** |
| | **$ 451** | **$ —** | **$ 451** | **$ (51)** | **$ (221)** | **$ 179** |
| December 31, 2020 | | | | | | |
| Interest rate derivative contracts | $ 702 | $ — | $ 702 | $ (7) | $ (327) | $ 368 |
| Forward contracts | 63 | — | 63 | (14) | (20) | 29 |
| | $ 765 | $ — | $ 765 | $ (21) | $ (347) | $ 397 |

(a) Included in other assets on the Consolidated Balance Sheets. As of September 30, 2021 and December 31, 2020, $4 million of derivative assets have been excluded from these tables because they are generally not subject to master netting or similar agreements.

The following table provides details of derivative liabilities and collateral pledged as presented on the Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020:

| *(Dollars in millions)* | Gross amounts of recognized liabilities | Gross amounts offset in the Balance Sheets | Net amounts of liabilities presented in the Balance Sheets (a) | Gross amounts not offset in the Balance Sheets: Derivative assets available for offset | Gross amounts not offset in the Balance Sheets: Collateral pledged | Net amount |
|---|---|---|---|---|---|---|
| Derivative liabilities: | | | | | | |
| **September 30, 2021** | | | | | | |
| Interest rate derivative contracts | **$ 95** | **$ —** | **$ 95** | **$ (31)** | **$ (9)** | **$ 55** |
| Forward contracts | **35** | **—** | **35** | **(20)** | **(12)** | **3** |
| | **$ 130** | **$ —** | **$ 130** | **$ (51)** | **$ (21)** | **$ 58** |
| December 31, 2020 | | | | | | |
| Interest rate derivative contracts | $ 60 | $ — | $ 60 | $ (7) | $ (31) | $ 22 |
| Forward contracts | 65 | — | 65 | (14) | (51) | — |
| | $ 125 | $ — | $ 125 | $ (21) | $ (82) | $ 22 |

(a) Included in other liabilities on the Consolidated Balance Sheets. As of September 30, 2021 and December 31, 2020, $17 million and $22 million, respectively, of derivative liabilities (primarily Visa-related derivatives) have been excluded from these tables because they are generally not subject to master netting or similar agreements.

**Note 16 – Master Netting and Similar Agreements—Repurchase, Reverse Repurchase, and Securities Borrowing Transactions**

For repurchase, reverse repurchase and securities borrowing transactions, FHN and each counterparty have the ability to offset all open positions and related collateral in the event of default. Due to the nature of these transactions, the value of the collateral for each transaction approximates the value of the corresponding receivable or payable. For repurchase agreements through FHN's fixed income business (securities purchased under agreements to resell and securities sold under agreements to repurchase), transactions are collateralized by securities and/or government guaranteed loans which are delivered on the settlement date and are maintained throughout the term of the transaction. For FHN's repurchase agreements through banking activities (securities sold under agreements to repurchase), securities are typically pledged at settlement and not released until maturity. For asset positions, the collateral is not included on FHN's Consolidated Balance Sheets. For liability positions, securities collateral pledged by FHN is generally represented within FHN's trading or available-for-sale securities portfolios.

For this disclosure, FHN considers the impact of master netting and other similar agreements that allow FHN to settle all contracts with a single counterparty on a net basis and to offset the net asset or liability position with the related securities collateral. The application of the collateral cannot reduce the net asset or liability position below zero, and therefore any excess collateral is not reflected in the tables below.

Securities purchased under agreements to resell is included in federal funds sold and securities purchased under agreements to resell in the Consolidated Balance Sheets. Securities sold under agreements to repurchase is included in short-term borrowings.

The following table provides details of securities purchased under agreements to resell and collateral pledged by counterparties as of September 30, 2021 and December 31, 2020:

| | | | | Gross amounts not offset in the Balance Sheets | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Gross amounts of recognized assets | Gross amounts offset in the Balance Sheets | Net amounts of assets presented in the Balance Sheets | Offsetting securities sold under agreements to repurchase | Securities collateral (not recognized on FHN's Balance Sheets) | Net amount |
| Securities purchased under agreements to resell: | | | | | | |
| **September 30, 2021** | **$ 355** | **$ —** | **$ 355** | **$ (12)** | **$ (341)** | **$ 2** |
| December 31, 2020 | 380 | — | 380 | — | (379) | 1 |

The following table provides details of securities sold under agreements to repurchase and collateral pledged by FHN as of September 30, 2021 and December 31, 2020:

| | | | | Gross amounts not offset in the Balance Sheets | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Gross amounts of recognized liabilities | Gross amounts offset in the Balance Sheets | Net amounts of liabilities presented in the Balance Sheets | Offsetting securities purchased under agreements to resell | Securities/ government guaranteed loans collateral | Net amount |
| Securities sold under agreements to repurchase: | | | | | | |
| **September 30, 2021** | **$ 1,299** | **$ —** | **$ 1,299** | **$ (12)** | **$ (1,287)** | **$ —** |
| December 31, 2020 | 1,187 | — | 1,187 | — | (1,187) | — |

Due to the short duration of securities sold under agreements to repurchase and the nature of collateral involved, the risks associated with these transactions are considered minimal.

**Note 16 – Master Netting and Similar Agreements—Repurchase, Reverse Repurchase, and Securities Borrowing Transactions (Continued)**

The following tables provide details, by collateral type, of the remaining contractual maturity of securities sold under agreements to repurchase as of September 30, 2021 and December 31, 2020:

| | **September 30, 2021** | | |
|---|---|---|---|
| *(Dollars in millions)* | **Overnight and Continuous** | **Up to 30 Days** | **Total** |
| Securities sold under agreements to repurchase: | | | |
| U.S. treasuries | **$ 17** | **$ —** | **$ 17** |
| Government agency issued MBS | **1,097** | **—** | **1,097** |
| Government agency issued CMO | **1** | **—** | **1** |
| Other U.S. government agencies | **51** | **—** | **51** |
| Government guaranteed loans (SBA and USDA) | **133** | **—** | **133** |
| **Total securities sold under agreements to repurchase** | **$ 1,299** | **$ —** | **$ 1,299** |

| | December 31, 2020 | | |
|---|---|---|---|
| *(Dollars in millions)* | Overnight and Continuous | Up to 30 Days | Total |
| Securities sold under agreements to repurchase: | | | |
| U.S. treasuries | $ 284 | $ — | $ 284 |
| Government agency issued MBS | 616 | — | 616 |
| Government agency issued CMO | 10 | — | 10 |
| Other U.S. government agencies | 151 | — | 151 |
| Government guaranteed loans (SBA and USDA) | 126 | — | 126 |
| Total securities sold under agreements to repurchase | $ 1,187 | $ — | $ 1,187 |

**Note 17 – Fair Value of Assets and Liabilities**

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

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

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

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

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

**Recurring Fair Value Measurements**

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020:

| | September 30, 2021 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Level 1 | Level 2 | Level 3 | Total |
| Trading securities: | | | | |
| U.S. treasuries | $ — | $ 66 | $ — | $ 66 |
| Government agency issued MBS | — | 276 | — | 276 |
| Government agency issued CMO | — | 238 | — | 238 |
| Other U.S. government agencies | — | 196 | — | 196 |
| States and municipalities | — | 39 | — | 39 |
| Corporate and other debt | — | 504 | — | 504 |
| Total trading securities | — | 1,319 | — | 1,319 |
| Loans held for sale (elected fair value) | — | 277 | 24 | 301 |
| Securities available for sale: | | | | |
| U.S. treasuries | — | 603 | — | 603 |
| Government agency issued MBS | — | 4,345 | — | 4,345 |
| Government agency issued CMO | — | 2,217 | — | 2,217 |
| Other U.S. government agencies | — | 788 | — | 788 |
| States and municipalities | — | 525 | — | 525 |
| Interest-only strips (elected fair value) | — | — | 16 | 16 |
| Total securities available for sale | — | 8,478 | 16 | 8,494 |
| Other assets: | | | | |
| Deferred compensation mutual funds | 127 | — | — | 127 |
| Equity, mutual funds, and other | 28 | — | — | 28 |
| Derivatives, forwards and futures | 46 | — | — | 46 |
| Derivatives, interest rate contracts | — | 405 | — | 405 |
| Derivatives, other | — | 2 | — | 2 |
| Total other assets | 201 | 407 | — | 608 |
| Total assets | $ 201 | $ 10,481 | $ 40 | $ 10,722 |
| Trading liabilities: | | | | |
| U.S. treasuries | $ — | $ 222 | $ — | $ 222 |
| States and municipalities | — | 1 | — | 1 |
| Corporate and other debt | — | 92 | — | 92 |
| Total trading liabilities | — | 315 | — | 315 |
| Other liabilities: | | | | |
| Derivatives, forwards and futures | 35 | — | — | 35 |
| Derivatives, interest rate contracts | — | 95 | — | 95 |
| Derivatives, other | — | 1 | 16 | 17 |
| Total other liabilities | 35 | 96 | 16 | 147 |
| Total liabilities | $ 35 | $ 411 | $ 16 | $ 462 |

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

| | December 31, 2020 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Level 1 | Level 2 | Level 3 | Total |
| Trading securities: | | | | |
| U.S. treasuries | $ — | $ 81 | $ — | $ 81 |
| Government agency issued MBS | — | 633 | — | 633 |
| Government agency issued CMO | — | 212 | — | 212 |
| Other U.S. government agencies | — | 62 | — | 62 |
| States and municipalities | — | 7 | — | 7 |
| Corporate and other debt | — | 181 | — | 181 |
| Total trading securities | — | 1,176 | — | 1,176 |
| Loans held for sale (elected fair value) | — | 393 | 12 | 405 |
| Loans held for investment (elected fair value) | — | — | 16 | 16 |
| Securities available for sale: | | | | |
| U.S. treasuries | — | 613 | — | 613 |
| Government agency issued MBS | — | 3,812 | — | 3,812 |
| Government agency issued CMO | — | 2,406 | — | 2,406 |
| Other U.S. government agencies | — | 684 | — | 684 |
| States and municipalities | — | 460 | — | 460 |
| Corporate and other debt | — | 40 | — | 40 |
| Interest-only strips (elected fair value) | — | — | 32 | 32 |
| Total securities available for sale | — | 8,015 | 32 | 8,047 |
| Other assets: | | | | |
| Deferred compensation mutual funds | 118 | — | — | 118 |
| Equity, mutual funds, and other | 25 | — | — | 25 |
| Derivatives, forwards and futures | 63 | — | — | 63 |
| Derivatives, interest rate contracts | — | 702 | — | 702 |
| Derivatives, other | — | 4 | — | 4 |
| Total other assets | 206 | 706 | — | 912 |
| Total assets | $ 206 | $ 10,290 | $ 60 | $ 10,556 |
| Trading liabilities: | | | | |
| U.S. treasuries | $ — | $ 307 | $ — | $ 307 |
| Government agency issued MBS | — | 3 | — | 3 |
| Corporates and other debt | — | 43 | — | 43 |
| Total trading liabilities | — | 353 | — | 353 |
| Other liabilities: | | | | |
| Derivatives, forwards and futures | 71 | — | — | 71 |
| Derivatives, interest rate contracts | — | 60 | — | 60 |
| Derivatives, other | — | 4 | 14 | 18 |
| Total other liabilities | 71 | 64 | 14 | 149 |
| Total liabilities | $ 71 | $ 417 | $ 14 | $ 502 |

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

**Changes in Recurring Level 3 Fair Value Measurements**

The changes in Level 3 assets and liabilities measured at fair value for the three months ended September 30, 2021 and 2020 on a recurring basis are summarized as follows:

| | Three Months Ended September 30, 2021 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Interest- only strips- AFS | | Loans held for sale | | Net derivative liabilities | |
| Balance on July 1, 2021 | $ 30 | | $ 25 | | $ (18) | |
| Total net gains (losses) included in net income | 1 | | — | | — | |
| Purchases | — | | 3 | | — | |
| Sales | (35) | | (8) | | — | |
| Settlements | — | | — | | 2 | |
| Net transfers into (out of) Level 3 | 20 | (b) | 4 | | — | |
| Balance on September 30, 2021 | $ 16 | | $ 24 | | $ (16) | |
| Net unrealized gains (losses) included in net income | $ — | (c) | $ — | (a) | $ — | (d) |

| | Three Months Ended September 30, 2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Trading securities | | Interest-only-strips-AFS | | Loans held for sale | | Loans held for investment | | Net derivative liabilities | |
| Balance on July 1, 2020 | $ 1 | | $ 25 | | $ 13 | | $ — | | $ (19) | |
| Acquired | — | | — | | — | | 13 | | — | |
| Total net gains (losses) included in net income | — | | (1) | | — | | — | | — | |
| Purchases | — | | — | | — | | — | | — | |
| Sales | — | | — | | — | | (3) | | — | |
| Settlements | — | | — | | (1) | | (2) | | 2 | |
| Net transfers into (out of) Level 3 | — | | 9 | (b) | — | | 4 | | — | |
| Balance on September 30, 2020 | $ 1 | | $ 33 | | $ 12 | | $ 12 | | $ (17) | |
| Net unrealized gains (losses) included in net income | $ — | (a) | $ 1 | (c) | $ — | (a) | $ — | | $ — | (d) |

(a) Primarily included in mortgage banking and title income on the Consolidated Statements of Income.
(b) Transfers into interest-only strips - AFS level 3 measured on a recurring basis reflect movements from loans held for sale (Level 2 nonrecurring).
(c) Primarily included in fixed income on the Consolidated Statements of Income.
(d) Included in other expense.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

The changes in Level 3 assets and liabilities measured at fair value for the nine months ended September 30, 2021 and 2020, on a recurring basis are summarized as follows:

| | Nine Months Ended September 30, 2021 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Interest- only strips- AFS | Loans held for sale | Loans held for investment | Net derivative liabilities |
| Balance on January 1, 2021 | $ 32 | $ 12 | $ 16 | $ (14) |
| Total net gains (losses) included in net income | 5 | 2 | — | (9) |
| Purchases | — | 8 | — | — |
| Sales | (68) | (18) | — | — |
| Settlements | — | (2) | (2) | 7 |
| Net transfers into (out of) Level 3 | 47 (b) | 22 (e) | (14) (e) | — |
| Balance on September 30, 2021 | $ 16 | $ 24 | $ — | $ (16) |
| Net unrealized gains (losses) included in net income | $ — (c) | $ 2 (a) | $ — | $ (9) (d) |

| | Nine Months Ended September 30, 2020 | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | Trading securities | Interest-only-strips-AFS | Loans held for sale | Loans held for investment | Net derivative liabilities |
| Balance on January 1, 2020 | $ 1 | $ 19 | $ 14 | $ — | $ (23) |
| Acquired | — | — | — | 13 | — |
| Total net gains (losses) included in net income | — | (4) | 1 | — | (1) |
| Purchases | — | 5 | — | — | — |
| Sales | — | (8) | — | (3) | — |
| Settlements | — | — | (3) | (2) | 7 |
| Net transfers into (out of) Level 3 | — | 21 (b) | — | 4 | — |
| Balance on September 30, 2020 | $ 1 | $ 33 | $ 12 | $ 12 | $ (17) |
| Net unrealized gains (losses) included in net income | $ — (a) | $ 3 (c) | $ 1 (a) | $ — | $ (1) (d) |

(a) Primarily included in mortgage banking and title income on the Consolidated Statements of Income.
(b) Transfers into interest-only strips - AFS level 3 measured on a recurring basis reflect movements from loans held for sale (Level 2 nonrecurring).
(c) Primarily included in fixed income on the Consolidated Statements of Income.
(d) Included in other expense.
(e) The loans held for investment at fair value option portfolio was transferred to the loans held for sale portfolio on July 1, 2021.

There were no net unrealized gains (losses) for Level 3 assets and liabilities included in other comprehensive income as of September 30, 2021 and 2020.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

**Nonrecurring Fair Value Measurements**

From time to time, FHN may be required to measure certain other financial assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from the application of lower of cost or market (LOCOM) accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis which were still held on the Consolidated Balance Sheets at September 30, 2021, and December 31, 2020, respectively, the following tables provide the level of valuation assumptions used to determine each adjustment and the related carrying value.

| | Carrying value at September 30, 2021 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Level 1 | Level 2 | Level 3 | Total |
| Loans held for sale—SBAs and USDA | $ — | $ 693 | $ 1 | $ 694 |
| Loans held for sale—first mortgages | — | — | 1 | 1 |
| Loans and leases (a) | — | — | 86 | 86 |
| OREO (b) | — | — | 6 | 6 |
| Other assets (c) | — | — | 10 | 10 |

| | Carrying value at December 31, 2020 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Level 1 | Level 2 | Level 3 | Total |
| Loans held for sale—SBAs and USDA | $ — | $ 508 | $ 1 | $ 509 |
| Loans held for sale—first mortgages | — | — | 1 | 1 |
| Loans and leases (a) | — | — | 77 | 77 |
| OREO (b) | — | — | 15 | 15 |
| Other assets (c) | — | — | 9 | 9 |

(a) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral less estimated costs to sell. Write-downs on these loans are recognized as part of provision for credit losses.
(b) Represents the fair value and related losses of foreclosed properties that were measured subsequent to their initial classification as OREO. Balance excludes OREO related to government insured mortgages.
(c) Represents tax credit investments accounted for under the equity method.

For assets measured on a nonrecurring basis which were still held on the Consolidated Balance Sheets at period end, the following table provides information about the fair value adjustments recorded during the three and nine months ended September 30, 2021 and 2020:

| | Net gains (losses) Three Months Ended September 30, | | Net gains (losses) Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2021** | 2020 | **2021** | 2020 |
| Loans held for sale—SBAs and USDA | **$ (2)** | $ (2) | **$ (3)** | $ (3) |
| Loans and leases (a) | **(9)** | (17) | **(12)** | (31) |
| OREO (b) | **—** | — | **(1)** | — |
| Other assets (c) | **(2)** | — | **(2)** | (1) |
| | **$ (13)** | $ (19) | **$ (18)** | $ (35) |

(a) Write-downs on these loans are recognized as part of provision for credit losses.
(b) Represents the fair value and related losses of foreclosed properties that were measured subsequent to their initial classification as OREO. Balance excludes OREO related to government insured mortgages.
(c) Represents tax credit investments accounted for under the equity method.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

For the three and nine months ended September 30, 2021, FHN recognized less than $1 million of fixed asset recoveries and $33 million of fixed asset impairments, respectively, and less than $1 million of leased asset recoveries and $3 million of leased asset impairments, respectively, primarily related to continuing acquisition integration efforts associated with reduction of leased office space and banking center optimization. These amounts were primarily recognized in the Corporate segment.

For the three and nine months ended September 30, 2020, FHN recognized $5 million and $6 million of fixed asset impairments, respectively, and $4 million of leased asset impairments for both periods. These amounts were primarily recognized in the Corporate segment.

Lease asset impairments recognized represent the reduction in value of the right-of-use assets associated with leases that are being exited in advance of the contractual lease expiration.

Impairments are measured using a discounted cash flow methodology, which is considered a Level 3 valuation.

Impairments of long-lived tangible assets reflect locations where the associated land and building are either owned or leased. The fair values of owned sites were determined using estimated sales prices from appraisals and broker opinions less estimated costs to sell with adjustments upon final disposition. The fair values of owned assets in leased sites (e.g., leasehold improvements) were determined using a discounted cash flow approach, based on the revised estimated useful lives of the related assets. Both measurement methodologies are considered Level 3 valuations. Impairment adjustments recognized upon disposition of a location are considered Level 2 valuations.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

**Level 3 Measurements**

The following tables provide information regarding the unobservable inputs utilized in determining the fair value of Level 3 recurring and non-recurring measurements as of September 30, 2021 and December 31, 2020:

*(Dollars in millions)*

| Level 3 Class | Fair Value at September 30, 2021 | Valuation Techniques | Unobservable Input | Values Utilized: Range | Values Utilized: Weighted Average (d) |
|---|---|---|---|---|---|
| Available for sale securities - SBA interest-only strips | $ 16 | Discounted cash flow | Constant prepayment rate | 11% - 12% | 11% |
| | | | Bond equivalent yield | 10% | 10% |
| Loans held for sale - residential real estate | $ 25 | Discounted cash flow | Prepayment speeds - First mortgage | 4% - 12% | 5% |
| | | | Foreclosure losses | 63% - 65% | 64% |
| | | | Loss severity trends - First mortgage | 1% - 14% of UPB | 8% |
| Loans held for sale - unguaranteed interest in SBA loans | $ 1 | Discounted cash flow | Constant prepayment rate | 8% - 12% | 10% |
| | | | Bond equivalent yield | 8% | 8% |
| Derivative liabilities, other | $ 16 | Discounted cash flow | Visa covered litigation resolution amount | $5.4 billion - $6.0 billion | $5.8 billion |
| | | | Probability of resolution scenarios | 10% - 50% | 16% |
| | | | Time until resolution | 6 - 30 months | 21 months |
| Loans and leases (a) | $ 86 | Appraisals from comparable properties | Marketability adjustments for specific properties | 0% - 10% of appraisal | NM |
| | | Other collateral valuations | Borrowing base certificates adjustment | 20% - 50% of gross value | NM |
| | | | Financial Statements/Auction values adjustment | 0% - 25% of reported value | NM |
| OREO (b) | $ 6 | Appraisals from comparable properties | Adjustment for value changes since appraisal | 0% - 10% of appraisal | NM |
| Other assets (c) | $ 10 | Discounted cash flow | Adjustments to current sales yields for specific properties | 0% - 15% adjustment to yield | NM |
| | | Appraisals from comparable properties | Marketability adjustments for specific properties | 0% - 25% of appraisal | NM |

NM - Not meaningful

(a) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral less estimated costs to sell. Write-downs on these loans are recognized as part of provision for credit losses.

