

Fair Value of Investment Portfolio

FASB ASC 820 establishes a fair value hierarchy that prioritizes the reliability of various measurement techniques for the investment portfolio into three broad levels. Descriptions for these levels follow.

- **Level 1.** ASC 820-10-35-40 defines Level 1 inputs as quoted prices (unadjusted) in active markets for identical assets that the entity can access at the measurement date.
- **Level 2.** ASC 820-10-35-47 defines Level 2 inputs as inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. Level 2 inputs include the following:
 - Quoted prices for similar assets in active markets
 - Quoted prices for identical or similar assets in markets that are not active
 - Inputs other than quoted prices that are observable (for example, interest rates and yield curves, implied volatilities, or credit spreads)
 - Market-corroborated inputs that are principally from, or supported by, observable market data by correlation or other means
- **Level 3.** ASC 820-10-35-53-54A defines Level 3 inputs as unobservable inputs and should only be used when relevant observable inputs are not available.

FHN Financial utilizes several sources for valuing fixed-income securities. ICE Data Pricing and Reference Data, LLC (ICE) is our primary source for security valuations. ICE purchased Interactive Data Corporation (IDC) in 2017, but kept the IDC methodologies in place. They are a proven industry leader in evaluated pricing, setting the standard for coverage, quality, and reliable delivery. The independent bid-side evaluations by ICE (formerly IDC) are market-based measurements that represent its good faith opinion as to what a holder would receive in an orderly transaction.

IHS Markit (Markit) is an additional provider of independent evaluations for securities not available from ICE. Markit is also the provider used for secondary market valuation requests as sometimes required by auditors. They are a world leader in critical information, analytics, and expertise to forge solutions for the major industries and markets that drive economies worldwide.

In general, most customers consider evaluations from the third-party sources ICE and Markit to be Level 2 in reference to ASC 820, with the exception of inactive markets.

Observations from Portfolio Accounting & Analytics

Go to my.FHNFinancial.com to run a PPA and see how your institution compares with the PASPort peer group today.

Alice Berry
Portfolio Accounting & Analytics
alice.berry@fhnfinancial.com

FHNFINANCIAL.COM
800.456.5460

The FHN Financial Capital Markets trading staff offers valuations on certain securities not available from the other sources. Customers can contact their Portfolio Accounting customer service representative to find out the opinion of our traders regarding the ASC level with their particular securities.

Customers can also provide their own security valuations for portfolio accounting and analytical reports. The source for these values can be customized, but if not provided will be reported with a source of "Client."

We recommend customers review the market evaluation sources in use on the FHN Financial reports. The source for market evaluations for each security is available on the Holdings and Market Value Report and Mark to Market Detail Report for portfolio accounting customers. If no market evaluation is available on a particular security, the Pricing Source field will report "Book." The source is also available on the Bond Listing report within the PPA. The Price Source field will report "No Px" if a market evaluation is not available. When a market evaluation is not available, the system will default the market price to equal the book price with no gain/loss reflected.

FHN Financial performs periodic analyses to compare vendors and to validate the methodologies used by vendors. Processes are in place to ensure market evaluations received from the third parties are reflected correctly within the portfolio accounting reports. To identify potential exceptions, daily reports are generated to identify pricing variances. Significant variances are researched. In addition, a random selection of 100 securities is chosen each quarter from the universe of securities evaluated by ICE to compare to an alternative evaluation source. Further internal reviews are performed by FHN Financial by selecting a random number of securities in each asset class for a deep dive into the inputs and assumptions used by ICE for the evaluation of the securities.

When looking for a market bid to sell a bond, contact your sales representative. Even with the evaluations provided by the traders, there could be a difference in the current market value due to timing and methodology.

Although this information has been obtained from sources which we believe to be reliable, we do not guarantee its accuracy, and it may be incomplete or condensed. This is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. All herein listed securities are subject to availability and change in price. Past performance is not indicative of future results, and changes in any assumptions may have a material effect on projected results. Ratings on all securities are subject to change.

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