

SYNOVUS FINANCIAL CORP

Form 10-Q

November 06, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018

Commission file number 1-10312

SYNOVUS FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Georgia

58-1134883

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1111 Bay Avenue

31901

Suite 500, Columbus, Georgia

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (706) 649-2311

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

Title of each class

Name of each exchange on which
registered

Common Stock, \$1.00 Par Value

New York Stock Exchange

Series B Participating Cumulative Preferred Stock Purchase Rights

New York Stock Exchange

Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series

New York Stock Exchange

D

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 x 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 and post such files). YES x 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" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer x Accelerated filer "

Non-accelerated filer " Smaller reporting company "

Emerging growth company "

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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 7(a)2(B) of the Securities Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES " NO x

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

Class	November 5, 2018
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Common Stock, \$1.00 Par Value	116,376,039
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SYNOVUS FINANCIAL CORP.

INDEX OF DEFINED TERMS

ALCO – Synovus' Asset Liability Management Committee

AOCI - Accumulated other comprehensive income

ASC – Accounting Standards Codification

ASU – Accounting Standards Update

ATM – Automatic teller machine

Basel III – The third Basel Accord developed by the Basel Committee on Banking Supervision to strengthen existing regulatory capital requirements

BOLI – Bank-owned life insurance

BOV – Broker's opinion of value

bp(s) – Basis point(s)

C&I – Commercial and industrial loans

CET1 – Common Equity Tier 1 Capital defined by Basel III capital rules

CME – Chicago Mercantile Exchange

CMO – Collateralized Mortgage Obligation

Cabela's Transaction – The transaction completed on September 25, 2017 whereby Synovus Bank acquired certain assets and assumed certain liabilities of World's Foremost Bank ("WFB") and then immediately thereafter sold WFB's credit card assets and certain related liabilities to Capital One Bank (USA), National Association. As a part of this transaction, Synovus Bank retained WFB's \$1.10 billion brokered time deposit portfolio and received a \$75.0 million fee from Cabela's Incorporated and Capital One. Throughout this Report, we refer to this transaction as the "Cabela's Transaction" and the associated \$75.0 million fee received from Cabela's and Capital One as the "Cabela's Transaction Fee"

Code – Internal Revenue Code

Company – Synovus Financial Corp. and its wholly-owned subsidiaries, except where the context requires otherwise

Covered Litigation – Certain Visa litigation for which Visa is indemnified by Visa USA members

CRE – Commercial real estate

DIF – Deposit Insurance Fund

Dodd-Frank Act – The Dodd-Frank Wall Street Reform and Consumer Protection Act

EVE – Economic value of equity

Exchange Act – Securities Exchange Act of 1934, as amended

FASB – Financial Accounting Standards Board

FCB - FCB Financial Holdings, Inc.

FDIC – Federal Deposit Insurance Corporation

Federal Reserve Bank – The 12 banks that are the operating arms of the U.S. central bank. They implement the policies of the Federal Reserve Board and also conduct economic research

Federal Reserve Board – The 7-member Board of Governors that oversees the Federal Reserve System, establishes monetary policy (interest rates, credit, etc.), and monitors the economic health of the country. Its members are appointed by the President subject to Senate confirmation, and serve 14-year terms

Federal Reserve System – The 12 Federal Reserve Banks, with each one serving member banks in its own district. This system, supervised by the Federal Reserve Board, has broad regulatory powers over the money supply and the credit structure

Federal Tax Reform – Enactment of H.R. 1, formerly known as the Tax Cuts and Jobs Act, on December 22, 2017, legislation in which a number of changes were made under the Internal Revenue Code, including a reduction of the corporate income tax rate, significant limitations on the deductibility of interest, allowance of the expensing of capital expenditures, limitation on

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deductibility of FDIC insurance premiums, and limitation of the deductibility of certain performance-based compensation, among others

FFIEC – Federal Financial Institutions Examination Council

FHLB – Federal Home Loan Bank

FICO – Fair Isaac Corporation

FTE – Fully taxable-equivalent

GA DBF – Georgia Department of Banking and Finance

GAAP – Generally Accepted Accounting Principles in the United States of America

GGL – Government guaranteed loans

Global One – Entaire Global Companies, Inc., the parent company of Global One Financial, Inc., as acquired by Synovus on October 1, 2016. Throughout this Report, we refer to this acquisition as "Global One"

GSE – Government sponsored enterprise

HELOC – Home equity line of credit

LTV – Loan-to-collateral value ratio

Merger Agreement – Agreement and Plan of Merger by and among Synovus, FCB and Azalea Merger Sub Corp. dated as of July 23, 2018

Merger – The proposed merger of Azalea Merger Sub Corp. with and into FCB pursuant to the terms and conditions of the Merger Agreement, with FCB continuing as the surviving entity. Immediately thereafter, FCB will merge with and into Synovus, with Synovus continuing as the surviving entity

NAICS – North American Industry Classification System

nm – not meaningful

NPA – Non-performing assets

NPL – Non-performing loans

NSF – Non-sufficient funds

OCI – Other comprehensive income

ORE – Other real estate

OTC– Over-the-counter

OTTI – Other-than-temporary impairment

Parent Company – Synovus Financial Corp.