(b) Represents the fair value of foreclosed properties that were measured subsequent to their initial classification as OREO. Balance excludes OREO related to government insured mortgages.

(c) Represents tax credit investments accounted for under the equity method.

(d) Weighted averages are determined by the relative fair value of the instruments or the relative contribution to an instrument's fair value.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

*(Dollars in millions)*

| Level 3 Class | Fair Value at December 31, 2020 | Valuation Techniques | Unobservable Input | Values Utilized | |
|---|---|---|---|---|---|
| | | | | Range | Weighted Average (d) |
| Available for sale securities - SBA interest-only strips | $ 32 | Discounted cash flow | Constant prepayment rate | 12% | 12% |
| | | | Bond equivalent yield | 15% - 17% | 15% |
| Loans held for sale - residential real estate | $ 13 | Discounted cash flow | Prepayment speeds - First mortgage | 5% - 15% | 5% |
| | | | Foreclosure losses | 59% - 70% | 63% |
| | | | Loss severity trends - First mortgage | 3% - 19% of UPB | 12% |
| Loans held for sale - unguaranteed interest in SBA loans | $ 1 | Discounted cash flow | Constant prepayment rate | 8% - 12% | 10% |
| | | | Bond equivalent yield | 7% - 8% | 7% |
| Loans held for investment | $ 16 | Discounted cash flow | Constant prepayment rate | 0% - 26% | 11% |
| | | | Constant default rate | 0% - 14% | 1% |
| | | | Loss severity trends | 0% - 100% | 11% |
| Derivative liabilities, other | $ 14 | Discounted cash flow | Visa covered litigation resolution amount | $5.4 billion - $6.0 billion | $5.8 billion |
| | | | Probability of resolution scenarios | 10% - 50% | 16% |
| | | | Time until resolution | 3 - 27 months | 19 months |
| Loans and leases (a) | $ 77 | Appraisals from comparable properties | Marketability adjustments for specific properties | 0% - 10% of appraisal | NM |
| | | Other collateral valuations | Borrowing base certificates adjustment | 20% - 50% of gross value | NM |
| | | | Financial Statements/Auction values adjustment | 0% - 25% of reported value | NM |
| OREO (b) | $ 15 | Appraisals from comparable properties | Adjustment for value changes since appraisal | 0% - 10% of appraisal | NM |
| Other assets (c) | $ 9 | Discounted cash flow | Adjustments to current sales yields for specific properties | 0% - 15% adjustment to yield | NM |
| | | Appraisals from comparable properties | Marketability adjustments for specific properties | 0% - 25% of appraisal | NM |

NM - Not meaningful

(a) Represents carrying value of loans for which adjustments are required to be based on the appraised value of the collateral less estimated costs to sell. Write-downs on these loans are recognized as part of provision for credit losses.

(b) Represents the fair value of foreclosed properties that were measured subsequent to their initial classification as OREO. Balance excludes OREO related to government insured mortgages.

(c) Represents tax credit investments accounted for under the equity method.

(d) Weighted averages are determined by the relative fair value of the instruments or the relative contribution to an instrument's fair value.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

***Securities AFS***. Increases (decreases) in estimated prepayment rates and bond equivalent yields negatively (positively) affect the value of SBA interest-only strips. Management additionally considers whether the loans underlying related SBA interest-only strips are delinquent, in default or prepaying, and adjusts the fair value down 20 - 100% depending on the length of time in default.

***Loans held for sale.*** Foreclosure losses and prepayment rates are significant unobservable inputs used in the fair value measurement of FHN's residential real estate loans held for sale. Loss severity trends are also assessed to evaluate the reasonableness of fair value estimates resulting from discounted cash flows methodologies as well as to estimate fair value for newly repurchased loans and loans that are near foreclosure. Significant increases (decreases) in any of these inputs in isolation would result in significantly lower (higher) fair value measurements. All observable and unobservable inputs are re-assessed quarterly.

Increases (decreases) in estimated prepayment rates and bond equivalent yields negatively (positively) affect the value of unguaranteed interests in SBA loans. Unguaranteed interest in SBA loans held for sale are carried at less than the outstanding balance due to credit risk estimates. Credit risk adjustments may be reduced if prepayment is likely or as consistent payment history is realized. Management also considers other factors such as delinquency or default and adjusts the fair value accordingly.

***Loans held for investment.*** Constant prepayment rate, constant default rate and loss severity trends are significant unobservable inputs used in the fair value measurement of loans held for investment. Increases (decreases) in each of these inputs in isolation result in negative (positive) effects on the valuation of the associated loans.

***Derivative liabilities.*** In conjunction with pre-2020 sales of Visa Class B shares, FHN and the purchasers entered into derivative transactions whereby FHN will make, or receive, cash payments whenever the conversion ratio of the Visa Class B shares into Visa Class A shares is adjusted. FHN uses a discounted cash flow methodology in order to estimate the fair value of FHN's derivative liabilities associated with its prior sales of Visa Class B shares. The methodology includes estimation of both the resolution amount for Visa's Covered Litigation matters as well as the length of time until the resolution occurs. Significant increases (decreases) in either of these inputs in isolation would result in significantly higher (lower) fair value measurements for the derivative liabilities. Additionally, FHN performs a probability weighted multiple resolution scenario to calculate the estimated fair value of these derivative liabilities. Assignment of higher (lower) probabilities to the larger potential resolution scenarios would result in an increase (decrease) in the estimated fair value of the derivative liabilities. Since this estimation process requires application of judgment in developing significant unobservable inputs used to determine the possible outcomes and the probability weighting assigned to each scenario, these derivatives have been classified within Level 3 in fair value measurements disclosures.

***Loans and leases and Other Real Estate Owned.*** Collateral-dependent loans and OREO are primarily valued using appraisals based on sales of comparable properties in the same or similar markets. Other collateral (receivables, inventory, equipment, etc.) is valued through borrowing base certificates, financial statements and/or auction valuations. These valuations are discounted based on the quality of reporting, knowledge of the marketability/collectability of the collateral and historical disposition rates.

***Other assets – tax credit investments.*** The estimated fair value of tax credit investments accounted for under the equity method is generally determined in relation to the yield (i.e., future tax credits to be received) an acquirer of these investments would expect in relation to the yields experienced on current new issue and/or secondary market transactions. Thus, as tax credits are recognized, the future yield to a market participant is reduced, resulting in consistent impairment of the individual investments. Individual investments are reviewed for impairment quarterly, which may include the consideration of additional marketability discounts related to specific investments which typically includes consideration of the underlying property's appraised value.

**Fair Value Option**

FHN has elected the fair value option on a prospective basis for substantially all types of mortgage loans originated for sale purposes except for mortgage origination operations which utilize the platform acquired from CBF in 2017. FHN determined that the election reduces certain timing differences and better matches changes in the value of such loans with changes in the value of derivatives and forward delivery commitments used as economic hedges for these assets at the time of election.

Repurchased loans relating to mortgage banking operations conducted prior to the IBKC merger are recognized within loans held for sale at fair value at

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

the time of repurchase, which includes consideration of the credit status of the loans and the estimated liquidation value. FHN has elected to continue recognition of these loans at fair value in periods subsequent to reacquisition. Due to the credit-distressed nature of the vast majority of repurchased loans and the related loss severities experienced upon repurchase, FHN believes that the fair value election provides a more timely recognition of changes in value for these loans that occur subsequent to repurchase. Absent the fair value election, these loans would be subject to valuation at the LOCOM value, which would prevent subsequent values from exceeding the initial fair value, determined at the time of repurchase, but would require recognition of subsequent declines in value. Thus, the fair value election provides for a more timely recognition of any potential future recoveries in asset values while not affecting the requirement to recognize subsequent declines in value.

FHN also had a portion of mortgage loans held for investment for which the fair value option was elected upon origination and which were accounted for at fair value. This portion of mortgage loans held for investment at fair value option was transferred to the loans held for sale portfolio on April 1, 2021.

The following tables reflect the differences between the fair value carrying amount of residential real estate loans held for sale and held for investment measured at fair value in accordance with management's election and the aggregate unpaid principal amount FHN is contractually entitled to receive at maturity.

| | **September 30, 2021** | | |
|---|---|---|---|
| *(Dollars in millions)* | Fair value carrying amount | Aggregate unpaid principal | Fair value carrying amount less aggregate unpaid principal |
| Residential real estate loans held for sale reported at fair value: | | | |
| Total loans | **$ 301** | **$ 305** | **$ (4)** |
| Nonaccrual loans | **4** | **7** | **(3)** |
| Loans 90 days or more past due and still accruing | **1** | **1** | **—** |

| | December 31, 2020 | | |
|---|---|---|---|
| *(Dollars in millions)* | Fair value carrying amount | Aggregate unpaid principal | Fair value carrying amount less aggregate unpaid principal |
| Residential real estate loans held for sale reported at fair value: | | | |
| Total loans | $ 405 | $ 442 | $ (37) |
| Nonaccrual loans | 2 | 5 | (3) |
| Loans held for investment reported at fair value: | | | |
| Total loans | 16 | 17 | (1) |
| Nonaccrual loans | 1 | 1 | — |

Assets and liabilities accounted for under the fair value election are initially measured at fair value with subsequent changes in fair value recognized in earnings. Such changes in the fair value of assets and liabilities for which FHN elected the fair value option are included in current period earnings with classification in the income statement line item reflected in the following table:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2021** | 2020 | **2021** | 2020 |
| Changes in fair value included in net income: | | | | |
| Mortgage banking and title income | | | | |
| Loans held for sale | **$ (3)** | $ 2 | **$ (8)** | $ 3 |

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

For the three and nine months ended September 30, 2021 and 2020, the amount for residential real estate loans held for sale included an insignificant amount of gains in pretax earnings that is attributable to changes in instrument-specific credit risk. The portion of the fair value adjustments related to credit risk was determined based on estimated default rates and estimated loss severities. Interest income on residential real estate loans held for sale measured at fair value is calculated based on the note rate of the loan and is recorded in the interest income section of the Consolidated Statements of Income as interest on loans held for sale.

FHN has elected to account for retained interest-only strips from guaranteed SBA loans recorded in available-for-sale securities at fair value through earnings. Since these securities are subject to the risk that prepayments may result in FHN not recovering all or a portion of its recorded investment, the fair value election results in a more timely recognition of the effects of estimated prepayments through earnings rather than being recognized through other comprehensive income with periodic review for other-than-temporary impairment. Gains or losses are recognized through fixed income revenues and are presented in the recurring measurements table.

**Determination of Fair Value**

Fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following describes the assumptions and methodologies used to estimate the fair value of financial instruments recorded at fair value in the Consolidated Balance Sheets and for estimating the fair value of financial instruments for which fair value is disclosed.

***Short-term financial assets.*** Federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with other financial institutions and the Federal Reserve are carried at historical cost. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

***Trading securities and trading liabilities.*** Trading securities and trading liabilities are recognized at fair value through current earnings. Trading inventory held for broker-dealer operations is included in trading securities and trading liabilities. Broker-dealer long positions are valued at bid price in the bid-ask spread. Short positions are valued at the ask price. Inventory positions are valued using observable inputs including current market transactions, benchmark yields, credit spreads, and consensus prepayment speeds. Trading loans are valued using observable inputs including current market transactions, swap rates, mortgage rates, and consensus prepayment speeds.

***Securities available for sale and held to maturity.*** Valuations of available-for-sale securities are performed using observable inputs obtained from market transactions in similar securities. Typical inputs include benchmark yields, consensus prepayment speeds, and credit spreads. Trades from similar securities and broker quotes are used to support these valuations.

Interest-only strips are valued at elected fair value based on an income approach using an internal valuation model. The internal valuation model includes assumptions regarding projections of future cash flows, prepayment rates, default rates and interest-only strip terms. These securities bear the risk of loan prepayment or default that may result in FHN not recovering all or a portion of its recorded investment. When appropriate, valuations are adjusted for various factors including default or prepayment status of the underlying SBA loans. Because of the inherent uncertainty of valuation, those estimated values may be higher or lower than the values that would have been used had a ready market for the securities existed, and may change in the near term.

***Loans held for sale.*** FHN determines the fair value of loans held for sale using either current transaction prices or discounted cash flow models. Fair values are determined using current transaction prices and/or values on similar assets when available, including committed bids for specific loans or loan portfolios. Uncommitted bids may be adjusted based on other available market information.

Fair value of residential real estate loans held for sale determined using a discounted cash flow model incorporates both observable and unobservable inputs. Inputs in the discounted cash flow model include current mortgage rates for similar products, estimated prepayment rates, foreclosure losses, and various loan performance measures (delinquency, LTV, credit score). Adjustments for delinquency and other differences in loan characteristics are typically reflected in the model's discount rates. Loss severity trends and the value of underlying collateral are also considered in assessing the appropriate fair value for severely delinquent loans and loans in foreclosure. The valuation of HELOCs also incorporates estimated cancellation rates for loans expected to become delinquent.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

Non-mortgage consumer loans held for sale are valued using committed bids for specific loans or loan portfolios or current market pricing for similar assets with adjustments for differences in credit standing (delinquency, historical default rates for similar loans), yield, collateral values and prepayment rates. If pricing for similar assets is not available, a discounted cash flow methodology is utilized, which incorporates all of these factors into an estimate of investor required yield for the discount rate.

FHN utilizes quoted market prices of similar instruments or broker and dealer quotations to value the SBA and USDA guaranteed loans. FHN values SBA-unguaranteed interests in loans held for sale based on individual loan characteristics, such as industry type and pay history which generally follows an income approach. Furthermore, these valuations are adjusted for changes in prepayment estimates and are reduced due to restrictions on trading. The fair value of other non-residential real estate loans held for sale is approximated by their carrying values based on current transaction values.

***Mortgage loans held for investment at fair value option.*** The fair value of mortgage loans held for investment at fair value option is determined by a third party using a discounted cash flow model using various assumptions about future loan performance (constant prepayment rate, constant default rate and loss severity trends) and market discount rates.

***Loans held for investment.*** The fair values of mortgage loans held for investment (other than at fair value option) are estimated using an exit price methodology that is based on present values using the interest rate that would be charged for a similar loan to a borrower with similar risk, weighted for varying maturity dates and adjusted for a liquidity discount based on the estimated time period to complete a sale transaction with a market participant.

Other loans and leases held for investment are valued based on present values using the interest rate that would be charged for a similar instrument to a borrower with similar risk, applicable to each category of instruments, and adjusted for a liquidity discount based on the estimated time period to complete a sale transaction with a market participant.

For loans measured using the estimated fair value of collateral less costs to sell, fair value is estimated using appraisals of the collateral. Collateral values are monitored and additional write-downs are recognized if it is determined that the estimated collateral values have declined further. Estimated costs to sell are based on current amounts of disposal costs for similar assets. Carrying value is considered to reflect fair value for these loans.

***Derivative assets and liabilities***. The fair value for forwards and futures contracts is based on current transactions involving identical securities. Futures contracts are exchange-traded and thus have no credit risk factor assigned as the risk of non-performance is limited to the clearinghouse used.

Valuations of other derivatives (primarily interest rate contracts) are based on inputs observed in active markets for similar instruments. Typical inputs include benchmark yields, option volatility and option skew. Starting in October 2020, centrally cleared derivatives are discounted using SOFR as required by clearinghouses. In measuring the fair value of these derivative assets and liabilities, FHN has elected to consider credit risk based on the net exposure to individual counterparties. Credit risk is mitigated for these instruments through the use of mutual margining and master netting agreements as well as collateral posting requirements. For derivative contracts with daily cash margin requirements that are considered settlements, the daily margin amount is netted within derivative assets or liabilities. Any remaining credit risk related to interest rate derivatives is considered in determining fair value through evaluation of additional factors such as client loan grades and debt ratings. Foreign currency related derivatives also utilize observable exchange rates in the determination of fair value. The determination of fair value for FHN's derivative liabilities associated with its prior sales of Visa Class B shares are classified within Level 3 in the fair value measurements disclosure as previously discussed in the unobservable inputs discussion.

The fair value of risk participations is determined in reference to the fair value of the related derivative contract between the borrower and the lead bank in the participation structure, which is determined consistent with the valuation process discussed above. This value is adjusted for the pro rata portion of the reference derivative's notional value and an assessment of credit risk for the referenced borrower.

***OREO.*** OREO primarily consists of properties that have been acquired in satisfaction of debt. These properties are carried at the lower of the outstanding loan amount or estimated fair value less estimated costs to sell the real estate. Estimated fair value is determined using appraised values with subsequent adjustments for deterioration in values that are not reflected in the most recent appraisal.

***Other assets.*** For disclosure purposes, other assets consist of tax credit investments, FRB and FHLB Stock, deferred compensation mutual funds and equity investments (including other mutual funds) with readily determinable fair values. Tax credit

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

investments accounted for under the equity method are written down to estimated fair value quarterly based on the estimated value of the associated tax credits which incorporates estimates of required yield for hypothetical investors. The fair value of all other tax credit investments is estimated using recent transaction information with adjustments for differences in individual investments. Deferred compensation mutual funds are recognized at fair value, which is based on quoted prices in active markets.

Investments in the stock of the Federal Reserve Bank and Federal Home Loan Banks are recognized at historical cost in the Consolidated Balance Sheets which is considered to approximate fair value. Investments in mutual funds are measured at the funds' reported closing net asset values. Investments in equity securities are valued using quoted market prices when available.

***Defined maturity deposits.*** The fair value of these deposits is estimated by discounting future cash flows to their present value. Future cash flows are discounted by using the current market rates of similar instruments applicable to the remaining maturity. For disclosure purposes, defined maturity deposits include all time deposits.

***Short-term financial liabilities.*** The fair value of federal funds purchased, securities sold under agreements to repurchase and other short-term borrowings are approximated by the book value. The carrying amount is a reasonable estimate of fair value because of the relatively short time between the origination of the instrument and its expected realization.

***Loan commitments.*** Fair values of these commitments are based on fees charged to enter into similar agreements taking into account the remaining terms of the agreements and the counterparties' credit standing.

***Other commitments.*** Fair values of these commitments are based on fees charged to enter into similar agreements.

The following fair value estimates are determined as of a specific point in time utilizing various assumptions and estimates. The use of assumptions and various valuation techniques, as well as the absence of secondary markets for certain financial instruments, reduces the comparability of fair value disclosures between financial institutions. Due to market illiquidity, the fair values for loans and leases, loans held for sale, and term borrowings as of September 30, 2021 and December 31, 2020, involve the use of significant internally-developed pricing assumptions for certain components of these line items. The assumptions and valuations utilized for this disclosure are considered to reflect inputs that market participants would use in transactions involving these instruments as of the measurement date. The valuations of legacy assets, particularly consumer loans and TRUPS loans within the Corporate segment, are influenced by changes in economic conditions since origination and risk perceptions of the financial sector. These considerations affect the estimate of a potential acquirer's cost of capital and cash flow volatility assumptions from these assets and the resulting fair value measurements may depart significantly from FHN's internal estimates of the intrinsic value of these assets.