SBA – Small Business Administration

SEC – U.S. Securities and Exchange Commission

Securities Act – Securities Act of 1933, as amended

Series C Preferred Stock – Synovus' Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, \$25 liquidation preference

Series D Preferred Stock – Synovus' Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, \$25 liquidation preference

Synovus – Synovus Financial Corp.

Synovus Bank – A Georgia state-chartered bank and wholly-owned subsidiary of Synovus, through which Synovus conducts its banking operations

Synovus' 2017 Form 10-K – Synovus' Annual Report on Form 10-K for the year ended December 31, 2017

Synovus Mortgage – Synovus Mortgage Corp., a wholly-owned subsidiary of Synovus Bank

Synovus Securities – Synovus Securities, Inc., a wholly-owned subsidiary of Synovus

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Synovus Trust – Synovus Trust Company, N.A., a wholly-owned subsidiary of Synovus Bank

TDR – Troubled debt restructuring (as defined in ASC 310-40)

the Treasury – United States Department of the Treasury

VIE – Variable interest entity, as defined in ASC 810-10

Visa – The Visa U.S.A., Inc. card association or its affiliates, collectively

Visa Class A shares – Class A shares of common stock issued by Visa are publicly traded shares which are not subject to restrictions on sale

Visa Class B shares – Class B shares of common stock issued by Visa which are subject to restrictions with respect to sale until all of the Covered Litigation has been settled. Class B shares will be convertible into Visa Class A shares using a then-current conversion ratio upon the lifting of restrictions with respect to sale of Visa Class B shares

Visa Derivative – A derivative contract with the purchaser of Visa Class B shares which provides for settlements between the purchaser and Synovus based upon a change in the ratio for conversion of Visa Class B shares into Visa Class A shares

Warrant – A warrant issued to the Treasury by Synovus to purchase up to 2,215,820 shares of Synovus common stock at a per share exercise price of \$65.52 expiring on December 19, 2018, as was issued by Synovus to Treasury in 2008 in connection with the Capital Purchase Program, promulgated under the Emergency Stabilization Act of 2008

WFB – World's Foremost Bank, a wholly-owned subsidiary of Cabela's Incorporated

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PART I. FINANCIAL INFORMATION
ITEM 1. - FINANCIAL STATEMENTS
SYNOVUS FINANCIAL CORP.
CONSOLIDATED BALANCE SHEETS
(unaudited)

(in thousands, except share and per share data)	September 30, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$436,540	\$397,848
Interest-bearing funds with Federal Reserve Bank	515,493	460,928
Interest earning deposits with banks	34,470	26,311
Federal funds sold and securities purchased under resale agreements	25,430	47,846
Total cash, cash equivalents, restricted cash, and restricted cash equivalents ⁽¹⁾	1,011,933	932,933
Mortgage loans held for sale, at fair value	37,276	48,024
Investment securities available for sale, at fair value	3,883,574	3,987,069
Loans, net of deferred fees and costs	25,577,116	24,787,464
Allowance for loan losses	(251,450)	(249,268)
Loans, net	25,325,666	24,538,196
Cash surrender value of bank-owned life insurance	551,061	540,958
Premises and equipment, net	431,012	426,813
Goodwill	57,315	57,315
Other intangible assets	10,166	11,254
Deferred tax asset, net	185,116	165,788
Other assets	582,001	513,487
Total assets	\$32,075,120	\$31,221,837
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest-bearing deposits	\$7,628,736	\$7,686,339
Interest-bearing deposits	18,804,922	18,461,561
Total deposits	26,433,658	26,147,900
Federal funds purchased and securities sold under repurchase agreements	191,145	161,190
Other short-term borrowings	478,540	100,000
Long-term debt	1,656,909	1,606,138
Other liabilities	274,795	245,043
Total liabilities	29,035,047	28,260,271
Shareholders' Equity		
Series D Preferred Stock – no par value. Authorized 100,000,000 shares; 8,000,000 shares issued and outstanding at September 30, 2018	195,138	—
Series C Preferred Stock - no par value. 5,200,000 shares outstanding at December 31, 2017	—	125,980
Common stock - \$1.00 par value. Authorized 342,857,143 shares; 143,093,317 issued at September 30, 2018 and 142,677,449 issued at December 31, 2017; 116,714,463 outstanding at September 30, 2018 and 118,897,295 outstanding at December 31, 2017	143,093	142,678
Additional paid-in capital	3,049,233	3,043,129
Treasury stock, at cost – 26,378,854 shares at September 30, 2018 and 23,780,154 shares at December 31, 2017	(974,478)	(839,674)
Accumulated other comprehensive loss	(143,720)	(54,754)