Assets and liabilities that are not financial instruments have not been included in the following table. These include the value of long-term relationships with deposit and trust clients, premises and equipment, goodwill and other intangibles, deferred taxes, and certain other assets and other liabilities. Additionally, these measurements are solely for financial instruments as of the measurement date and do not consider the earnings potential of our various business lines. Accordingly, the total of the fair value amounts does not represent, and should not be construed to represent, the underlying value of FHN.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

The following tables summarize the book value and estimated fair value of financial instruments recorded in the Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020:

| | September 30, 2021 | | | | |
|---|---|---|---|---|---|
| | | Fair Value | | | |
| *(Dollars in millions)* | Book Value | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Loans and leases, net of allowance for loan and lease losses | | | | | |
| Commercial: | | | | | |
| Commercial, financial and industrial | $ 31,142 | $ — | $ — | $ 30,972 | $ 30,972 |
| Commercial real estate | 12,032 | — | — | 12,027 | 12,027 |
| Consumer: | | | | | |
| Consumer real estate | 10,608 | — | — | 11,151 | 11,151 |
| Credit card and other | 919 | — | — | 945 | 945 |
| Total loans and leases, net of allowance for loan and lease losses | 54,701 | — | — | 55,095 | 55,095 |
| Short-term financial assets: | | | | | |
| Interest-bearing deposits with banks | 14,829 | 14,829 | — | — | 14,829 |
| Federal funds sold | 6 | — | 6 | — | 6 |
| Securities purchased under agreements to resell | 355 | — | 355 | — | 355 |
| Total short-term financial assets | 15,190 | 14,829 | 361 | — | 15,190 |
| Trading securities (a) | 1,319 | — | 1,319 | — | 1,319 |
| Loans held for sale: | | | | | |
| Mortgage loans (elected fair value) (a) | 301 | — | 277 | 24 | 301 |
| USDA & SBA loans - LOCOM | 693 | — | 696 | 1 | 697 |
| Other loans - LOCOM | 4 | — | 4 | — | 4 |
| Mortgage loans - LOCOM | 52 | — | — | 52 | 52 |
| Total loans held for sale | 1,050 | — | 977 | 77 | 1,054 |
| Securities available for sale (a) | 8,494 | — | 8,478 | 16 | 8,494 |
| Securities held to maturity | 304 | — | 303 | — | 303 |
| Derivative assets (a) | 453 | 46 | 407 | — | 453 |
| Other assets: | | | | | |
| Tax credit investments | 409 | — | — | 395 | 395 |
| Deferred compensation mutual funds | 127 | 127 | — | — | 127 |
| Equity, mutual funds, and other (b) | 260 | 28 | — | 232 | 260 |
| Total other assets | 796 | 155 | — | 627 | 782 |
| Total assets | $ 82,307 | $ 15,030 | $ 11,845 | $ 55,815 | $ 82,690 |
| Liabilities: | | | | | |
| Defined maturity deposits | $ 3,920 | $ — | $ 3,926 | $ — | $ 3,926 |
| Trading liabilities (a) | 315 | — | 315 | — | 315 |
| Short-term financial liabilities: | | | | | |
| Federal funds purchased | 814 | — | 814 | — | 814 |
| Securities sold under agreements to repurchase | 1,299 | — | 1,299 | — | 1,299 |
| Other short-term borrowings | 111 | — | 111 | — | 111 |
| Total short-term financial liabilities | 2,224 | — | 2,224 | — | 2,224 |
| Term borrowings: | | | | | |
| Real estate investment trust-preferred | 47 | — | — | 47 | 47 |
| Term borrowings—new market tax credit investment | 45 | — | — | 44 | 44 |
| Secured borrowings | 4 | — | — | 4 | 4 |
| Junior subordinated debentures | 160 | — | — | 184 | 184 |
| Other long term borrowings | 1,328 | — | 1,464 | — | 1,464 |
| Total term borrowings | 1,584 | — | 1,464 | 279 | 1,743 |
| Derivative liabilities (a) | 147 | 35 | 96 | 16 | 147 |
| Total liabilities | $ 8,190 | $ 35 | $ 8,025 | $ 295 | $ 8,355 |

(a) Classes are detailed in the recurring and nonrecurring measurement tables.
(b) Level 1 primarily consists of mutual funds with readily determinable fair values. Level 3 includes restricted investments in FHLB-Cincinnati stock of $29 million and FRB stock of $203 million.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

| | December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Book Value | Fair Value | | | |
| *(Dollars in millions)* | | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Loans and leases and allowance for loan and lease losses | | | | | |
| Commercial: | | | | | |
| Commercial, financial and industrial | $ 32,651 | $ — | $ — | $ 32,582 | $ 32,582 |
| Commercial real estate | 12,033 | — | — | 12,079 | 12,079 |
| Consumer: | | | | | |
| Consumer real estate | 11,483 | — | — | 11,903 | 11,903 |
| Credit card and other | 1,102 | — | — | 1,131 | 1,131 |
| Total loans and leases, net of allowance for loan and lease losses | 57,269 | — | — | 57,695 | 57,695 |
| Short-term financial assets: | | | | | |
| Interest-bearing deposits with banks | 8,351 | 8,351 | — | — | 8,351 |
| Federal funds sold | 65 | — | 65 | — | 65 |
| Securities purchased under agreements to resell | 380 | — | 380 | — | 380 |
| Total short-term financial assets | 8,796 | 8,351 | 445 | — | 8,796 |
| Trading securities (a) | 1,176 | — | 1,176 | — | 1,176 |
| Loans held for sale: | | | | | |
| Mortgage loans (elected fair value) (a) | 405 | — | 393 | 12 | 405 |
| USDA & SBA loans - LOCOM | 509 | — | 511 | 1 | 512 |
| Other loans - LOCOM | 31 | — | 31 | — | 31 |
| Mortgage loans - LOCOM | 77 | — | — | 77 | 77 |
| Total loans held for sale | 1,022 | — | 935 | 90 | 1,025 |
| Securities available for sale (a) | 8,047 | — | 8,015 | 32 | 8,047 |
| Securities held to maturity | 10 | — | — | 10 | 10 |
| Derivative assets (a) | 769 | 63 | 706 | — | 769 |
| Other assets: | | | | | |
| Tax credit investments | 400 | — | — | 371 | 371 |
| Deferred compensation mutual funds | 118 | 118 | — | — | 118 |
| Equity, mutual funds, and other (b) | 288 | 25 | — | 263 | 288 |
| Total other assets | 806 | 143 | — | 634 | 777 |
| Total assets | $ 77,895 | $ 8,557 | $ 11,277 | $ 58,461 | $ 78,295 |
| Liabilities: | | | | | |
| Defined maturity deposits | $ 5,070 | $ — | $ 5,083 | $ — | $ 5,083 |
| Trading liabilities (a) | 353 | — | 353 | — | 353 |
| Short-term financial liabilities: | | | | | |
| Federal funds purchased | 845 | — | 845 | — | 845 |
| Securities sold under agreements to repurchase | 1,187 | — | 1,187 | — | 1,187 |
| Other short-term borrowings | 166 | — | 166 | — | 166 |
| Total short-term financial liabilities | 2,198 | — | 2,198 | — | 2,198 |
| Term borrowings: | | | | | |
| Real estate investment trust-preferred | 46 | — | — | 47 | 47 |
| Term borrowings—new market tax credit investment | 45 | — | — | 45 | 45 |
| Secured borrowings | 15 | — | — | 15 | 15 |
| Junior subordinated debentures | 238 | — | — | 223 | 223 |
| Other long term borrowings | 1,326 | — | 1,455 | — | 1,455 |
| Total term borrowings | 1,670 | — | 1,455 | 330 | 1,785 |
| Derivative liabilities (a) | 149 | 71 | 64 | 14 | 149 |
| Total liabilities | $ 9,440 | $ 71 | $ 9,153 | $ 344 | $ 9,568 |

(a) Classes are detailed in the recurring and nonrecurring measurement tables.
(b) Level 1 primarily consists of mutual funds with readily determinable fair values. Level 3 includes restricted investments in FHLB-Cincinnati stock of $61 million and FRB stock of $202 million.

**Note 17 – Fair Value of Assets and Liabilities (Continued)**

The following table presents the contractual amount and fair value of unfunded loan commitments and standby and other commitments as of September 30, 2021 and December 31, 2020:

| | Contractual Amount | | Fair Value | |
|---|---|---|---|---|
| *(Dollars in millions)* | **September 30, 2021** | December 31, 2020 | **September 30, 2021** | December 31, 2020 |
| **Unfunded Commitments:** | | | | |
| Loan commitments | **$ 23,279** | $ 20,796 | **$ 1** | $ 2 |
| Standby and other commitments | **749** | 751 | **8** | 6 |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

**TABLE OF ITEM 2 TOPICS**


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## General Information

### INTRODUCTION

First Horizon Corporation (FHN) is a financial holding company headquartered in Memphis, Tennessee. FHN provides diversified financial services primarily through its principal subsidiary, First Horizon Bank. First Horizon Bank's principal divisions and subsidiaries operate under the brands of First Horizon Bank, IBERIABANK, First Horizon Advisors, and FHN Financial. FHN offers regional banking, mortgage lending, title insurance, specialized commercial lending, commercial leasing and equipment financing, brokerage, wealth management and capital market services through the First Horizon family of companies. FHN Financial, which operates partly through a division of First Horizon Bank and partly through subsidiaries, is an industry leader in fixed income sales, trading, and strategies for institutional clients in the U.S. and abroad. First Horizon Bank currently has approximately 430 banking centers in 12 states and FHN Financial has 29 offices in 18 states across the U.S. In addition, FHN has 29 title services offices in three states and 15 stand-alone mortgage lending offices in seven states.

This MD&A should be read in conjunction with the accompanying unaudited Consolidated Financial Statements and Notes to Consolidated Financial Statements in Part I, Item 1, as well as other information contained in this document and FHN's 2020 Annual Report on Form 10-K.

### Recent Events and Transactions

*Merger of Equals*

On July 1, 2020, FHN completed its merger of equals with IBERIABANK Corporation. Reported results for FHN reflect legacy FHN prior to the completion of the merger and results from both FHN and IBKC from the merger closing date forward. As such, comparative income statement data in this MD&A for the first six months of 2020 is only for legacy FHN.

On September 1, 2021, FHN announced that in the wake of widespread devastation caused by Hurricane Ida and to prioritize the safety and welfare of its associates, clients and communities, it would postpone the IBERIABANK operating system conversion and rebranding originally planned for October 2021 until first quarter of 2022. As a result, FHN now expects to achieve its targeted $200 million of pre-tax annualized merger cost saves by the fourth quarter of 2022.

*Banking Center Optimization*

Banking clients' utilization of digital capabilities to transact and purchase products and services has been on the rise, and the impact of the COVID-19 pandemic has accelerated this trend. In connection with the IBKC merger and the related impact of the pandemic, FHN conducted a comprehensive analysis of its enterprise-wide digital platforms and its banking center network. As a result, FHN determined that it was prudent to accelerate banking center closures in certain markets, resulting in the closure of 52 banking centers in July 2021 and 10 banking centers in October 2021. As a result of the postponement of the IBERIABANK conversion, 10 additional banking centers that were originally expected to close in fourth quarter 2021 are now expected to close in first quarter 2022.

## Financial Summary

### Third Quarter 2021 Highlights

Third quarter 2021 net income available to common shareholders was $224 million, or $0.41 per diluted share, compared to $295 million, or $0.53 per diluted share, in second quarter 2021 and $523 million, or $0.95 per diluted share, in third quarter 2020.

Net interest income of $492 million declined $5 million from second quarter 2021 as the impacts of a reduction in net merger-related and PPP loan portfolio benefits and lower rates and spread tightening were partially offset by improvements in deposit pricing and commercial loan growth excluding PPP loans. Compared to third quarter 2020, net interest income decreased $40 million, or 8%, driven by both lower average loan and lease balances and the effect of lower interest rates and spreads.

Provision for credit losses was a benefit of $85 million in third quarter 2021 compared to a benefit of $115 million in second quarter 2021 and expense of $227 million in third quarter 2020, largely reflecting further improvement in the macroeconomic outlook and positive loan portfolio credit grade migration from the prior year.

Noninterest income of $247 million decreased $38 million compared to second quarter 2021, largely as a result of a $23 million loss on debt extinguishment related to the redemption of legacy IBKC trust preferred securities and expected declines in fixed

income and mortgage banking and title fees. Compared with third quarter 2020, noninterest income decreased $576 million largely driven by the $532 million purchase accounting gain related to the IBKC merger in 2020, the $23 million loss on debt extinguishment in 2021, and declines in fixed income and mortgage banking and title fees.

Noninterest expense of $526 million increased $28 million from second quarter 2021, partially driven by a $14 million increase in merger integration expenses. Results were also impacted by higher costs related to investments in new systems and from markets reopening. Compared with third quarter 2020, noninterest expense decreased $61 million largely driven by a $55 million decline in merger and acquisition-related expenses. Merger and acquisition-related expenses were $46 million for the third quarter of 2021 compared to $32 million in second quarter 2021 and $101 million in third quarter 2020.

**Year-to-Date and Period End Highlights**

For the nine months ended September 30, 2021, net income available to common shareholders was $743 million, or $1.34 per diluted share, compared to $588 million, or $1.50 per diluted share, for the nine months ended September 30, 2020, primarily driven by the impact of the IBKC merger and a reduction in provision for credit losses, partially offset by lower noninterest income tied to the purchase accounting gain from the IBKC merger in third quarter 2020.

Period-end loans and leases of $55.4 billion decreased $2.8 billion, or 5%, from December 31, 2020 largely driven by a $2.0 billion decrease in PPP loans. Average loans and leases of $55.5 billion in third quarter 2021 decreased $4.6 billion from $60.1 billion in third quarter 2020 driven by a decline in PPP and consumer real estate loans.

Period-end deposits of $74.3 billion increased $4.3 billion, or 6%, from December 31, 2020, while average deposits of $73.7 billion in third quarter 2021 increased from $67.1 billion in third quarter 2020, largely reflecting growth in noninterest-bearing deposits from the impact of government stimulus payments, partially offset by a decline in time deposits.

Tier 1 risk-based capital and total risk-based capital ratios at September 30, 2021 were 11.24% and 12.64%, improved from 10.74% and 12.57% at December 31, 2020, respectively. The CET1 ratio was 10.09% at September 30, 2021 compared to 9.68% at December 31, 2020.

The following portions of this MD&A focus in more detail on the results of operations for the three and nine months ended September 30, 2021, the three months ended June 30, 2021, and the three and nine months ended September 30, 2020 and on information about FHN's financial condition, loan and lease portfolio, liquidity, funding resources, capital and other matters.

**Table 1 - Key Performance Indicators**

| *(Dollars in millions, except per share data)* | As of or for the three months ended | | | As of or for the nine months ended | |
|---|---|---|---|---|---|
| | **September 30, 2021** | June 30, 2021 | September 30, 2020 | **September 30, 2021** | September 30, 2020 |
| Pre-provision net revenue (a) | **$ 213** | $ 284 | $ 768 | **$ 758** | $ 1,134 |
| Diluted earnings per common share | **$ 0.41** | $ 0.53 | $ 0.95 | **$ 1.34** | $ 1.50 |
| Return on average assets (b) | **1.05 %** | 1.42 % | 2.63 % | **1.20 %** | 1.41 % |
| Return on average common equity (c) | **11.43 %** | 15.45 % | 28.49 % | **12.96 %** | 14.18 % |
| Return on average tangible common equity (a) (d) | **14.95 %** | 20.36 % | 37.75 % | **17.06 %** | 20.13 % |
| Net interest margin (e) | **2.40 %** | 2.47 % | 2.84 % | **2.50 %** | 2.93 % |
| Noninterest income to total revenue (f) | **33.34 %** | 35.49 % | 60.75 % | **35.33 %** | 51.41 % |
| Efficiency ratio (g) | **71.27 %** | 64.61 % | 43.31 % | **67.75 %** | 51.56 % |
| Allowance for loan and lease losses to total loans and leases | **1.32 %** | 1.44 % | 1.65 % | **1.32 %** | 1.65 % |
| Net charge-offs (recoveries) to average loans and leases (annualized) | **0.02 %** | (0.07)% | 0.44 % | **— %** | 0.22 % |
| Total period-end equity to period-end assets | **9.64 %** | 9.74 % | 9.81 % | **9.64 %** | 9.81 % |
| Tangible common equity to tangible assets (a) | **6.80 %** | 6.87 % | 6.78 % | **6.80 %** | 6.78 % |
| Cash dividends declared per common share | **$ 0.15** | $ 0.15 | $ 0.15 | **$ 0.45** | $ 0.45 |
| Book value per common share | **$ 14.24** | $ 14.07 | $ 13.30 | **$ 14.24** | $ 26.46 |
| Tangible book value per common share (a) | **$ 10.88** | $ 10.74 | $ 9.92 | **$ 10.88** | $ 22.42 |
| Common equity Tier 1 | **10.09 %** | 10.28 % | 9.15 % | **10.09 %** | 9.15 % |
| Market capitalization | **$ 8,827** | $ 9,519 | $ 5,232 | **$ 8,827** | $ 5,232 |

(a) Represents a non-GAAP measure which is reconciled in the non-GAAP to GAAP reconciliation in Table 24.
(b) Calculated using annualized net income divided by average assets.
(c) Calculated using annualized net income available to common shareholders divided by average common equity.
(d) Calculated using annualized net income available to common shareholders divided by average tangible common equity.
(e) Net interest margin is computed using total net interest income adjusted to an FTE basis assuming a statutory federal income tax rate of 21% and, where applicable, state income taxes.
(f) Ratio is noninterest income excluding securities gains (losses) to total revenue excluding securities gains (losses).
(g) Ratio is noninterest expense to total revenue excluding securities gains (losses).

## Results of Operations

### Net Interest Income/Net Interest Margin

Net interest income is FHN's largest source of revenue and is the difference between the interest earned on interest-earning assets (generally loans, leases and investment securities) and the interest expense incurred in connection with interest-bearing liabilities (generally deposits and borrowed funds). The level of net interest income is primarily a function of the difference between the effective yield on average interest-earning assets and the effective cost of interest-bearing liabilities. These factors are influenced by the pricing and mix of interest-earning assets and interest-bearing liabilities which, in turn, are impacted by external factors such as local economic conditions, competition for loans and deposits, the monetary policy of the FRB and market interest rates.

The following tables present the average balance sheets and the major components of net interest income and net interest margin.

## Table 2—Consolidated Average Balance Sheets, Net Interest Income and Yields/Rates

| (Dollars in millions) | Three Months Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **September 30, 2021** | | | June 30, 2021 | | | September 30, 2020 | | |
| | Average Balance | Interest Income/Expense | Yield/Rate | Average Balance | Interest Income/Expense | Yield/Rate | Average Balance | Interest Income/Expense | Yield/Rate |
| **Assets:** | | | | | | | | | |
| Loans and leases: | | | | | | | | | |
| Commercial loans and leases | **$ 43,741** | **$ 372** | **3.37 %** | $ 44,890 | $ 380 | 3.39 % | $ 46,465 | $ 419 | 3.59 % |
| Consumer loans | **11,767** | **112** | **3.81** | 11,939 | 118 | 3.99 | 13,653 | 141 | 4.11 |
| Total loans and leases | **55,508** | **484** | **3.46** | 56,829 | 498 | 3.52 | 60,118 | 560 | 3.70 |
| Loans held for sale | **992** | **8** | **3.25** | 734 | 7 | 3.94 | 985 | 8 | 3.36 |
| Investment securities | **8,494** | **31** | **1.48** | 8,401 | 29 | 1.39 | 8,590 | 26 | 1.21 |
| Trading securities | **1,171** | **6** | **2.07** | 1,322 | 7 | 2.03 | 1,194 | 6 | 2.08 |
| Federal funds sold | **13** | **—** | **0.18** | 38 | — | 0.13 | 96 | — | 0.14 |
| Securities purchased under agreements to resell (a) | **574** | **—** | **(0.04)** | 610 | — | (0.07) | 404 | — | 0.02 |
| Interest-bearing deposits with banks | **15,023** | **6** | **0.16** | 13,051 | 3 | 0.10 | 3,615 | 1 | 0.09 |
| Total earning assets / Total interest income | **$ 81,775** | **$ 535** | **2.60 %** | $ 80,985 | $ 544 | 2.70 % | $ 75,002 | $ 601 | 3.19 % |
| Cash and due from banks | **1,263** | | | 1,267 | | | 1,028 | | |
| Goodwill and other intangible assets, net | **1,829** | | | 1,843 | | | 1,794 | | |
| Allowance for loan and lease losses | **(793)** | | | (884) | | | (980) | | |
| Other assets | **4,327** | | | 4,348 | | | 4,839 | | |
| Total assets | **$ 88,401** | | | $ 87,559 | | | $ 81,683 | | |
| **Liabilities and Shareholders' Equity:** | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | |
| Savings | **$ 27,793** | **$ 9** | **0.12 %** | $ 27,238 | $ 11 | 0.16 % | $ 25,648 | $ 25 | 0.38 % |
| Other interest-bearing deposits | **15,333** | **5** | **0.12** | 16,029 | 6 | 0.15 | 14,771 | 7 | 0.20 |
| Time deposits | **4,122** | **6** | **0.62** | 4,487 | 7 | 0.65 | 5,783 | 10 | 0.72 |
| Total interest-bearing deposits | **47,248** | **20** | **0.17** | 47,754 | 24 | 0.20 | 46,202 | 42 | 0.36 |
| Federal funds purchased | **906** | **—** | **0.14** | 1,006 | — | 0.10 | 833 | — | 0.10 |
| Securities sold under agreements to repurchase | **1,422** | **1** | **0.20** | 1,116 | 1 | 0.20 | 1,503 | 1 | 0.23 |
| Trading liabilities | **527** | **1** | **1.11** | 560 | 2 | 1.17 | 360 | 1 | 0.77 |
| Other short-term borrowings | **124** | **1** | **1.49** | 126 | — | 1.34 | 132 | — | 0.48 |
| Term borrowings | **1,665** | **18** | **4.39** | 1,672 | 18 | 4.38 | 2,172 | 22 | 3.98 |
| Total interest-bearing liabilities / Total interest expense | **$ 51,892** | **$ 41** | **0.31 %** | $ 52,234 | $ 45 | 0.34 % | $ 51,202 | $ 66 | 0.51 % |
| Noninterest-bearing liabilities: | | | | | | | | | |
| Noninterest-bearing deposits | **26,485** | | | 25,404 | | | 20,904 | | |
| Other liabilities | **1,447** | | | 1,462 | | | 1,505 | | |
| Total liabilities | **79,824** | | | 79,100 | | | 73,611 | | |
| Shareholders' equity | **8,282** | | | 8,164 | | | 7,777 | | |
| Noncontrolling interest | **295** | | | 295 | | | 295 | | |
| Total shareholders' equity | **8,577** | | | 8,459 | | | 8,072 | | |
| Total liabilities and shareholders' equity | **$ 88,401** | | | $ 87,559 | | | $ 81,683 | | |
| Net earnings assets / Net interest income (TE) / Net interest spread | **$ 29,883** | **$ 494** | **2.29 %** | $ 28,751 | $ 499 | 2.36 % | $ 23,800 | $ 535 | 2.68 % |
| Taxable equivalent adjustment | | **(2)** | **0.11** | | (2) | 0.11 | | (3) | 0.16 |
| Net interest income / Net interest margin (b) | | **$ 492** | **2.40 %** | | $ 497 | 2.47 % | | $ 532 | 2.84 % |

(a) Negative yield for all periods is driven by negative market rates on reverse repurchase agreements.
(b) Calculated using total net interest income adjusted for FTE assuming a statutory federal income tax rate of 21% and, where applicable, state income taxes.

***Third Quarter 2021 versus Second Quarter 2021***

Net interest income in third quarter 2021 decreased $5 million from second quarter 2021 as the impacts of a reduction in net merger-related and PPP loan portfolio benefits and lower rates and spread tightening were partially offset by improvements in deposit pricing and non-PPP commercial loan growth.

The net interest margin of 2.40% in third quarter 2021 decreased 7 basis points from second quarter 2021 primarily due to an increase in excess cash and tighter loan spreads, partially offset by lower deposit costs.

Average earning assets of $81.8 billion in third quarter 2021 increased $790 million from second quarter 2021 largely due to a $2.0 billion increase in interest-bearing cash which was partially offset by a $1.3 billion decrease in loans and leases.

***Third Quarter 2021 versus Third Quarter 2020***

Net interest income decreased $40 million from third quarter 2020 to $492 million in third quarter 2021 driven by both lower average loan and lease balances and the effect of lower interest rates and spreads.

Third quarter 2021 net interest margin decreased 44 basis points from 2.84% in third quarter 2020, driven by the impact of lower interest earning asset yields from a decline in short-term interest rates and greater levels of excess cash.

Average earning assets increased $6.8 billion in third quarter 2021 from $75.0 billion in the third quarter 2020, primarily driven by higher levels of interest-bearing cash.

## Table 3—Consolidated YTD Average Balance Sheets, Net Interest Income and Yields/Rates

| | Nine Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2021 | | | September 30, 2020 | | |
| *(Dollars in millions)* | Average Balance | Interest Income/Expense | Yield/Rate | Average Balance | Interest Income/Expense | Yield/Rate |
| **Assets:** | | | | | | |
| Loans and leases: | | | | | | |
| Commercial loans and leases | $ 44,771 | 1,135 | 3.38% | $ 32,637 | 921 | 3.76 % |
| Consumer loans | 12,072 | 357 | 3.98 | 8,967 | 278 | 4.13 |
| Total loans and leases | 56,843 | 1,492 | 3.51 | 41,604 | 1,199 | 3.84 |
| Loans held for sale | 856 | 22 | 3.41 | 770 | 22 | 3.77 |
| Investment securities | 8,406 | 88 | 1.43 | 5,876 | 78 | 1.80 |
| Trading securities | 1,303 | 20 | 2.02 | 1,481 | 28 | 2.55 |
| Federal funds sold | 32 | — | 0.13 | 45 | — | 0.23 |
| Securities purchased under agreements to resell (a) | 580 | — | (0.08) | 537 | 2 | 0.56 |
| Interest-bearing deposits with banks | 12,468 | 11 | 0.12 | 1,934 | 3 | 0.19 |
| Total earning assets / Total interest income | $ 80,488 | 1,633 | 2.72% | $ 52,247 | 1,332 | 3.40 % |
| Cash and due from banks | 1,260 | | | 734 | | |
| Goodwill and other intangible assets, net | 1,843 | | | 1,637 | | |
| Premises and equipment, net | 724 | | | 550 | | |
| Allowance for loan and lease losses | (875) | | | (604) | | |
| Other assets | 3,691 | | | 3,246 | | |
| Total assets | $ 87,131 | | | $ 57,810 | | |
| **Liabilities and Shareholders' Equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Interest-bearing deposits: | | | | | | |
| Savings | $ 27,466 | 31 | 0.15% | $ 17,325 | 64 | 0.49 % |
| Other interest-bearing deposits | 15,617 | 17 | 0.14 | 10,937 | 25 | 0.30 |
| Time deposits | 4,479 | 19 | 0.58 | 3,998 | 33 | 1.12 |
| Total interest-bearing deposits | 47,564 | 67 | 0.19 | 32,260 | 122 | 0.50 |
| Federal funds purchased | 969 | 1 | 0.11 | 872 | 3 | 0.42 |
| Securities sold under agreements to repurchase | 1,229 | 2 | 0.21 | 1,099 | 4 | 0.54 |
| Trading liabilities | 535 | 4 | 1.01 | 487 | 5 | 1.36 |
| Other short-term borrowings | 130 | 1 | 1.27 | 789 | 5 | 0.92 |
| Term borrowings | 1,669 | 55 | 4.39 | 1,466 | 44 | 3.97 |
| Total interest-bearing liabilities / Total interest expense | $ 52,096 | 130 | 0.33% | $ 36,973 | 183 | 0.66 % |
| Noninterest-bearing liabilities: | | | | | | |
| Noninterest-bearing deposits | 25,070 | | | 8,943 | | |
| Other liabilities | 1,503 | | | 5,823 | | |
| Total liabilities | 78,669 | | | 51,739 | | |
| | | | | | | |
| Shareholders' equity | 8,167 | | | 5,776 | | |
| Noncontrolling interest | 295 | | | 295 | | |
| Total shareholders' equity | 8,462 | | | 6,071 | | |
| Total liabilities and shareholders' equity | $ 87,131 | | | $ 57,810 | | |
| | | | | | | |
| Net earnings assets / Net interest income (TE) / Net interest spread | $ 28,392 | 1,503 | 2.39% | $ 15,274 | 1,149 | 2.74 % |
| Taxable equivalent adjustment | | (7) | 0.11 | | (9) | 0.19 |
| Net interest income / Net interest margin (b) | $ | 1,496 | 2.50% | $ | 1,140 | 2.93 % |

(a) 2021 yield is driven by negative market rates on reverse repurchase agreements.
(b) Calculated using total net interest income adjusted for FTE assuming a statutory federal income tax rate of 21% and, where applicable, state income taxes.

For the nine months ended September 30, 2021, net interest income of $1.5 billion increased $356 million from the same period one year ago driven by a $13.1 billion increase in net earning assets primarily driven by the IBKC merger and Truist branch acquisition in third quarter 2020. Results also reflect the impact of lower interest-earning asset yields and spreads in addition to deposit pricing discipline. The year-to-date 2021 net interest margin decreased 43 basis points from the year ago period largely as the impact of lower loan yields and significantly higher levels of excess cash was partially offset by a reduction in deposit costs.

**Provision for Credit Losses**

The provision for credit losses includes the provision for loan and lease losses and the provision for unfunded lending commitments. The provision for credit losses is the expense necessary to maintain the ALLL and the accrual for unfunded lending commitments at levels appropriate to absorb management's estimate of credit losses expected over the life of the loan and lease portfolio and the portfolio of unfunded loan commitments.

For the third quarter 2021, provision for credit losses was a benefit of $85 million compared to a benefit of $115 million in second quarter 2021, largely reflecting continued improvement in the overall macroeconomic outlook and positive credit grade migration. The provision for credit losses decreased $312 million from third quarter 2020 and decreased $747 million on a year-to-date basis, driven by an improvement in the overall macroeconomic outlook, positive credit grade migration and lower loan balances. Provision during 2020 was unfavorably impacted by deterioration in the economic forecast attributable to the effects of the COVID-19 pandemic and additional provision related to acquired non-PCD loans.

For additional information about general asset quality trends, refer to the Loans and Leases Portfolio Composition section in this MD&A.

**Noninterest Income**

The following table presents the significant components of noninterest income for each of the periods presented:

**Table 4 - Noninterest Income**

| | Three Months Ended | | | 3Q21 vs. 2Q21 | | 3Q21 vs. 3Q20 | |
|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | **September 30, 2021** | June 30, 2021 | September 30, 2020 | $ Change | % Change | $ Change | % Change |
| **Noninterest income:** | | | | | | | |
| Fixed income | **$ 96** | $ 102 | $ 111 | $ (6) | (6)% | $ (15) | (13)% |
| Deposit transactions and cash management | **44** | 44 | 42 | — | — % | 2 | 5 % |
| Mortgage banking and title income | **34** | 38 | 66 | (4) | (11)% | (32) | 48 % |
| Brokerage, management fees and commissions | **24** | 21 | 18 | 3 | 14 % | 6 | 33 % |
| Bankcard income | **15** | 15 | 10 | — | — % | 5 | 50 % |
| Trust services and investment management | **13** | 14 | 12 | (1) | (7)% | 1 | 8 % |
| Securities gains (losses), net | **1** | 11 | (1) | (10) | (91)% | 2 | NM |
| Purchase accounting gain | **—** | (2) | 532 | 2 | 100 % | (532) | (100)% |
| Loss on debt extinguishment | **(23)** | — | — | (23) | (100)% | (23) | (100)% |
| Other income | **43** | 42 | 33 | 1 | 2 % | 10 | 30 % |
| **Total noninterest income** | **$ 247** | $ 285 | $ 823 | $ (38) | (13)% | $ (576) | (70)% |

Certain previously reported amounts have been reclassified to agree with current presentation.
NM – Not meaningful

Noninterest income of $247 million decreased $38 million, or 13%, from second quarter 2021 largely driven by a $23 million loss on the retirement of legacy IBKC trust preferred securities and lower securities gains. In the second quarter 2021, securities gains of $11 million were recognized primarily related to a legacy IBKC equity investment.

Fixed income revenues, while declining $6 million, or 6%, compared to second quarter results, reflected a

continued favorable operating environment including elevated liquidity and weak loan demand among depository customers. Revenue from other products remained steady at $11 million for the third quarter 2021 compared to second quarter 2021. Fixed income average daily revenue of $1.3 million decreased modestly in third quarter 2021 compared to $1.4 million in second quarter 2021.

Mortgage banking and title income decreased $4 million, or 11%, reflecting overall lower origination volumes, an intentional shift in origination mix toward portfolio loans and lower gain on sale spreads.

Compared to third quarter 2020, noninterest income decreased $576 million, largely driven by the purchase accounting gain from the IBKC merger in third quarter 2020 and a $23 million loss on retirement of legacy IBKC trust preferred securities in third quarter 2021.

Fixed income decreased $15 million, or 14%, compared to third quarter 2020, reflecting slightly less favorable market conditions. Revenue from other products remained consistent when comparing the periods. Fixed income average daily revenue of $1.3 million decreased from $1.5 million in third quarter 2020.

Mortgage banking and title income decreased $32 million compared to third quarter 2020, reflecting overall lower origination volumes, an intentional shift in origination mix toward portfolio loans and lower gain on sale spreads.

The following table presents the significant components of noninterest income for the year-to-date periods presented:

**Table 5 - Noninterest Income - YTD**

| | Nine Months Ended | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | **September 30, 2021** | September 30, 2020 | $ Change | % Change |
| **Noninterest income:** | | | | |
| Fixed income | **$ 324** | $ 319 | $ 5 | 2 % |
| Deposit transactions and cash management | **130** | 103 | 27 | 26 % |
| Mortgage banking and title income | **126** | 72 | 54 | 75 % |
| Brokerage, management fees and commissions | **65** | 47 | 18 | 38 % |
| Bankcard income | **40** | 24 | 16 | 67 % |
| Trust services and investment management | **39** | 27 | 12 | 44 % |
| Securities gains (losses), net | **12** | (3) | 15 | NM |
| Purchase accounting gain | **(1)** | 532 | (533) | (100)% |
| Loss on debt extinguishment | **(23)** | — | (23) | (100)% |
| Other income | **117** | 83 | 34 | 41 % |
| **Total noninterest income** | **$ 829** | $ 1,204 | $ (375) | (31)% |

Certain previously reported amounts have been reclassified to agree with current presentation.
NM – Not meaningful

For the nine months ended September 30, 2021, noninterest income of $829 million decreased $375 million, or 31%, compared to the same period in 2020, driven by the purchase accounting gain from the IBKC merger in 2020 and the $23 million loss on debt extinguishment in 2021. These decreases were partially offset by higher fee income largely driven by the impact of the IBKC merger.

Deferred compensation income (included in other income) increased $11 million for the year-to-date period of 2021 largely driven by equity market valuations relative to the prior year.

**Noninterest Expense**

The following tables present the significant components of noninterest expense for each of the periods presented:

**Table 6 - Noninterest Expense**

| | Three Months Ended | | | 3Q21 vs. 2Q21 | | 3Q21 vs. 3Q20 | |
|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | **September 30, 2021** | June 30, 2021 | September 30, 2020 | $ Change | % Change | $ Change | % Change |
| **Noninterest expense:** | | | | | | | |
| Personnel expense | **$ 296** | $ 306 | $ 329 | $ (10) | (3) % | $ (33) | (10) % |
| Net occupancy expense | **33** | 33 | 39 | — | — % | (6) | (15) % |
| Computer software | **30** | 30 | 26 | — | — % | 4 | 15 % |
| Operations services | **24** | 19 | 16 | 5 | 26 % | 8 | 50 % |
| Legal and professional fees | **21** | 16 | 43 | 5 | 31 % | (22) | (51) % |
| Contract employment and outsourcing | **21** | 13 | 6 | 8 | 62 % | 15 | 250 % |
| Amortization of intangible assets | **14** | 14 | 15 | — | — % | (1) | (7) % |
| Equipment expense | **12** | 12 | 12 | — | — % | — | — % |
| Communications and delivery | **9** | 10 | 10 | (1) | (10) % | (1) | (10) % |
| Contributions | **6** | 3 | 39 | 3 | 100 % | (33) | (85) % |
| Other expense | **60** | 42 | 52 | 18 | 43 % | 8 | 15 % |
| **Total noninterest expense** | **$ 526** | $ 498 | $ 587 | $ 28 | 6 % | $ (61) | (10) % |

Certain previously reported amounts have been reclassified to agree with current presentation.
NM – Not meaningful

Compared to second quarter 2021, noninterest expense of $526 million increased $28 million, or 6%, largely driven by a $14 million increase in merger and acquisition-related expense. Contract employment and outsourcing expense also increased compared to the prior quarter driven by higher contractor costs tied to investments in new systems. The increase in other expense was driven by an increase in advertising, fraud costs and travel and entertainment expense.

Noninterest expense decreased $61 million, or 10%, compared to third quarter 2020 largely driven by a $55 million decrease in merger and acquisition-related expense. The decline in contributions expense was reflective of a $20 million contribution to establish the First Horizon Louisiana Foundation (included in merger and acquisition-related expense) and a $15 million donation of PPP fees to the First Horizon Foundation to assist low- and moderate-income communities in third quarter 2020.

Total merger and acquisition-related expense was $46 million in third quarter 2021 compared to $32 million in second quarter 2021 and $101 million in third quarter 2020.

**Table 7 - Noninterest Expense-YTD**

| *(Dollars in millions)* | Nine Months Ended **September 30, 2021** | September 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| **Noninterest expense:** | | | | |
| Personnel expense | **$ 920** | $ 713 | $ 207 | 29 % |
| Net occupancy expense | **103** | 80 | 23 | 29 % |
| Computer software | **87** | 58 | 29 | 50 % |
| Operations services | **59** | 39 | 20 | 51 % |
| Legal and professional fees | **52** | 65 | (13) | (20) % |
| Contract employment and outsourcing | **47** | 16 | 31 | 194 % |
| Amortization of intangible assets | **42** | 25 | 17 | 68 % |
| Equipment expense | **35** | 29 | 6 | 21 % |
| Communications and delivery | **28** | 21 | 7 | 33 % |
| Contributions | **12** | 40 | (28) | (70) % |
| Other expense | **182** | 124 | 58 | 47 % |
| **Total noninterest expense** | **$ 1,567** | $ 1,210 | $ 357 | 30 % |

For the nine months ended September 30, 2021, noninterest expense increased $357 million, or 30%, primarily attributable to the impact of the IBKC merger and Truist branch acquisition.

In addition to the impact of the merger and branch acquisition, the increase in personnel expense also reflects an increase in revenue-based compensation and an increase in deferred compensation expense driven by equity market valuations.

Legal and professional fees decreased $13 million driven by a $23 million decline in merger and acquisition expense offset by higher costs from the impact of the IBKC merger.

The decline in contributions expense is reflective of the $35 million in contributions made in 2020 mentioned above, partially offset by an increase in other tax credit-related contributions.

Other expense in 2021 included $36 million in merger and acquisition expense tied to asset impairments primarily related to continuing acquisition integration efforts associated with reduction of leased office space and banking center optimization.

Total merger and acquisition expense was $147 million in the first nine months of 2021 compared to $121 million for the same period of 2020.

**Income Taxes**

FHN recorded income tax expense of $63 million in third quarter 2021, compared to $88 million in second quarter 2021 and $2 million in third quarter 2020. For the nine months ended September 30, 2021 and 2020, FHN recorded income tax expense of $222 million and $20 million, respectively. The effective tax rate was approximately 21.1%, 22.0%, and 0.4% for the three months ended September 30, 2021, June 30, 2021 and September 30, 2020, respectively. The effective tax rate was approximately 22.1% and 3.1% for the nine months ended September 30, 2021 and September 30, 2020, respectively. The lower effective tax rate in 2020 was the result of the purchase accounting gain from the IBKC merger, which was not included in taxable income, coupled with higher provision for credit losses expense in 2020, which reduced taxable income compared with 2021.

FHN's effective tax rate is favorably affected by recurring items such as bank-owned life insurance, tax-exempt income, and tax credits and other tax benefits from tax credit investments. The effective rate is unfavorably affected by the non-deductibility of portions of: FDIC premium, executive compensation and merger expenses. FHN's effective tax rate also may be affected by items that may occur in any given period but are not consistent from period to period, such as changes in unrecognized tax benefits. The rate also may be affected by items resulting from business combinations.

A deferred tax asset or deferred tax liability is recognized for the tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The tax consequence is calculated by applying current enacted statutory tax rates to these temporary differences in future years. As of

September 30, 2021, FHN's gross DTA and gross DTL were $422 million and $363 million, respectively, resulting in a net DTA of $59 million at September 30, 2021, compared with a net DTA of less than $1 million at December 31, 2020.

As of September 30, 2021, FHN had deferred tax asset balances related to federal and state income tax carryforwards of $38 million and $8 million, respectively, which will expire at various dates.