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Retained earnings	770,807	544,207
Total shareholders' equity	3,040,073	2,961,566
Total liabilities and shareholders' equity	\$32,075,120	\$31,221,837

See accompanying notes to unaudited interim consolidated financial statements.

⁽¹⁾ See "Note 1 - Basis of Presentation" of this Report for information on Synovus' change in presentation of cash and cash equivalents.

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CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(in thousands, except per share data)				
Interest income:				
Loans, including fees	\$314,639	\$273,847	\$900,035	\$785,166
Investment securities available for sale	24,164	20,014	71,976	60,112
Mortgage loans held for sale	578	506	1,514	1,478
Federal Reserve Bank balances	2,376	1,569	6,944	4,084
Other earning assets	2,185	1,716	6,442	4,723
Total interest income	343,942	297,652	986,911	855,563
Interest expense:				
Deposits	39,219	20,798	98,195	55,874
Federal funds purchased, securities sold under repurchase agreements, and other short-term borrowings	940	347	2,744	865
Long-term debt	12,164	13,935	35,492	45,227
Total interest expense	52,323	35,080	136,431	101,966
Net interest income	291,619	262,572	850,480	753,597
Provision for loan losses	14,982	39,686	39,548	58,620
Net interest income after provision for loan losses	276,637	222,886	810,932	694,977
Non-interest income:				
Service charges on deposit accounts	20,582	20,678	60,521	61,048
Fiduciary and asset management fees	13,462	12,615	40,881	37,290
Card fees	10,608	9,729	31,640	29,614
Brokerage revenue	9,329	7,511	26,924	21,947
Mortgage banking income	5,290	5,603	15,177	17,151
Income from bank-owned life insurance	3,771	3,232	11,720	9,560
Cabela's Transaction Fee	—	75,000	—	75,000
Investment securities losses, net	—	(7,956)	(1,296)	(289)
Other fee income	4,510	5,094	14,387	16,127
Other non-interest income	4,116	3,929	12,147	8,526
Total non-interest income	71,668	135,435	212,101	275,974
Non-interest expense:				
Salaries and other personnel expense	114,341	109,675	339,924	322,079
Net occupancy and equipment expense	32,088	30,573	96,222	89,837
Third-party processing expense	14,810	13,659	43,822	39,882
FDIC insurance and other regulatory fees	6,430	7,078	19,765	20,723
Professional fees	6,298	7,141	18,087	20,048
Advertising expense	3,735	3,610	14,046	14,868
Foreclosed real estate expense, net	360	7,265	1,110	10,847
Earnout liability adjustments	11,652	2,059	11,652	3,766
Merger-related expense	6,684	23	6,684	110
Restructuring charges, net	21	519	(191)	7,043
Other operating expenses	23,878	24,044	68,410	65,577
Total non-interest expense	220,297	205,646	619,531	594,780
Income before income taxes	128,008	152,675	403,502	376,171
Income tax expense	18,949	54,668	80,095	130,303

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Net income	109,059	98,007	323,407	245,868
Less: Preferred stock dividends and redemption charge	9,729	2,559	14,848	7,678
Net income available to common shareholders	\$99,330	\$95,448	\$308,559	\$238,190
Net income per common share, basic	\$0.85	\$0.79	\$2.61	\$1.96
Net income per common share, diluted	0.84	0.78	2.60	1.94
Weighted average common shares outstanding, basic	117,241	120,900	118,096	121,796
Weighted average common shares outstanding, diluted	118,095	121,814	118,847	122,628

See accompanying notes to unaudited interim consolidated financial statements.