FHN believes that it will be able to realize the value of its DTA and that no valuation allowance is needed. FHN monitors its DTA and the need for a valuation allowance on a quarterly basis.

## Business Segment Results

During 2020, FHN reorganized its internal management structure and, accordingly, its segment reporting structure. Historically, FHN's primary business segments were Regional Banking, Fixed Income, Corporate, and Non-strategic. The closing of the FHN and IBKC merger of equals transaction prompted organizational changes to better integrate and execute the combined Company's strategic priorities across all lines of businesses. As a result, FHN revised its reportable segments to include Regional Banking, Specialty Banking and Corporate. Segment results for 2020 have been recast to adjust for the realignment of the segment reporting structure. See Note 13 - Business Segment Information for additional disclosures related to FHN's operating segments.

### *Regional Banking*

The Regional Banking segment generated pre-tax income of $307 million for third quarter 2021, a decrease of $54 million compared to second quarter 2021, largely driven by a $36 million decline in provision for credit losses benefit. Results also reflect a $23 million increase in noninterest expense largely tied to higher contract employment and outsourcing and advertising expense.

Pre-tax income for third quarter 2021 increased $257 million compared to $50 million for third quarter 2020 largely driven by lower provision for credit losses expense reflecting improvement in the macroeconomic outlook and positive credit grade migration. The provision for credit losses benefit was $52 million compared to expense of $194 million for third quarter 2020.

The Regional Banking segment generated pre-tax income of $955 million for the nine months ended September 30, 2021 compared to $59 million for the same period of 2020, reflecting the impact of the IBKC merger and a decrease in the provision for credit losses resulting from improvement in the macroeconomic outlook and positive credit grade migration.

### *Specialty Banking*

The Specialty Banking segment generated pre-tax income of $188 million for third quarter 2021 compared to $177 million for second quarter 2021. Results reflect higher provision for credit losses benefit of $12 million and lower noninterest expense of $6 million, partially offset by lower revenue of $7 million. The decline in revenue was primarily attributable to expected declines in fixed income and mortgage banking and title fees. Fixed income revenues, while declining $6 million, or 6%, compared to second quarter results, reflected a continued favorable operating environment including elevated liquidity and weak loan demand among depository customers. Mortgage banking and title income decreased $5 million reflecting overall lower origination volumes, an intentional shift in origination mix toward portfolio loans and lower gain on sale spreads.

Pre-tax income of $188 million in the Specialty Banking segment increased $18 million for third quarter 2021 compared to third quarter 2020 largely driven by lower provision for credit losses partially offset by lower revenue. The decline in revenue was primarily attributable to declines in mortgage banking and title fees and fixed income.

Pre-tax income of $560 million for the nine months ended September 30, 2021 increased $215 million compared to the same period of 2020, largely driven by the impact of the IBKC merger and a decrease in the provision for credit losses resulting from improvement in the macroeconomic outlook and positive credit grade migration.

### *Corporate*

The Corporate segment generated pre-tax loss of $197 million for third quarter 2021 compared to $139 million for second quarter 2021, reflecting a decline in revenue primarily resulting from a $23 million loss on retirement of legacy IBKC trust

preferred securities and lower securities gains of $10 million. Results also reflect an increase in noninterest expense of $11 million primarily tied to merger and integration-related costs.

Pre-tax loss in the Corporate segment was $197 million compared to pre-tax income of $321 for third quarter 2020, largely a result of the $532 million purchase accounting gain from the IBKC merger in third quarter 2020. Results also reflect a decrease in noninterest expense of $64 million primarily tied to merger and integration-related costs, an increase in net interest expense of $29 million and a $23 million loss on retirement of legacy IBKC trust preferred securities recorded in other noninterest income.

Pre-tax loss for the nine months ended September 30, 2021 was $512 million compared to pre-tax income of $228 million for the same period of 2020. Results for the year-to-date period reflect a decline in revenue largely tied to the IBKC merger purchase accounting gain in 2020, a $169 million decrease in net interest income resulting from the impact of funds transfer pricing, and a $23 million loss on legacy IBKC trust preferred securities in 2021. In addition, noninterest expense increased $63 million largely attributable to merger and integration-related costs.

## Financial Condition

Total period-end assets were $88.5 billion as of September 30, 2021 compared to $84.2 billion at December 31, 2020. Asset growth during 2021 was driven by a $6.5 billion increase in cash and due from banks from deposit growth, offset by a $2.8 billion decrease in loans and leases.

Earning assets consist of loans and leases, loans held for sale, investment securities, and other earning assets, such as trading securities and interest-bearing deposits with banks. A detailed discussion of the major components of earning assets is provided in the following sections.

### Loans and Leases

Period-end loans and leases decreased $2.8 billion, or 5% to $55.4 billion as of September 30, 2021 from $58.2 billion on December 31, 2020, driven by a $1.7 billion decrease in commercial loans primarily tied to a $2.0 billion decrease in PPP loans offset by other C&I growth and a $1.1 billion decrease in consumer loans. Average loans and leases decreased to $55.5 billion in third quarter 2021 compared to $56.8 billion in second quarter 2021 and $60.1 billion in third quarter 2020 primarily from a decline in PPP loans and consumer real estate loan activity.

The following table provides detail regarding FHN's loans and leases as of September 30, 2021 and December 31, 2020.

**Table 8—Loans and Leases**

| | As of September 30, 2021 | | As of December 31, 2020 | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | **Amount** | **Percent of total** | Amount | Percent of total | Growth Rate |
| Commercial: | | | | | |
| Commercial, financial, and industrial (a) | **$ 31,516** | **57 %** | $ 33,104 | 57 % | (5) % |
| Commercial real estate | **12,194** | **22** | 12,275 | 21 | (1) |
| Total commercial | **43,710** | **79** | 45,379 | 78 | (4) |
| Consumer: | | | | | |
| Consumer real estate | **10,787** | **19** | 11,725 | 20 | (8) |
| Credit card and other | **938** | **2** | 1,128 | 2 | (17) |
| Total consumer | **11,725** | **21** | 12,853 | 22 | (9) |
| Total loans and leases | **$ 55,435** | **100 %** | $ 58,232 | 100 % | (5) % |

(a) Includes equipment financing loans and leases.

C&I loans are the largest component of the loan portfolio, comprising 57% of total loans at the end of the third quarter 2021 and year-end 2020. C&I loans decreased 5% from December 31, 2020, largely driven by a decrease in PPP loans. Commercial real

estate loans decreased slightly in third quarter 2021 driven by lower Specialty Banking loans.

Total consumer loans decreased 9% from year-end 2020 to $11.7 billion as of September 30, 2021, largely driven by paydowns in real estate installment loans and home equity lines of credit, primarily within the Regional Banking segment.

**Loans Held for Sale**

In 2020, FHN obtained IBKC's mortgage banking operations which includes origination and servicing of residential first lien mortgages that conform to standards established by GSEs that are major investors in U.S. home mortgages but can also consist of junior lien and jumbo loans secured by residential property. These loans are primarily sold to private companies that are unaffiliated with the GSEs on a servicing-released basis. For further detail, see Note 6 - Mortgage Banking Activity.

The legacy FHN loans HFS portfolio consists of small business, other consumer loans, mortgage warehouse, USDA, student, and home equity loans.

On September 30, 2021 and December 31, 2020, loans HFS were $1.1 billion and $1.0 billion, respectively. Held-for-sale consumer mortgage loans secured by residential real estate in process of foreclosure totaled $2 million at both September 30, 2021 and December 31, 2020.

**Loan and Lease Portfolio Composition**

FHN groups its loans into portfolio segments based on internal classifications reflecting the manner in which the ALLL is established and how credit risk is measured, monitored, and reported. From time to time, and if conditions are such that certain subsegments are uniquely affected by economic or market conditions or are experiencing greater deterioration than other components of the loan portfolio, management may determine the ALLL at a more granular level. Commercial loans and leases are composed of C&I loans and leases and CRE loans. Consumer loans are composed of consumer real estate loans and credit card and other loans.

FHN has a concentration of residential real estate loans (19% of total loans at September 30, 2021). Industry concentrations are discussed under the *C&I* heading below.

Credit underwriting guidelines are outlined in Item 7 of FHN's Annual Report on Form 10-K for the year ended December 31, 2020 in the Loan Portfolio Composition discussion in the Asset Quality Section. FHN's credit underwriting guidelines and loan product offerings as of September 30, 2021 are generally consistent with those reported and disclosed in FHN's Form 10-K for the year ended December 31, 2020.

**Commercial Loan and Lease Portfolios**

***C&I***

The C&I portfolio totaled $31.5 billion as of September 30, 2021 and $33.1 billion as of December 31, 2020 and is comprised of loans and leases used for general business purposes. Products offered in the C&I portfolio include term loan financing of owner-occupied real estate and fixed assets, PPP loans, direct financing and sales-type leases, working capital lines of credit, and trade credit enhancement through letters of credit.

A $2.0 billion decrease in PPP loans drove the total decrease from December 31, 2020. Excluding PPP loans, C&I loan growth was $447 million, or 2%. The largest geographical concentrations of balances in the C&I portfolio as of September 30, 2021 were in Tennessee (20%), Florida (12%), Texas (10%), Louisiana (7%), North Carolina (7%), California (7%), and Georgia (5%). No other state represented more than 5% of the portfolio.

The following table provides the composition of the C&I portfolio by industry as of September 30, 2021, and December 31, 2020. For purposes of this disclosure, industries are determined based on the North American Industry Classification System (NAICS) industry codes used by Federal statistical agencies in classifying business establishments for the collection, analysis, and publication of statistical data related to the U.S. business economy.

**Table 9 — C&I Loan Portfolio by Industry**

| *(Dollars in millions)* | September 30, 2021 Amount | September 30, 2021 Percent | December 31, 2020 Amount | December 31, 2020 Percent |
|---|---|---|---|---|
| **Industry:** | | | | |
| Loans to mortgage companies | **$ 5,139** | **16 %** | $ 5,404 | 16 % |
| Finance and insurance | **3,202** | **10** | 3,130 | 10 |
| Real estate rental and leasing (a) | **2,628** | **8** | 2,365 | 7 |
| Health care and social assistance | **2,387** | **8** | 2,689 | 8 |
| Accommodation and food service | **2,339** | **8** | 2,303 | 7 |
| Wholesale trade | **1,985** | **6** | 2,079 | 6 |
| Manufacturing | **1,968** | **6** | 1,907 | 6 |
| Retail trade | **1,420** | **5** | 1,531 | 5 |
| Energy | **1,334** | **4** | 1,686 | 5 |
| Other (professional, construction, transportation, etc.) (b) | **9,114** | **29** | 10,010 | 30 |
| Total C&I loan portfolio | **$ 31,516** | **100 %** | $ 33,104 | 100 % |

(a) Leasing, rental of real estate, equipment, and goods.
(b) Industries in this category each comprise less than 5% as of September 30, 2021.

Industry Concentrations

Loan concentrations exist when there are loans to numerous borrowers engaged in similar activities that would cause them to be similarly impacted by economic or other conditions. Loans to mortgage companies and borrowers in the finance and insurance industry were 26% of FHN's C&I loan portfolio as of September 30, 2021, and as a result could be affected by items that uniquely impact the financial services industry. As of September 30, 2021, FHN did not have any other concentrations of C&I loans in any single industry of 10% or more of total loans.

Loans to Mortgage Companies

Loans to mortgage companies were 16% of the C&I portfolio as of both September 30, 2021 and December 31, 2020. This portfolio generally fluctuates with mortgage rates and seasonal factors and includes commercial lines of credit to qualified mortgage companies primarily for the temporary warehousing of eligible mortgage loans prior to the borrower's sale of those mortgage loans to third party investors. Generally, new loan originations to mortgage lenders increases when there is a decline in mortgage rates and decreases when rates rise. In periods of economic uncertainty, this trend may not occur even if interest rates are declining. In third quarter 2021, 56% of the loan originations were home purchases and 44% were refinance transactions. On a year-to-date basis, approximately 54% of originations were refinance transactions.

Finance and Insurance

The finance and insurance component represented 10% of the C&I portfolio as of September 30, 2021 and December 31, 2020, and includes TRUPs (i.e., long-term unsecured loans to bank and insurance-related businesses), loans to bank holding companies, and asset-based lending to consumer finance companies. As of September 30, 2021, asset-based lending to consumer finance companies represents approximately $1.4 billion of the finance and insurance component.

Paycheck Protection Program

In 2020, Congress created the Paycheck Protection Program (PPP) in response to the economic disruption associated with the COVID-19 pandemic. Under the PPP, qualifying businesses may receive loans from private lenders, such as FHN, that are fully guaranteed by the Small Business Administration. These loans potentially are partly or fully forgivable, depending upon the borrower's use of the funds and maintenance of employment levels. To the extent forgiven, the borrower is relieved from payment while the lender is still paid from the program.

The C&I portfolio as of September 30, 2021 includes 17,865 loans made under the PPP with an aggregate principal balance of $2.0 billion, which are fully government guaranteed with the SBA. Due to the government guarantee and forgiveness provisions, PPP loans are considered to have no credit risk and do not affect the amount of provision and ALLL recorded. As a result, no ALLL is recorded for PPP loans as of September 30, 2021, and FHN has

assigned a risk weight of zero to PPP loans for regulatory capital purposes.

For these loans, there are remaining net lender fees of approximately $43 million to be paid to FHN as of September 30, 2021. During 2021, FHN continues to work with its clients that have applied for and received PPP loan forgiveness. Through September 30, 2021, approximately $4 billion of the original $6 billion in PPP loans originated by FHN and IBERIABANK prior to acquisition have been forgiven by the SBA.

***Commercial Real Estate***

The CRE portfolio totaled $12.2 billion as of September 30, 2021 and $12.3 billion as of December 31, 2020. The CRE portfolio reflects financings for both commercial construction and nonconstruction loans. The largest geographical concentrations of CRE loan balances as of September 30, 2021 were in Florida (27%), Louisiana (12%), North Carolina (11%), Texas (11%), Tennessee (9%), and Georgia (8%). No other state represented more than 5% of the portfolio. This portfolio contains loans, draws on lines, and letters of credit to commercial real estate developers for the construction and mini-permanent financing of income-producing real estate. Subcategories of the CRE portfolio consist of multi-family (26%), office (23%), retail (19%), industrial (12%), hospitality (11%), land/land development (2%), and other (7%).

**Consumer Loan Portfolios**

***Consumer Real Estate***

The consumer real estate portfolio totaled $10.8 billion and $11.7 billion as of September 30, 2021 and December 31, 2020, respectively, and is primarily composed of home equity lines and installment loans. The largest geographical concentrations of balances as of September 30, 2021 were in Florida (32%), Tennessee (24%), Louisiana (10%), North Carolina (8%), and Texas (6%). No other state represented more than 5% of the portfolio.

As of September 30, 2021, approximately 87% of the consumer real estate portfolio was in a first lien position. At origination, the weighted average FICO score of this portfolio was 754 and the refreshed FICO scores averaged 763 as of September 30, 2021, no significant change from FICO scores of 753 and 763, respectively, as of December 31, 2020. Generally, performance of this portfolio is affected by life events that affect borrowers' finances, the level of unemployment, and home prices.

As of September 30, 2021 and December 31, 2020, FHN had held-for-investment consumer mortgage loans secured by real estate that were in the process of foreclosure totaling $23 million and $36 million, respectively.

HELOCs comprised $2.0 billion and $2.4 billion of the consumer real estate portfolio as of September 30, 2021 and December 31, 2020, respectively. FHN's HELOCs typically have a 5 or 10 year draw period followed by a 10 or 20 year repayment period, respectively. During the draw period, a borrower is able to draw on the line and is only required to make interest payments. The line is frozen if a borrower becomes past due on payments. Once the draw period has ended, the line is closed and the borrower is required to make both principal and interest payments monthly until the loan matures. The principal payment generally is fully amortizing, but payment amounts will adjust when variable rates reset to reflect changes in the prime rate.

As of September 30, 2021, approximately 88% of FHN's HELOCs were in the draw period compared to 87% at December 31, 2020. It is expected that $428 million, or 24%, of HELOCs currently in the draw period will enter the repayment period during the next 60 months, based on current terms. Generally, delinquencies for HELOCs that have entered the repayment period are initially higher than HELOCs still in the draw period because of the increased minimum payment requirement. However, over time, performance of these loans usually begins to stabilize. HELOCs nearing the end of the draw period are closely monitored.

The following table presents HELOCs currently in the draw period, broken down by months remaining in the draw period.

**Table 10—HELOC Draw To Repayment Schedule**

| *(Dollars in millions)* | September 30, 2021 Repayment Amount | September 30, 2021 Percent | December 31, 2020 Repayment Amount | December 31, 2020 Percent |
|---|---|---|---|---|
| **Months remaining in draw period:** | | | | |
| 0-12 | **$ 49** | **3 %** | $ 73 | 4 % |
| 13-24 | **46** | **2** | 66 | 3 |
| 25-36 | **50** | **3** | 62 | 3 |
| 37-48 | **124** | **7** | 67 | 3 |
| 49-60 | **159** | **9** | 187 | 8 |
| >60 | **1,385** | **76** | 1,662 | 79 |
| Total | **$ 1,813** | **100 %** | $ 2,117 | 100 % |

***Credit Card and Other***

The credit card and other portfolio, which is primarily within the Regional Banking segment, totaled $938 million as of September 30, 2021. This portfolio primarily consists of consumer-related credits, including home equity and other personal consumer loans, credit card receivables, and automobile loans. The $190 million decrease from December 31, 2020 was driven by net repayments of consumer construction loans.

**Allowance for Credit Losses**

The ACL is maintained at a level sufficient to provide appropriate reserves to absorb estimated future credit losses in accordance with GAAP. For additional information regarding the ACL, see Note 5 of this Report, and "Critical Accounting Policies and Estimates" and Note 5 in FHN's 2020 Form 10-K.

The ALLL decreased to $734 million as of September 30, 2021 from $963 million as of December 31, 2020, reflecting improvement in the macroeconomic forecast compared to 2020, positive grade migration, and lower loan balances. The ALLL to total loans and leases ratio decreased 33 basis points to 1.32%.

The ACL to total loans and leases ratio was 1.45% as of September 30, 2021 compared to 1.80% as of December 31, 2020.

**Consolidated Net Charge-offs**

Net charge-offs in third quarter 2021 were $3 million, or an annualized 2 basis points of total loans and leases, compared to net charge-offs of $67 million, or 44 basis points in third quarter 2020.

Net charge-offs in the commercial portfolio in third quarter 2021 were $4 million compared to charge-offs of $68 million in third quarter 2020. Charge-offs in the prior year were primarily related to energy-related C&I loans. The decrease in net charge-offs also reflects continued improvement in overall asset quality.

Net recoveries in the consumer portfolio were $1 million in third quarter 2021 compared to $1 million in net recoveries in third quarter 2020.

**Table 11—Analysis of Allowance for Credit Losses and Charge-offs**

*(Dollars in millions)*

| **Allowance for loan and lease losses** | **September 30, 2021** | December 31, 2020 | September 30, 2020 |
|---|---|---|---|
| C&I | **$ 374** | $ 453 | $ 489 |
| CRE | **162** | 242 | 208 |
| Consumer real estate | **179** | 242 | 265 |
| Credit card and other | **19** | 26 | 26 |
| Total allowance for loan and lease losses | **$ 734** | $ 963 | $ 988 |

| | | | |
|---|---|---|---|
| **Reserve for remaining unfunded commitments** | | | |
| **C&I** | **$ 49** | $ 65 | $ 47 |
| **CRE** | **10** | 10 | 31 |
| **Consumer real estate** | **9** | 10 | 11 |
| **Credit card and other** | **—** | — | |
| **Total reserve for unfunded lending commitments** | **$ 68** | $ 85 | $ 89 |
| | | | |
| **Allowance for credit losses** | | | |
| **C&I** | **$ 423** | $ 518 | $ 536 |
| **CRE** | **172** | 252 | 239 |
| **Consumer real estate** | **188** | 252 | 276 |
| **Credit card and other** | **19** | 26 | 26 |
| **Total allowance for credit losses** | **$ 802** | $ 1,048 | $ 1,077 |
| | | | |
| **Period-end loans and leases** | | | |
| C&I | **$ 31,516** | $ 33,104 | $ 33,656 |
| CRE | **12,194** | 12,275 | 12,511 |
| Consumer real estate | **10,787** | 11,725 | 12,328 |
| Credit card and other | **938** | 1,128 | 1,212 |
| Total period-end loans and leases | **$ 55,435** | $ 58,232 | $ 59,707 |
| | | | |
| **ALLL / loans and leases %** | | | |
| C&I | **1.19 %** | 1.37 % | 1.45 % |
| CRE | **1.33** | 1.97 | 1.66 |
| Consumer real estate | **1.65** | 2.07 | 2.15 |
| Credit card and other | **2.03** | 2.34 | 2.11 |
| Total ALLL / loans and leases % | **1.32 %** | 1.65 % | 1.65 % |
| | | | |
| **ACL / loans and leases %** | | | |
| C&I | **1.34 %** | 1.56 % | 1.59 % |
| CRE | **1.41** | 2.05 | 1.91 |
| Consumer real estate | **1.74** | 2.15 | 2.24 |
| Credit card and other | **2.04** | 2.30 | 2.15 |
| Total ACL / loans and leases % | **1.45 %** | 1.80 % | 1.80 % |
| | | | |
| **Quarter-to-date net charge-offs (recoveries)** | | | |
| C&I | **$ 4** | $ 31 | $ 66 |
| CRE | **—** | (1) | 2 |
| Consumer real estate | **(6)** | (3) | (3) |
| Credit card and other | **5** | 2 | 2 |
| Total net charge-offs (recoveries) | **$ 3** | $ 29 | $ 67 |
| | | | |
| **Average loans and leases** | | | |
| C&I | **$ 31,477** | $ 34,196 | $ 34,051 |
| CRE | **12,264** | 12,400 | 12,414 |
| Consumer real estate | **10,819** | 12,030 | 12,444 |
| Credit card and other | **948** | 1,194 | 1,209 |
| Total average loans and leases | **$ 55,508** | $ 59,820 | $ 60,118 |

| | | | |
|---|---|---|---|
| **Charge-off % (annualized)** | | | |
| C&I | **0.06 %** | 0.36 % | 0.77 % |
| CRE | **0.01** | (0.02) | 0.04 |
| Consumer real estate | **(0.24)** | (0.12) | (0.11) |
| Credit card and other | **1.86** | 0.68 | 0.83 |
| Total charge-off % | **0.02 %** | 0.19 % | 0.44 % |
| | | | |
| **ALLL / annualized net charge-offs** | | | |
| C&I | **2,169 %** | 367 % | 186 % |
| CRE | **11,982 %** | NM | 4,031 % |
| Consumer real estate | **NM** | NM | NM |
| Credit card and other | **104 %** | 323 % | 255 % |
| Total ALLL / net charge-offs | **6,855 %** | 841 % | 373 % |

NM - not meaningful

**Nonperforming Assets**

Nonperforming loans are loans placed on nonaccrual if it becomes evident that full collection of principal and interest is at risk, if impairment has been recognized as a partial charge-off of principal balance due to insufficient collateral value and past due status, or (on a case-by-case basis) if FHN continues to receive payments but there are other borrower-specific issues. Included in nonaccruals are loans for which FHN continues to receive payments, including residential real estate loans where the borrower has been discharged of personal obligation through bankruptcy. NPAs consist of nonperforming loans and OREO (excluding OREO from government insured mortgages).

Reflecting an overall improvement in asset quality, total NPAs (including NPLs HFS) decreased to $361 million as of September 30, 2021 from $406 million as of December 31, 2020, driven by lower consumer real estate NPAs. The nonperforming assets ratio (nonperforming assets excluding NPLs HFS to total period-end loans plus OREO) was 0.64% as of September 30, 2021, down 5 basis points from 0.69% as of December 31, 2020.

Certain nonperforming loans in both the commercial and consumer portfolios are deemed collateral-dependent and are charged down to an estimate of collateral value less costs to sell. Because the estimated loss has been recognized through a partial charge-off, typically an ALLL is not recorded.

**Table 12—Nonperforming Assets by Loan Portfolio**

*(Dollars in millions)*

| **Nonperforming loans and leases** | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| C&I | **$ 144** | $ 144 |
| CRE | **58** | 58 |
| Consumer real estate | **143** | 182 |
| Credit card and other | **2** | 2 |
| Total nonperforming loans and leases (a) | **$ 347** | $ 386 |
| | | |
| **Nonperforming loans held for sale (a)** | **$ 8** | $ 5 |
| **Foreclosed real estate and other assets (b)** | **6** | 15 |
| Total nonperforming assets (a) (b) | **$ 361** | $ 406 |
| | | |
| **Nonperforming loans and leases to total loans and leases** | | |
| C&I | **0.46 %** | 0.43 % |
| CRE | **0.48** | 0.48 |
| Consumer real estate | **1.33** | 1.56 |
| Credit card and other | **0.22** | 0.18 |
| Total NPL % | **0.63 %** | 0.66 % |
| | | |
| **ALLL / NPLs** | | |
| C&I | **261 %** | 315 % |
| CRE | **278 %** | 415 % |
| Consumer real estate | **125 %** | 133 % |
| Credit card and other | **926 %** | 1313 % |
| Total ALLL / NPLs | **211 %** | 249 % |

(a) Excludes loans and leases that are 90 or more days past due and still accruing interest.
(b) Balances do not include government-insured foreclosed real estate. Foreclosed real estate from GNMA loans totaled $1 million as of September 30, 2021 and $2 million as of December 31, 2020.

The following table provides nonperforming assets by business segment:

**Table 13—Nonperforming Assets by Segment**

*(Dollars in millions)*

| **Nonperforming loans and leases (a) (b)** | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Regional Banking | **$ 191** | $ 216 |
| Specialty Banking | **114** | 117 |
| Corporate | **42** | 53 |
| Consolidated | **$ 347** | $ 386 |
| **Foreclosed real estate (c)** | | |
| Regional Banking | **$ 4** | $ 12 |
| Specialty Banking | **1** | 1 |
| Corporate | **1** | 2 |
| Consolidated | **$ 6** | $ 15 |
| **Nonperforming Assets (a) (b) (c)** | | |
| Regional Banking | **$ 195** | $ 228 |
| Specialty Banking | **115** | 118 |
| Corporate | **43** | 55 |
| Consolidated | **$ 353** | $ 401 |
| **Nonperforming loans and leases to loans and leases** | | |
| Regional Banking | **0.50 %** | 0.54 % |
| Specialty Banking | **0.68** | 0.68 |
| Corporate | **5.41** | 5.70 |
| Consolidated | **0.63 %** | 0.66 % |
| **NPA % (d)** | | |
| Regional Banking | **0.52 %** | 0.57 % |
| Specialty Banking | **0.68** | 0.68 |
| Corporate | **5.51** | 5.87 |
| Consolidated | **0.64 %** | 0.69 % |

(a) Excludes loans and leases that are 90 or more days past due and still accruing interest.
(b) Excludes loans classified as held for sale.
(c) Excludes foreclosed real estate and receivables related to government insured mortgages of $4 million and $5 million as of September 30, 2021 and December 31, 2020, respectively.
(d) Ratio is non-performing assets to total loans and leases plus foreclosed real estate.

### Lending Assistance for Borrowers

In addition to PPP loans, other customer support initiatives in response to the COVID-19 pandemic include incremental lending assistance for borrowers through delayed payment programs and fee waivers.

The following table provides the UPB of loans related to deferrals granted to FHN's customers as of September 30, 2021 and December 31, 2020.

**Table 14—Customer Deferrals**

| *(Dollars in millions)* | **As of September 30, 2021** | As of December 31, 2020 |
|---|---|---|
| **Commercial:** | | |
| C&I | **$ 16** | $ 104 |
| CRE | **98** | 194 |
| Total Commercial | **$ 114** | $ 298 |
| **Consumer:** | | |
| HELOC | **$ 5** | $ 14 |
| R/E installment loans | **62** | 202 |
| Credit card and other | **2** | 4 |
| Total Consumer | **$ 69** | $ 220 |
| **Total** | **$ 183** | $ 518 |

Commercial deferrals as of September 30, 2021 were comprised primarily of professional commercial real estate (45% or $51 million) and general commercial (35% or $39 million).

To the extent that loans were past due as of September 30, 2021 or December 31, 2020 and had been granted a deferral, they were excluded from loans past due 30 to 89 days and loans past due 90 days or more in the table and discussion below.

**Past Due Loans and Potential Problem Assets**

Past due loans are loans contractually past due as to interest or principal payments, but which have not yet been put on nonaccrual status. Loans 90 days or more past due and still accruing were $16 million as of September 30, 2021 compared to $17 million as of December 31, 2020. Loans 30 to 89 days past due were $83 million as of September 30, 2021 compared to $100 million as of December 31, 2020. The decrease included a $25 million decrease in consumer real estate loans, an $8 million decrease in CRE loans, and a $5 million decrease in credit card and other consumer loans, partially offset by a $21 million increase in C&I loans past due 30 to 89 days.

**Table 15—Accruing Delinquencies**

*(Dollars in millions)*

| Accruing loans and leases 30+ days past due | September 30, 2021 | December 31, 2020 |
|---|---|---|
| C&I | **$ 37** | $ 15 |
| CRE | **16** | 23 |
| Consumer real estate | **40** | 69 |
| Credit card and other | **6** | 10 |
| Total 30+ Delinquency | **$ 99** | $ 117 |
| | | |
| **Accruing loans and leases 30+ days past due %** | | |
| C&I | **0.12 %** | 0.05 % |
| CRE | **0.13** | 0.19 |
| Consumer real estate | **0.38** | 0.58 |
| Credit card and other | **0.63** | 0.87 |
| Total 30+ Delinquency % | **0.18 %** | 0.20 % |
| | | |
| **Accruing loans and leases 90+ days past due (a) (b) (c):** | | |
| C&I | **$ 1** | $ — |
| CRE | **1** | — |
| Consumer real Estate | **12** | 16 |
| Credit card and other | **2** | 1 |
| Total accruing loans and leases 90+ days past due | **$ 16** | $ 17 |
| | | |
| **Loans held for sale** | | |
| 30 to 89 days past due (b) | **$ 8** | $ 6 |
| 30 to 89 days past due - guaranteed portion (b) (d) | **5** | 5 |
| 90+ days past due (b) | **20** | 12 |
| 90+ days past due - guaranteed portion (b) (d) | **9** | 10 |

(a) Excludes loans classified as held for sale.
(b) Amounts are not included in nonperforming/nonaccrual loans.
(c) Amounts are also included in accruing loans and leases 30+ days past due.
(d) Guaranteed loans include FHA, VA, and GNMA loans repurchased through the GNMA buyout program.

Potential problem assets represent those assets where information about possible credit problems of borrowers has caused management to have serious doubts about the borrower's ability to comply with present repayment terms and includes loans past due 90 days or more and still accruing. This definition is believed to be substantially consistent with the standards established by Federal banking regulators for loans classified as substandard. Potential problem assets in the loan portfolio were $607 million on September 30, 2021 and $718 million on December 31, 2020. The decrease was attributable to an overall improvement in asset quality. The current expectation of losses from potential problem assets has been included in management's analysis for assessing the adequacy of the allowance for loan and lease losses.

### Troubled Debt Restructurings and Loan Modifications

As part of FHN's ongoing risk management practices, FHN attempts to work with borrowers when appropriate to extend or modify loan terms to better align with their current ability to repay. Extensions and modifications to loans are made in accordance with internal policies and guidelines which conform to regulatory guidance. Each occurrence is unique to

the borrower and is evaluated separately. In a situation where an economic concession has been granted to a borrower that is experiencing financial difficulty, FHN identifies and reports that loan as a TDR.

For loan modifications that were made during 2021 and 2020 that met the TDR relief provisions outlined in either the CARES Act, as extended by the CAA, or revised Interagency Guidance, FHN has excluded these modifications from consideration as a TDR and has excluded loans with these qualifying modifications from designation as a TDR in the information and discussion that follows. See Note 4 – Loans and Leases for further discussion regarding TDRs and loan modifications.

On September 30, 2021 and December 31, 2020, FHN had $239 million and $307 million portfolio loans classified as TDRs, respectively. For these TDRs, including specific reserves, FHN had an allowance for loan and lease losses of $10 million, or 4% of TDR balances as of September 30, 2021, and $15 million, or 5% of TDR balances, as of December 31, 2020. Additionally, FHN had $37 million and $42 million of HFS loans classified as TDRs as of September 30, 2021 and December 31, 2020, respectively.

The following table provides a summary of TDRs for the periods ended September 30, 2021 and December 31, 2020:

**Table 16—Troubled Debt Restructurings**

| *(Dollars in millions)* | **September 30, 2021** | **December 31, 2020** |
|---|---|---|
| Held-for-investment: | | |
| Commercial loans: | | |
| Current | **$ 60** | $ 82 |
| Delinquent | **—** | — |
| Non-accrual | **67** | 84 |
| Total commercial loans | **127** | 166 |
| Consumer real estate: | | |
| Current | **$ 66** | $ 77 |
| Delinquent | **3** | 2 |
| Non-accrual (a) | **42** | 61 |
| Total consumer real estate | **111** | 140 |
| Credit card and other: | | |
| Current | **1** | 1 |
| Delinquent | **—** | — |
| Non-accrual | **—** | — |
| Total credit card and other | **1** | 1 |
| Total held-for-investment | **$ 239** | $ 307 |
| | | |
| Held-for-sale: | | |
| Current | **$ 31** | $ 36 |
| Delinquent | **5** | 5 |
| Non-accrual | **1** | 1 |
| Total held-for-sale | **37** | 42 |
| Total troubled debt restructurings | **$ 276** | $ 349 |

(a) Balances as of September 30, 2021 and December 31, 2020, include $8 million and $11 million, respectively, of discharged bankruptcies.

**Investment Securities**

FHN's investment securities portfolio consists principally of debt securities available for sale. FHN maintains a highly-rated securities portfolio consisting primarily of government agency issued mortgage-backed securities and collateralized mortgage obligations. The securities portfolio provides a source of income and liquidity and is an important tool used to balance the interest rate risk of the loan and deposit portfolios. The securities portfolio is periodically evaluated in light of established ALM objectives, changing market conditions that could affect the profitability of the portfolio, the regulatory environment, and the level of interest rate risk to which FHN is exposed.

Investment securities available for sale were $8.5 billion on September 30, 2021, up from $8.0 billion on December 31, 2020 and represented approximately 10% of total assets for both periods.

During the third quarter of 2021, in order to improve net interest income and moderate a portion of its overly asset sensitive interest rate risk position, FHN deployed excess cash into the investment portfolio by purchasing securities classified as held to maturity. The balance of the HTM portfolio was $304 million as of September 30, 2021. See Note 3 - Investment Securities for more information about the securities portfolio, including gross unrealized gains and losses by type of security, contractual maturities, and securities pledged.

**Deposits**

Total deposits as of September 30, 2021 increased 6% to $74.3 billion from $70.0 billion on December 31, 2020, driven by an increase in non-interest bearing deposits largely reflecting strong deposit inflows driven by retention of government stimulus payments, partially offset by a decline in time deposits.

The following table summarizes the major components of deposits as of September 30, 2021 and December 31, 2020.

**Table 17— Deposits**

| | **September 30, 2021** | | December 31, 2020 | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | **Amount** | **Percent of total** | Amount | Percent of total | Change | Percent |
| Savings | **$ 27,425** | **37 %** | $ 27,324 | 39 % | $ 101 | — % |
| Time deposits | **3,920** | **5** | 5,070 | 7 | (1,150) | (23) |
| Other interest-bearing deposits | **15,571** | **21** | 15,415 | 22 | 156 | 1 |
| Interest-bearing deposits | **46,916** | **63** | 47,809 | 68 | (893) | (2) |
| Noninterest-bearing deposits | **27,348** | **37** | 22,173 | 32 | 5,175 | 23 |
| Total deposits | **$ 74,264** | **100 %** | $ 69,982 | 100 % | $ 4,282 | 6 % |

**Short-Term Borrowings**

Total short-term borrowings were $2.2 billion as of September 30, 2021 and December 31, 2020.

Short-term borrowings balances fluctuate largely based on the level of FHLB borrowing as a result of loan demand, deposit levels and balance sheet funding strategies. Federal funds purchased fluctuates depending on the amount of excess funding of FHN's correspondent bank customers. Balances of securities sold under agreements to resell fluctuate based on cost attractiveness relative to FHLB borrowing levels and the ability to pledge securities toward such transactions.

**Term Borrowings**

Term borrowings include senior and subordinated borrowings with original maturities greater than one year. Term borrowings were $1.6 billion as of September 30, 2021 compared with $1.7 billion as of December 31, 2020.

During the third quarter 2021, FHN redeemed $80 million of legacy IBKC junior subordinated debt underlying multiple issuances of trust preferred securities and provided notice of redemption for the remaining $13 million in fourth quarter 2021. The redemption resulted in a loss on debt extinguishment of $23 million during the third quarter 2021, while the redemption in fourth quarter 2021 is expected to result in an additional loss of $3 million.

## Capital

Management's objectives are to provide capital sufficient to cover the risks inherent in FHN's businesses, to maintain excess capital to well-capitalized standards, and to assure ready access to the capital markets. Total equity was $8.5 billion at September 30, 2021 and $8.3 billion at December 31, 2020. Significant changes included net income of $781 million and the issuance of $145 million in Series F preferred stock, which were offset by $276 million in common and preferred dividends, $272 million in common share repurchases, $100 million from the call of Series A preferred stock and a decrease in AOCI of $101 million.

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

**Table 18—Regulatory Capital and Ratios**

| *(Dollars in millions)* | **September 30, 2021** | December 31, 2020 |
|---|---|---|
| Shareholders' equity | **$ 8,237** | $ 8,012 |
| Modified CECL transitional amount (a) | **130** | 191 |
| FHN non-cumulative perpetual preferred | **(520)** | (470) |
| Common equity tier 1 before regulatory adjustments | **$ 7,847** | $ 7,733 |
| Regulatory adjustments: | | |
| Disallowed goodwill and other intangibles | **(1,726)** | (1,757) |
| Net unrealized (gains) losses on securities available for sale | **(5)** | (108) |
| Net unrealized (gains) losses on pension and other postretirement plans | **253** | 260 |
| Net unrealized (gains) losses on cash flow hedges | **(7)** | (12) |
| Disallowed deferred tax assets | **—** | (5) |
| Other deductions from common equity tier 1 | **(1)** | (1) |
| Common equity tier 1 | **$ 6,361** | $ 6,110 |
| FHN non-cumulative perpetual preferred (b) | **426** | 377 |
| Qualifying noncontrolling interest— First Horizon Bank preferred stock | **295** | 295 |
| Tier 1 capital | **$ 7,082** | $ 6,782 |
| Tier 2 capital | **883** | 1,153 |
| Total regulatory capital | **$ 7,965** | $ 7,935 |
| **Risk-Weighted Assets** | | |
| First Horizon Corporation | **$ 63,013** | $ 63,140 |
| First Horizon Bank | **62,382** | 62,508 |
| **Average Assets for Leverage** | | |
| First Horizon Corporation | **86,967** | 82,347 |
| First Horizon Bank | **86,285** | 81,709 |

| | September 30, 2021 | | December 31, 2020 | |
|---|---|---|---|---|
| | Ratio | Amount | Ratio | Amount |
| **Common Equity Tier 1** | | | | |
| First Horizon Corporation | **10.09 %** | **$ 6,361** | 9.68 % | $ 6,110 |
| First Horizon Bank | **10.93** | **6,817** | 10.46 | 6,537 |
| **Tier 1** | | | | |
| First Horizon Corporation | **11.24** | **7,082** | 10.74 | 6,782 |
| First Horizon Bank | **11.40** | **7,112** | 10.93 | 6,832 |
| **Total** | | | | |
| First Horizon Corporation | **12.64** | **7,965** | 12.57 | 7,935 |
| First Horizon Bank | **12.70** | **7,921** | 12.52 | 7,827 |
| **Tier 1 Leverage** | | | | |
| First Horizon Corporation | **8.14** | **7,082** | 8.24 | 6,782 |
| First Horizon Bank | **8.24** | **7,112** | 8.36 | 6,832 |
| **Other Capital Ratios** | | | | |
| Total period-end equity to period-end assets | **9.64** | | 9.86 | |
| Tangible common equity to tangible assets (c) | **6.80** | | 6.89 | |
| Adjusted tangible common equity to risk-weighted assets (c) | **9.35** | | 8.82 | |

(a) The modified CECL transitional amount is calculated as defined in the final rule issued by the banking regulators on August 26, 2020 and includes the full amount of the impact to retained earnings from the initial adoption of CECL plus 25% of the change in the adjusted allowance for credit losses since FHN's initial adoption of CECL through September 30, 2021 and December 31, 2020.

(b) The $94 million carrying value of the Series D preferred stock does not qualify as Tier 1 capital because the earliest redemption date is less than five years from the issuance date, which was re-set to July 1, 2020 when the IBKC merger closed.

(c) Tangible common equity to tangible assets and adjusted tangible common equity to risk-weighted assets are non-GAAP measures and are reconciled to total equity to total assets (GAAP) in the Non-GAAP to GAAP Reconciliation - Table 24.

Banking regulators define minimum capital ratios for bank holding companies and their bank subsidiaries. Based on the capital rules and definitions prescribed by the banking regulators, should any depository institution's capital ratios decline below predetermined levels, it would become subject to a series of increasingly restrictive regulatory actions.

The system categorizes a depository institution's capital position into one of five categories ranging from well-capitalized to critically under-capitalized. For an institution the size of FHN to qualify as well-capitalized, Common Equity Tier 1, Tier 1 Capital, Total Capital, and Leverage capital ratios must be at least 6.50%, 8.00%, 10.00%, and 5.00%, respectively. Furthermore, a capital conservation buffer of 50 basis points above these levels must be maintained on the Common Equity Tier 1, Tier 1 Capital and Total Capital ratios to avoid restrictions on dividends, share repurchases and certain discretionary bonuses.

As of September 30, 2021, each of FHN and First Horizon Bank had sufficient capital to qualify as well-capitalized institutions and to meet the capital conservation buffer requirement. Capital ratios for both FHN and First Horizon Bank are calculated under the final rule issued by the banking regulators in 2020 to delay the effects of CECL on regulatory capital for two years, followed by a three-year transition period.

For both FHN and First Horizon Bank, the risk-based regulatory capital ratios increased in third quarter 2021 relative to year-end 2020 primarily from the impact of net income less dividends and share repurchases during the first nine months of 2021. FHN's Total Capital ratio as of September 30, 2021 was unfavorably impacted by the retirement of legacy IBKC trust preferred securities, which qualified as Tier 2 capital. The Tier 1 Leverage ratio for both FHN and First Horizon Bank decreased from December 31, 2020 as a result of an increase in average assets.

During 2021, capital ratios are expected to remain above well-capitalized standards plus the required capital conservation buffer.

### Common Stock Purchase Programs

#### *General Authority*

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

On January 23, 2018, FHN announced a $250 million share purchase authority with an expiration date of

January 31, 2020. On January 29, 2019, FHN announced a $250 million increase in that authority (to $500 million total) along with an extension of the expiration date to January 31, 2021. The 2018 program has been terminated, as described in the next paragraph.

On January 27, 2021, FHN announced that its Board of Directors approved a new $500 million common share purchase program that was to expire on January 31, 2023, replacing the 2018 program, which was terminated. On October 26, 2021, FHN announced that the 2021 program had been increased by $500 million and extended to October 31, 2023. Like the 2018 program, the 2021 program is not tied to any compensation plan. Purchases may be made in the open market or through privately negotiated transactions, including under Rule 10b5-1 plans as well as accelerated share repurchase and other structured transactions. The timing and exact amount of common share repurchases will be subject to various factors, including FHN's capital position, financial performance, capital impacts of strategic initiatives, market conditions and regulatory considerations.

As of September 30, 2021, $257 million in purchases had been made life-to-date under the 2021 program at an average price per share of $16.44, or $16.42 excluding commissions.

**Table 19—Issuer Purchases of Common Stock - General Authority**

| *(Dollar values and volume in thousands, except per share data)* | Total number of shares purchased | Average price paid per share (a) | Total number of shares purchased as part of publicly announced programs | Maximum approximate dollar value that may yet be purchased under the programs |
|---|---|---|---|---|
| **2021** | | | | |
| July 1 to July 31 | 1,448 | $ 15.42 | 1,448 | $ 361,870 |
| August 1 to August 31 | 4,848 | 16.01 | 4,848 | 284,275 |
| September 1 to September 30 | 2,659 | 15.69 | 2,659 | 242,561 |
| **Total** | **8,955** | **$ 15.82** | **8,955** | |

(a) Represents total costs including commissions paid.

***Compensation Authority***

A consolidated compensation plan share purchase program was announced on August 6, 2004. This program consolidated into a single share purchase program all of the previously authorized compensation plan share programs as well as the renewal of the authorization to purchase shares for use in connection with two compensation plans for which the share purchase authority had expired.

The total amount authorized under this consolidated compensation plan share purchase program is 29.6 million shares calculated before adjusting for stock dividends distributed through January 1, 2011. The authorization has been reduced for that portion which relates to compensation plans for which no stock option awards remain outstanding. The shares may be purchased over the option exercise periods of the various compensation plans on or before December 31, 2023. Purchases may be made in the open market or through privately negotiated transactions and are subject to various factors including FHN's capital position, financial performance, capital impacts of strategic initiatives, market conditions and regulatory restrictions. As of September 30, 2021, the maximum number of shares that may be purchased under the program was 23.2 million shares. Management currently does not anticipate purchasing a material number of shares under this authority during 2021.

**Table 20—Issuer Purchase of Common Stock - Compensation Authority**

| *(Volume in thousands, except per share data)* | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced programs | Maximum number of shares that may yet be purchased under the programs |
|---|---|---|---|---|
| **2021** | | | | |
| July 1 to July 31 | 256 | $ 17.30 | 256 | 23,176 |
| August 1 to August 31 | 22 | 16.78 | 22 | 23,154 |
| September 1 to September 30 | 3 | 16.57 | 3 | 23,151 |
| **Total** | **281** | **$ 17.25** | **281** | |

## Risk Management

There have been no significant changes to FHN's risk management practices as described under "Risk Management" included in Item 7 of FHN's 2020 Annual Report on Form 10-K.

### MARKET RISK MANAGEMENT

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

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

**Table 21—VaR and SVaR Measures**

| | **Three Months Ended September 30, 2021** | | | **Nine Months Ended September 30, 2021** | | | **As of September 30, 2021** |
|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | **Mean** | **High** | **Low** | **Mean** | **High** | **Low** | |
| **1-day** | | | | | | | |
| VaR | **$ 1** | **$ 1** | **$ 1** | **$ 2** | **$ 4** | **$ 1** | **$ 1** |
| SVaR | **5** | **6** | **4** | **4** | **6** | **2** | **5** |
| **10-day** | | | | | | | |
| VaR | **3** | **5** | **2** | **6** | **21** | **1** | **4** |
| SVaR | **19** | **24** | **14** | **17** | **24** | **11** | **21** |

| | Three Months Ended September 30, 2020 | | | Nine Months Ended September 30, 2020 | | | As of September 30, 2020 |
|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Mean | High | Low | Mean | High | Low | |
| **1-day** | | | | | | | |
| VaR | $ 3 | $ 4 | $ 2 | $ 3 | $ 7 | $ 1 | $ 3 |
| SVaR | 3 | 4 | 2 | 5 | 18 | 2 | 3 |
| **10-day** | | | | | | | |
| VaR | 16 | 22 | 10 | 12 | 25 | 2 | 13 |
| SVaR | 16 | 22 | 10 | 19 | 43 | 9 | 14 |

| (Dollars in millions) | Year Ended December 31, 2020 Mean | High | Low | As of December 31, 2020 |
|---|---|---|---|---|
| **1-day** | | | | |
| VaR | $ 3 | $ 7 | $ 1 | $ 2 |
| SVaR | 5 | 18 | 1 | 2 |
| **10-day** | | | | |
| VaR | 13 | 25 | 2 | 10 |
| SVaR | 18 | 43 | 6 | 10 |

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

**Table 22—Schedule of Risks Included in VaR**

| (Dollars in millions) | As of September 30, 2021 1-day | 10-day | As of September 30, 2020 1-day | 10-day | As of December 31, 2020 1-day | 10-day |
|---|---|---|---|---|---|---|
| Interest rate risk | **$ 1** | **$ 3** | $ 4 | $ 5 | $ 1 | $ 2 |
| Credit spread risk | **—** | **1** | 3 | 10 | 2 | 6 |

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

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

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

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

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

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

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

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

**Model Validation**

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

with oversight responsibility for FHN's model risk management.

## INTEREST RATE RISK MANAGEMENT

### Net Interest Income Simulation Analysis

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

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

Based on a static balance sheet as of September 30, 2021, NII exposures over the next 12 months assuming rate shocks of plus 25 basis points, 50 basis points, 100 basis points, and 200 basis points are estimated to have favorable variances as shown in the table below.

**Table 23 - Interest Rate Sensitivity**

| Shifts in Interest Rates (in bps) | % Change in Projected Net Interest Income |
|---|---|
| +25 | 3.7% |
| +50 | 7.5% |
| +100 | 15.8% |
| +200 | 28.0% |

A steepening yield curve scenario where long-term rates increase by 50 basis points and short-term rates are static, results in a favorable NII variance of 0.9%.

A flattening yield curve scenario where long-term rates decrease by 50 basis points and short-term rates are static, results in an unfavorable NII variance of 1.1%. Rate shocks of minus 25 basis points and 50 basis points result in unfavorable NII variances of 1.8% and 2.4%, assuming the absence of negative rates. These hypothetical scenarios are used to create a risk measurement framework, and do not necessarily represent management's current view of future interest rates or market developments.

FHN's net interest income has been, and likely will continue to be, impacted by the disruption from the COVID-19 pandemic and the low rate environment. The impact of government assistance programs and other developments have influenced net interest income results. Although those impacts have started to abate, impacts are expected to continue for some time. FHN continues to monitor current economic trends and potential exposures closely.

## LIQUIDITY RISK MANAGEMENT

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

In accordance with the Liquidity Policy, ALCO manages FHN's exposure to liquidity risk through a dynamic, real time forecasting methodology. Base liquidity forecasts are reviewed by ALCO and are updated as financial conditions dictate. In addition to the baseline liquidity reports, robust stress testing of assumptions and funds availability are periodically reviewed. FHN maintains a contingency funding plan that may be executed, should unexpected difficulties arise in accessing funding that affects FHN, the industry, or both. Subject to market conditions and compliance with applicable regulatory requirements from time to time, funds are available from a number of sources including the available-for-sale securities portfolio, dealer and commercial customer repurchase agreements, access to the overnight and term Federal Funds markets, incremental borrowing capacity at the FHLB ($14.2 billion was available as of September 30, 2021), brokered deposits, loan

sales, syndications, and access to the Federal Reserve Bank.

Core deposits are a significant source of funding and have historically been a stable source of liquidity for banks. Generally, core deposits represent funding from a financial institution's client base which provide inexpensive, predictable pricing. The ratio of total loans, excluding loans HFS and restricted real estate loans, to core deposits was 81% for September 30, 2021 and 97% for December 31, 2020.

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

Both FHN and First Horizon Bank have the ability to generate liquidity by issuing senior or subordinated unsecured debt, preferred equity and common equity, subject to market conditions and compliance with applicable regulatory requirements. In May 2021, FHN issued $150 million of Series F Non-Cumulative Perpetual Preferred Stock and in July 2021 redeemed its $100 million Series A Non-Cumulative Perpetual Preferred Stock. As of September 30, 2021, FHN had outstanding $1.3 billion in senior and subordinated unsecured debt and $520 million in non-cumulative perpetual preferred stock. As of September 30, 2021, First Horizon Bank and subsidiaries had outstanding preferred shares of $295 million, which are reflected as noncontrolling interest on the Consolidated Balance Sheets.

Parent company liquidity is primarily provided by cash flows stemming from dividends and interest payments collected from subsidiaries. These sources of cash represent the primary sources of funds to pay cash dividends to shareholders and principal and interest to debt holders of FHN. Applying the dividend restrictions imposed under applicable federal and state rules as outlined above, the Bank's total amount available for dividends was $1.2 billion as of October 1, 2021.

First Horizon Bank declared and paid common dividends to the parent company in the amount of $183 million in first, second and third quarter 2021, $223 million in fourth quarter 2021 and $180 million in 2020. First Horizon Bank paid preferred dividends in each quarter of 2021 and 2020.

Payment of a dividend to shareholders of FHN is dependent on several factors which are considered by the Board. These factors include FHN's current and prospective capital, liquidity, and other needs, applicable regulatory restrictions, and availability of funds to FHN through a dividend from First Horizon Bank. Additionally, banking regulators generally require insured banks and bank holding companies to pay cash dividends only out of current operating earnings.

FHN paid a cash dividend of $0.15 per common share on October 1, 2021. FHN paid cash dividends of $1,625.00 per Series E preferred share, and $1,175.00 per Series F preferred share on October 12, 2021 and $165.00 per Series C preferred share and $305.00 per Series D preferred share on November 1, 2021. In addition, in October 2021, the Board approved cash dividends per share in the following amounts:

| | Dividend/Share | Record Date | Payment Date |
|---|---|---|---|
| **Common Stock** | $ 0.15 | 12/10/2021 | 01/03/2022 |
| **Preferred Stock** | | | |
| **Series B** | $ 331.25 | 01/14/2022 | 02/01/2022 |
| **Series C** | $ 165.00 | 01/14/2022 | 02/01/2022 |
| **Series E** | $ 1,625.00 | 12/23/2021 | 01/10/2022 |
| **Series F** | $ 1,175.00 | 12/23/2021 | 01/10/2022 |

## Repurchase Obligations and Off-Balance Sheet Arrangements

### Repurchase Obligations

Prior to September 2008, FHN originated loans through its pre-2009 mortgage business, primarily first lien home loans, with the intention of selling them. As discussed in Note 11 - Contingencies and Other Disclosures, FHN's principal remaining exposures for those activities relate to (i) indemnification claims by underwriters, loan purchasers, and other parties which assert that FHN-originated loans caused or contributed to losses which FHN is legally obliged to indemnify, and (ii) indemnification or other claims related to FHN's servicing of pre-2009 mortgage loans.

FHN's approach for determining the adequacy of the repurchase and foreclosure reserve has evolved, sometimes substantially, based on changes in information available. Repurchase/make-whole rates vary based on purchaser, vintage, and claim type. For

those loans repurchased or covered by a make-whole payment, cumulative average loss severities range between 50 and 60 percent of the UPB.

*Repurchase Accrual Approach*

In determining potential loss content, claims are analyzed by purchaser, vintage, and claim type. FHN considers various inputs including claim rate estimates, historical average repurchase and loss severity rates, mortgage insurance cancellations, and mortgage insurance curtailment requests. Inputs are applied to claims in the active pipeline, as well as to historical average inflows to estimate loss content related to potential future inflows. Management also evaluates the nature of claims from purchasers and/or servicers of loans sold to determine if qualitative adjustments are appropriate.

*Repurchase and Foreclosure Liability*

FHN's repurchase and foreclosure liability, primarily related to its pre-2009 mortgage business, is comprised of accruals to cover estimated loss content in the active pipeline (consisting of mortgage loan repurchase, make-whole, foreclosure/servicing demands and certain related exposures), estimated future inflows, and estimated loss content related to certain known claims not currently included in the active pipeline. The liability contemplates repurchase/make-whole and damages obligations and estimates for probable incurred losses associated with loan populations excluded from the settlements with the GSEs, as well as other whole loans sold, mortgage insurance cancellation rescissions, and loans included in bulk servicing sales effected prior to the settlements with the GSEs. FHN compares the estimated probable incurred losses determined under the applicable loss estimation approaches for the respective periods with current reserve levels. Changes in the estimated required liability levels are recorded as necessary through the repurchase and foreclosure provision. The repurchase and foreclosure liability was $16 million as of September 30, 2021 and December 31, 2020.

**Off-Balance Sheet Arrangements**

In the normal course of business, FHN is a party to a number of activities that contain credit, market and operational risk that are not reflected in whole or in part in the consolidated financial statements. Such activities include traditional off-balance sheet credit-related financial instruments. FHN provides customers with off-balance sheet credit support through loan commitments, lines of credit, and standby letters of credit. Many of the commitments are expected to expire unused or be only partially used; therefore, the total amount of commitments does not necessarily represent future cash requirements. Based on its available liquidity and available borrowing capacity, FHN anticipates it will continue to have sufficient funds to meet its current commitments.

## Market Uncertainties and Prospective Trends

FHN's future results could be affected both positively and negatively by several known trends. Key among those are changes in the U.S. and global economy and outlook, government actions affecting interest rates, government actions intended to stimulate the economy, and government actions and proposals which could have negative impacts on the economy at large or on certain businesses. Additional risks relate to how the COVID-19 pandemic continues to affect FHN's clients, political uncertainty, changes in federal policies (including those publicly discussed, formally proposed, or recently implemented) and the potential impacts of those changes on our businesses and clients, and whether FHN's strategic initiatives will succeed.

**Federal Reserve Easing Policy**

In March 2020, the Federal Reserve "eased" by lowering short-term interest rates and starting an asset purchase program intended to lower longer-term interest rates and foster access to credit. The effective yields of 10-year and 30-year U.S. Treasury securities achieved record low rates. These changes in interest rates and the volatility in the market negatively impacted FHN's net interest margin. Amortization of net processing fees related to government relief programs associated with the COVID-19 pandemic, including the Paycheck Protection Program, offset a portion of the net interest margin decline.

During 2021, easing policy has continued. For most of the year interest rates have fluctuated but remained very low, continuing to adversely impact FHN's net interest margin. The Federal Reserve recently announced that it will begin to reverse its easing policy by reducing ("tapering") its asset purchases. The Federal Reserve's public comments suggest (without any guarantee) that tapering will conclude at some point mid-2022, after which no further asset purchases will be made. FHN cannot predict whether short term interest rates will be raised during this taper period or at any other point in time. Long term interest rates have risen recently, though they remain very low by historical standards. Public

expectations related to tapering, coupled with public Federal Reserve comments and concerns about inflation in the U.S., likely have been significant contributors to that change.

**COVID-19 Pandemic**

The COVID-19 pandemic caused extraordinary disruption that negatively impacted the economy and business activity, especially lending (other than lending related to home mortgages). The impact of the pandemic on FHN's performance is discussed further in "Results of Operations". During the latter part of the second quarter and into the third quarter of 2021, FHN saw the lending pipeline start to improve in several areas (unrelated to home mortgages) as COVID-19 restrictions were at least partially eased in many of FHN's markets. FHN expects the impact of COVID-19 restrictions to continue to diminish over the rest of this year with further progress in vaccination rates; however, the risk of resurgence remains.

FHN continues to closely monitor the impact of the pandemic and its effects on FHN's clients and communities and on the financial markets. Throughout the pandemic, FHN has worked with clients to discuss challenges and solutions, provide line draws and new extensions to existing clients, provide support for small businesses (including lending through the PPP), and provide lending and deposit assistance through deferrals and waived fees.

**LIBOR & Reference Rate Reform**

*LIBOR*

The London Inter-Bank Offered Rate ("LIBOR") is the most widely used reference rate in the world and has been for many years. A substantial majority of FHN's floating rate loans use LIBOR, denominated in U.S. Dollars ("USD"), as the reference rate to determine the interest rate paid by the client/borrower. In addition, certain floating-rate securities issued by FHN use USD LIBOR as the reference rate.

LIBOR is based on a mix of transaction-based data and expert judgment about market conditions. Before 2014, it was based mainly on expert judgment. It is published in different tenors, which are time periods such as 1-week, 1-month, 12-month, etc.

*LIBOR Discontinuance*

About a decade ago, evidence emerged that some members of the panel that set LIBOR may have manipulated the published LIBOR rates rather than using strictly good-faith judgments. Several banks were fined.

In 2017, the Chief Executive of the United Kingdom Financial Conduct Authority (the “FCA”)—the governmental regulator of LIBOR—announced that it intends to halt persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. In 2021, the FCA announced that tenors of USD LIBOR will no longer be published as follows:

- One week and 2-month USD LIBOR will not be published after December 31, 2021; and
- All other USD LIBOR tenors (*e.g.*, overnight, 1-month, 3-month, 6-month and 12-month tenors) will not be published after June 30, 2023.

*U.S. Regulatory Position*

In 2020, the Federal Reserve, the OCC, and the FDIC jointly encouraged U.S. banks to transition away from LIBOR for new contracts as soon as practicable and, in any event, by December 31, 2021. They noted that entering into new contracts that use LIBOR as a reference rate after December 31, 2021 would create safety and soundness risks.

*Alternatives to LIBOR*

LIBOR became the market-preferred reference rate because it was perceived by lenders and borrowers as being superior to alternatives in a wide range of circumstances. FHN believes that no single alternative reference rate will immediately replace LIBOR for USD transactions. Instead, FHN believes it is likely that different alternatives will be used in different circumstances. Although it is difficult to predict which alternatives will be favored by market participants in any particular situation, at this time it seems likely that the following alternative reference rates may be used by market participants once USD LIBOR is discontinued:

- *SOFR*. The Alternative Reference Rates Committee (“ARRC”) is a group of private-market and financial regulator participants convened by the Federal Reserve and the New York Federal Reserve Bank to help ensure a successful transition from USD LIBOR to a more robust reference rate. The ARRC has recommended the Secured Overnight Financing Rate (“SOFR”) as its preferred alternative. SOFR is based on actual transaction data for the U.S. Treasury repurchase market. Accordingly, SOFR represents a riskless secured overnight rate.
- *Term SOFR*. Published by CME Group, Term SOFR is a forward-looking rate, with 1-month, 3-month and 6-month tenors, and is based on

SOFR futures contracts. The ARRC has recommended conventions for Term SOFR rates and has recommended CME Group as the administrator for Term SOFR.

- *AMERIBOR.* The American Interbank Offered Rate ("AMERIBOR") Index is produced by the American Financial Exchange. AMERIBOR is based on actual transaction data involving credit decisions by many financial institutions, on an unsecured basis.

- *BSBY*. The Bloomberg short-term bank yield index ("BSBY") is a proprietary rate index calculated and published by Bloomberg Index Services Limited. BSBY is based on actual transaction data involving unsecured credit.

- *Prime*. Although traditional prime rates (with each bank setting its own) are not likely to regain the prominence they had decades ago when U.S. banks were much smaller and the industry was more fragmented, for some clients and products banks may increase their usage of prime rates.

Other alternative reference rates are being developed and considered. The alternatives listed above are those FHN currently expects to make available to the majority of commercial clients in November 2021.

Each alternative reference rate has advantages and disadvantages compared with other alternatives in various circumstances. Despite being supported by the Federal Reserve's ARRC, SOFR appears unlikely to gain the level of market acceptance and usage that USD LIBOR enjoyed within the U.S. Key aspects of SOFR that support this view are: (a) SOFR fundamentally is an overnight rate, and so is not easily or reliably translated into typical LIBOR tenors; and (b) SOFR is both secured and riskless, and so does not necessarily track a bank's cost of funds very well. For a bank, it is critical to avoid significant mismatches over time between its (variable) cost of funds and its (variable) interest income. Term SOFR attempts to address some of these shortcomings, but not all of them.

All of the alternative reference rates selected by FHN to date meet the International Organization of Securities Commissions (IOSCO) Principles for Financial Benchmarks, as affirmed by the rate administrator and/or an independent auditor. While banking regulators have stated that banks are free to choose the index rates they offer clients, some public sector officials have urged caution in using the new credit sensitive alternative reference rates, primarily due to the robustness of underlying data used to derive the rates. More specifically, there is concern of an "inverted pyramid" effect where a large number of financial contracts could be priced using an index derived from a relatively low volume of transactions. In an interagency statement on October 20, 2021, U.S. banking regulatory agencies noted that "supervised institutions should understand how their chosen reference rate is constructed and be aware of any fragilities associated with that rate and the markets that underlie it". IOSCO has also warned of the potential for the "inverted pyramid" problem and will monitor how the IOSCO label is used by administrators.

FHN is monitoring the credit sensitive reference rates and regulatory guidance around use of such rates. FHN plans to limit use of credit sensitive rates to commercial loans (~2% of global USD LIBOR market) and related customer swaps (pending development of derivatives markets for these rates). Additionally, FHN expects that each financial contract will contain fallback language to guide transition from a credit sensitive rate to an alternative should that action be deemed necessary in the future.

*FHN's Actions to Date & Transition Plans*

Starting in 2019, legacy First Horizon and legacy IBERIABANK both modernized the fallback language used in their loan documentation to better handle how floating rate loans would be re-set if LIBOR ceased to be published during the loan term.

In 2021, FHN began to notify clients whose loans are based on 1-week or 2-month USD LIBOR, which will cease at the end of 2021, and began re-negotiating terms with those clients. Only a small portion of FHN's clients have such loans.

FHN currently plans to cease using USD LIBOR for new lending in fourth quarter 2021. Prior to the June 30, 2023 cessation date for other USD tenors, FHN plans to re-negotiate terms with all clients who have LIBOR loans which extend beyond that date.

FHN has developed a go-to-market strategy and pricing plan for offering LIBOR alternatives to commercial clients for new and renewing loans. Each of the leading alternatives mentioned above is undergoing further development and refinement, and it remains unclear which alternative(s) FHN and its clients generally will prefer, and in which situations. Given these considerations, FHN's plans may change to meet evolving market conditions and preferences. Updates to systems and processes needed to implement the alternative reference rates are being finalized.

On the consumer side, the only LIBOR-based product FHN currently offers is adjustable rate mortgages. For new originations, these products will transition to

SOFR beginning in November 2021. SOFR is emerging as a market standard for adjustable rate mortgages and is the conforming convention for Fannie Mae and Freddie Mac.

FHN is assessing the potential impacts on LIBOR-based securities and derivative instruments.

*Financial Accounting Aspects*

The transition from LIBOR could impact or change FHN's hedge accounting practices.

In 2020, the FASB issued ASU 2020-04, "Facilitation of the Effects of Reference Rate Reform on Financial Reporting," which provides several optional expedients and exceptions to ease the potential burden in accounting for reference rate reform. The scope of ASU 2020-04 was expanded in 2021 with ASU 2021-01, "Scope". Refer to the Accounting Changes Issued but Not Currently Effective section of Note 1 - Basis of Presentation and Accounting Policies for additional information.

*U.S. Tax Accommodation*

The IRS has released guidance that is intended to facilitate the transition of existing contracts from LIBOR to new reference rates without triggering modification accounting or taxable exchange treatment for those contracts. This guidance specifies what must be met in order to qualify for the beneficial transition approach and FHN is considering this guidance in its transition plans.

## Critical Accounting Policies and Estimates

FHN has made no significant changes in its critical accounting policies and estimates from those disclosed in its 2020 Annual Report on Form 10-K.

### Accounting Changes With Extended Transition Periods

Refer to Note 1 – Basis of Presentation and Accounting Policies for a detail of accounting changes with extended transition periods, which section is incorporated into MD&A by this reference.

## Non-GAAP Information

### Table 24—Non-GAAP to GAAP Reconciliation

| *(Dollars in millions; shares in thousands)* | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | **September 30, 2021** | June 30, 2021 | September 30, 2020 | **September 30, 2021** | September 30, 2020 |
| **Pre-provision Net Revenue (Non-GAAP)** | | | | | |
| Net interest income (GAAP) | **$ 492** | $ 497 | $ 532 | **$ 1,496** | $ 1,140 |
| Plus: Noninterest income (GAAP) | **247** | 285 | 823 | **829** | 1,204 |
| Total revenues (GAAP) | **739** | 782 | 1,355 | **2,325** | 2,344 |
| Less: Noninterest expense (GAAP) | **526** | 498 | 587 | **1,567** | 1,210 |
| Pre-provision net revenue (Non-GAAP) | **$ 213** | $ 284 | $ 768 | **$ 758** | $ 1,134 |
| | | | | | |
| **Average Tangible Common Equity (Non-GAAP)** | | | | | |
| Average total equity (GAAP) | **$ 8,577** | $ 8,459 | $ 8,072 | **$ 8,462** | $ 6,071 |
| Less: Average noncontrolling interest (a) | **295** | 295 | 295 | **295** | 295 |
| Less: Average preferred stock (a) | **520** | 513 | 468 | **501** | 239 |
| (A) Total average common equity | **$ 7,762** | $ 7,651 | $ 7,309 | **$ 7,666** | $ 5,537 |
| Less: Average intangible assets (GAAP) (b) | **1,829** | 1,843 | 1,794 | **1,843** | 1,637 |
| (B) Average Tangible Common Equity (Non-GAAP) | **$ 5,933** | $ 5,808 | $ 5,515 | **$ 5,823** | $ 3,900 |
| | | | | | |
| **Net Income Available to Common Shareholders** | | | | | |
| (C) Net income available to common shareholders (annualized) (GAAP) | **$ 887** | $ 1,182 | $ 2,082 | **$ 993** | $ 785 |
| | | | | | |
| **Tangible Common Equity (Non-GAAP)** | | | | | |
| (D) Total equity (GAAP) | **$ 8,532** | $ 8,565 | $ 8,144 | **$ 8,532** | $ 8,144 |
| Less: Noncontrolling interest (a) | **295** | 295 | 295 | **295** | 295 |
| Less: Preferred stock (a) | **520** | 520 | 470 | **520** | 470 |
| (E) Total common equity | **$ 7,717** | $ 7,750 | $ 7,379 | **$ 7,717** | $ 7,379 |
| Less: Intangible assets (GAAP) (b) | **1,822** | 1,836 | 1,876 | **1,822** | 1,876 |
| (F) Tangible common equity (Non-GAAP) | **5,895** | 5,914 | 5,503 | **5,895** | 5,503 |
| Less: Unrealized gains (losses) on AFS securities, net of tax | **5** | 43 | 113 | **5** | 113 |
| (G) Adjusted tangible common equity (Non-GAAP) | **$ 5,890** | $ 5,871 | $ 5,390 | **$ 5,890** | $ 5,390 |
| | | | | | |
| **Tangible Assets (Non-GAAP)** | | | | | |
| (H) Total assets (GAAP) | **$ 88,537** | $ 87,908 | $ 83,030 | **$ 88,537** | $ 83,030 |
| Less: Intangible assets (GAAP) (b) | **1,822** | 1,836 | 1,876 | **1,822** | 1,876 |
| (I) Tangible assets (Non-GAAP) | **$ 86,715** | $ 86,072 | $ 81,154 | **$ 86,715** | $ 81,154 |
| | | | | | |
| **Risk-Weighted Assets** | | | | | |
| (J) Risk-weighted assets (c) | **$ 63,013** | $ 61,991 | $ 64,487 | **$ 63,013** | $ 64,487 |
| | | | | | |
| **Period-end Shares Outstanding** | | | | | |
| (K) Period-end shares outstanding | **541,860** | 550,865 | 554,788 | **541,860** | 554,788 |
| | | | | | |
| **Ratios** | | | | | |
| (C)/(A) Return on average common equity (GAAP) | **11.43 %** | 15.45 % | 28.49 % | 12.96 % | 14.18 % |
| (C)/(B) Return on average tangible common equity (Non-GAAP) | **14.95** | 20.36 | 37.75 | 17.06 | 20.13 |
| (D)/(H) Total period-end equity to period-end assets (GAAP) | **9.64** | 9.74 | 9.81 | **9.64** | 9.81 |
| (F)/(I) Tangible common equity to tangible assets (Non-GAAP) | **6.80** | 6.87 | 6.78 | **6.80** | 6.78 |
| (G)/(J) Adjusted tangible common equity to risk-weighted assets (Non-GAAP) | **9.35** | 9.47 | 8.36 | **9.35** | 8.36 |
| (E)/(K) Book value per common share (GAAP) | **$ 14.24** | $ 14.07 | $ 13.30 | **$ 14.24** | $ 13.30 |
| (F)/(K) Tangible book value per common share (Non-GAAP) | **$ 10.88** | $ 10.74 | $ 9.92 | **$ 10.88** | $ 9.92 |

| | | | | |
|---|---|---|---|---|
| **Loans and leases excluding PPP loans (Non-GAAP)** | | | | |
| Commercial loans and leases excluding PPP loans | **$** | **41,693** | $ | 40,980 |
| PPP loans | | **2,017** | | 3,840 |
| Total commercial loans and leases | | **43,710** | | 44,820 |
| Total consumer loans | | **11,725** | | 11,867 |
| Total loans and leases | **$** | **55,435** | $ | 56,687 |
| | | | | |
| Average commercial loans and leases excluding PPP loans | **$** | **40,816** | $ | 40,126 |
| Average PPP loans | | **2,925** | | 4,764 |
| Total average commercial loans and leases | | **43,741** | | 44,890 |
| Total average consumer loans | | **11,767** | | 11,939 |
| Total average loans and leases | **$** | **55,508** | $ | 56,829 |

(a) Included in total equity on the Consolidated Balance Sheets.
(b) Includes goodwill and other intangible assets, net of amortization.
(c) Defined by and calculated in conformity with bank regulations applicable to FHN.

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

The information called for by this item is contained in

(a) Management's Discussion and Analysis of Financial Condition and Results of Operations included as Item 2 of Part I of this report, including in particular the section entitled "Risk Management" beginning on page 100 of this report and the subsections entitled "Market Risk Management" beginning on page 100 and "Interest Rate Risk Management" beginning on page 102 of this report, and

(b) Note 15 to the Consolidated Financial Statements appearing on pages 46-52 of this report,

all of which materials are incorporated herein by reference. For additional information concerning market risk and our management of it, refer to: Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in Item 7 to FHN's Annual Report on Form 10-K for the year ended December 31, 2020, including in particular the section entitled "Risk Management" beginning on page 87 of that Report and the subsections entitled "Market Risk Management" beginning on page 88 and "Interest Rate Risk Management" beginning on page 90 of that Report; and Note 22 to the Consolidated Financial Statements appearing on pages 202-209 of Item 8 to FHN's Annual Report on Form 10-K for the year ended December 31, 2020.

## Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.* Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this quarterly report. Based on that evaluation, the chief executive officer and the chief financial officer have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) *Changes in Internal Control over Financial Reporting.* Other than as explained below, there have not been any changes in our internal control over financial reporting during the first fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

On July 1, 2020, FHN and IBKC closed their merger-of-equals transaction. As permitted by Securities and Exchange Commission rules, we elected to exclude IBKC from our assessment of internal control over financial reporting as of December 31, 2020. Our integration of IBKC's systems and processes with our own could cause changes to our internal controls over financial reporting in future periods.

# PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

The “Contingencies” section of Note 11 to the Consolidated Financial Statements beginning on page 35 of this Report is incorporated into this Item by reference.

## Item 1A. Risk Factors

Material changes from risk factor disclosures in FHN's Annual Report on Form 10-K for the year ended December 31, 2020, as supplemented in FHN's Quarterly Report on Form 10-Q for the period ended March 31, 2021:

Not applicable.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) & (b) Not Applicable

(c) The "Common Stock Purchase Programs” section including tables 19 and 20 and explanatory discussions included in Item 2 of Part I of this report under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” beginning on page 98 of this report, is incorporated herein by reference.

## Items 3., 4., and 5.

Not applicable

## Item 6. Exhibits

(a) Exhibits

In the Exhibit Table below: the “Filed Here” column denotes each exhibit which is filed or furnished (as applicable) with this report; the “Mngt Exh” column denotes each exhibit that represents a management contract or compensatory plan or arrangement required to be identified as such; and the “Furnished” column denotes each exhibit that is “furnished” pursuant to 18 U.S.C. Section 1350 or otherwise, and is not “filed” as part of this Report or as a separate disclosure document.

In many agreements filed as exhibits, each party makes representations and warranties to other parties. Those representations and warranties are made only to and for the benefit of those other parties in the context of a business contract. Exceptions to such representations and warranties may be partially or fully waived by such parties, or not enforced by such parties, in their discretion. No such representation or warranty may be relied upon by any other person for any purpose.

**EXHIBIT TABLE**

| | | | | | Incorporated by Reference to | | |
|---|---|---|---|---|---|---|---|
| **Exh No** | **Description of Exhibit to this Report** | **Filed Here** | **Mngt Exh** | **Furn-ished** | **Form** | **Exh No.** | **Filing Date** |
| 4.1 | FHN agrees to furnish to the Securities and Exchange Commission upon request a copy of each instrument defining the rights of the holders of the senior and subordinated long-term debt of FHN and its consolidated subsidiaries | | | | | | |
| 10.1 | Rate Applicable to Participating Directors and Executive Officers Under the Directors and Executives Deferred Compensation Plan | X | X | | | | |
| 10.2 | Executive Bonus Plan | | X | | 8-K | 10.1 | 10/27/2021 |
| 10.3 | Conformed copy of Separation Agreement and General Release [Michael J. Brown] | | X | | 8-K | 10.1 | 9/30/2021 |
| 31(a) | Rule 13a-14(a) Certifications of CEO (pursuant to Section 302 of Sarbanes-Oxley Act of 2002) | X | | | | | |
| 31(b) | Rule 13a-14(a) Certifications of CFO (pursuant to Section 302 of the Sarbanes-Oxley Act of 2002) | X | | | | | |
| 32(a) | 18 USC 1350 Certifications of CEO (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002) | X | | X | | | |
| 32(b) | 18 USC 1350 Certifications of CFO (pursuant to Section 906 of the Sarbanes-Oxley Act of 2002) | X | | X | | | |
| | ***XBRL Exhibits*** | | | | | | |
| 101 | The following financial information from First Horizon Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in Inline XBRL: (i) Consolidated Balance Sheets at September 30, 2021 and December 31, 2020; (ii) Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2021 and 2020; (iii) Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2021 and 2020; (iv) Consolidated Statements of Changes in Equity for the Three and Nine Months Ended September 30, 2021 and 2020; (v) Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2021 and 2020; (vi) Notes to Consolidated Financial Statements. | X | | | | | |
| 101. INS | XBRL Instance Document -- the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | | | | | | |
| 101. SCH | Inline XBRL Taxonomy Extension Schema | X | | | | | |
| 101. CAL | Inline XBRL Taxonomy Extension Calculation Linkbase | X | | | | | |
| 101. LAB | Inline XBRL Taxonomy Extension Label Linkbase | X | | | | | |
| 101. PRE | Inline XBRL Taxonomy Extension Presentation Linkbase | X | | | | | |

| Exh No | Description of Exhibit to this Report | Filed Here | Mngt Exh | Furn-ished | Incorporated by Reference to | | |
|---|---|---|---|---|---|---|---|
| | | | | | Form | Exh No. | Filing Date |
| 101. DEF | Inline XBRL Taxonomy Extension Definition Linkbase | X | | | | | |
| 104 | Cover Page Interactive Data File, formatted in Inline XBRL (included in Exhibit 101) | X | | | | | |

# SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST HORIZON CORPORATION
(Registrant)

Date: November 5, 2021

By: /s/ Anthony J. Restel
Name: Anthony J. Restel
Title: President—Regional Banking and interim Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

**Exhibit 10.1**

# RATE APPLICABLE TO PARTICIPATING DIRECTORS AND EXECUTIVE OFFICERS UNDER THE DIRECTOR AND EXECUTIVES DEFERRED COMPENSATION PLAN

**(As in effect for 2022)**

Effective for the 2022 plan year, the Board of Directors and its Compensation Committee approved an applicable interest rate of 9.07% for the Directors and Executives Deferred Compensation Plan. That rate increased from the 8.20% rate in effect for 2021, and applies prospectively to certain participants, including all participants who presently are directors or officers of First Horizon Corporation. Rates are subject to annual approval by the Board, but generally remain in effect until changed. The new interest rate, within the context of the entire Plan, has been established at a level intended to provide both retention and long-term non-compete incentives. When a participant retires after 2010 due to mandatory retirement, the participant's interest rate during retirement will be the highest rate in place over the past three years—that is, the highest of the rates applicable during the year of retirement and the previous two years.

Exhibit 31(a)

**FIRST HORIZON CORPORATION**
**RULE 13a – 14(a) CERTIFICATIONS OF CEO**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
**(QUARTERLY REPORT)**

**CERTIFICATIONS**

I, D. Bryan Jordan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Horizon Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2021

/s/ D. Bryan Jordan

D. Bryan Jordan
President and Chief Executive Officer

Exhibit 31(b)

**FIRST HORIZON CORPORATION**
**RULE 13a – 14(a) CERTIFICATIONS OF CFO**
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**
**(QUARTERLY REPORT)**

**CERTIFICATIONS**

I, Anthony J. Restel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Horizon Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2021

/s/ Anthony J. Restel

Anthony J. Restel

President—Regional Banking and interim Chief Financial Officer

Exhibit 32(a)

**CERTIFICATION OF PERIODIC REPORT**
**18 USC 1350 CERTIFICATIONS OF CEO**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002,**
**As Codified at 18 U.S.C. Section 1350**

I, the undersigned D. Bryan Jordan, President and Chief Executive Officer of First Horizon Corporation ("Corporation"), hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

1. The Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 5, 2021

/s/ D. Bryan Jordan

D. Bryan Jordan
President and Chief Executive Officer

Exhibit 32(b)

**CERTIFICATION OF PERIODIC REPORT**
**18 USC 1350 CERTIFICATIONS OF CFO**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002,**
**As Codified at 18 U.S.C. Section 1350**

I, the undersigned Anthony J. Restel, President, Regional Banking, and interim Chief Financial Officer of First Horizon Corporation ("Corporation"), hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, as follows:

1. The Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: November 5, 2021

/s/ Anthony J. Restel

Anthony J. Restel

President—Regional Banking and interim Chief Financial Officer