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SYNOVUS FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

(in thousands)	Three Months Ended September 30,					
	2018			2017		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	\$128,008	\$ (18,949)	\$109,059	\$152,675	\$ (54,668)	\$98,007
Net unrealized (losses) gains on investment securities available for sale:						
Reclassification adjustment for net losses realized in net income	—	—	—	7,956	(3,063)	4,893
Net unrealized (losses) gains arising during the period	(24,210)	6,270	(17,940)	5,465	(2,106)	3,359
Net unrealized (losses) gains	(24,210)	6,270	(17,940)	13,421	(5,169)	8,252
Post-retirement unfunded health benefit:						
Reclassification adjustment for gains realized in net income	(35)	9	(26)	(34)	13	(21)
Actuarial (losses) gains arising during the period	(46)	12	(34)	61	(23)	38
Net increase (decrease) in unrealized gains, net	(81)	21	(60)	27	(10)	17
Other comprehensive (loss) income	\$ (24,291)	\$ 6,291	\$ (18,000)	\$ 13,448	\$ (5,179)	\$ 8,269
Comprehensive income			\$91,059			\$106,276

(in thousands)	Nine Months Ended September 30,					
	2018			2017		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	\$403,502	\$ (80,095)	\$323,407	\$376,171	\$ (130,303)	\$245,868
Net change related to cash flow hedges:						
Reclassification adjustment for losses realized in net income	—	—	—	130	(50)	80
Net unrealized (losses) gains on investment securities available for sale:						
Reclassification adjustment for net losses realized in net income	1,296	(336)	960	289	(111)	178
Net unrealized (losses) gains arising during the period	(111,131)	28,782	(82,349)	25,715	(9,903)	15,812
Net unrealized (losses) gains	(109,835)	28,446	(81,389)	26,004	(10,014)	15,990
Post-retirement unfunded health benefit:						
Reclassification adjustment for gains realized in net income	(103)	31	(72)	(74)	29	(45)
Actuarial (losses) gains arising during the period	(46)	12	(34)	61	(23)	38
Net increase (decrease) in unrealized gains, net	(149)	43	(106)	(13)	6	(7)
Other comprehensive (loss) income	\$ (109,984)	\$ 28,489	\$ (81,495)	\$ 26,121	\$ (10,058)	\$ 16,063

Comprehensive income	\$241,912	\$261,931
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See accompanying notes to unaudited interim consolidated financial statements.

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SYNOVUS FINANCIAL CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

(in thousands, except per share data)	Series D Preferred Stock	Series C Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2016	\$—	\$125,980	\$142,026	\$3,028,405	\$(664,595)	\$(55,659)	\$351,767	\$2,927,924
Net income	—	—	—	—	—	—	245,868	245,868
Other comprehensive income, net of income taxes	—	—	—	—	—	16,063	—	16,063
Cash dividends declared on common stock - \$0.45 per share	—	—	—	—	—	—	(54,671)	(54,671)
Cash dividends paid on Series C Preferred Stock	—	—	—	—	—	—	(7,678)	(7,678)
Repurchases of common stock	—	—	—	—	(135,914)	—	—	(135,914)
Restricted share unit activity	—	—	335	(8,007)	—	—	(290)	(7,962)
Stock options exercised	—	—	164	2,708	—	—	—	2,872
Share-based compensation expense	—	—	—	10,576	—	—	—	10,576
Balance at September 30, 2017	\$—	\$125,980	\$142,525	\$3,033,682	\$(800,509)	\$(39,596)	\$534,996	\$2,997,078
Balance at December 31, 2017	\$—	\$125,980	\$142,678	\$3,043,129	\$(839,674)	\$(54,754)	\$544,207	\$2,961,566
Cumulative-effect adjustment from adoption of ASU 2014-09	—	—	—	—	—	—	(685)	(685)
Reclassification from adoption of ASU 2018-02	—	—	—	—	—	(7,588)	7,588	—
Cumulative-effect adjustment from adoption of ASU 2016-01	—	—	—	—	—	117	(117)	—
Net income	—	—	—	—	—	—	323,407	323,407
	—	—	—	—	—	(81,495)	—	(81,495)

Other comprehensive loss, net of income taxes									
Cash dividends declared on common stock - \$0.75 per share	—	—	—	—	—	—	(88,396)	(88,396)	
Cash dividends paid on Series C Preferred Stock	—	—	—	—	—	—	(7,678)	(7,678)	
Redemption of Series C Preferred Stock	—	(125,980)	—	—	—	—	(4,020)	(130,000)	
Issuance of Series D Preferred Stock, net of issuance costs	195,138	—	—	—	—	—	—	195,138	
Cash dividends paid on Series D Preferred Stock	—	—	—	—	—	—	(3,150)	(3,150)	
Repurchases of common stock	—	—	—	—	(134,804)	—	—	(134,804)	
Restricted share unit vesting and taxes paid related to net share settlement	—	—	293	(8,355)	—	—	(349)	(8,411)	
Stock options exercised	—	—	122	1,955	—	—	—	2,077	
Share-based compensation expense	—	—	—	12,504	—	—	—	12,504	
Balance at September 30, 2018	\$195,138	\$—	\$143,093	\$3,049,233	\$(974,478)	\$(143,720)	\$770,807	\$3,040,073	

See accompanying notes to unaudited interim consolidated financial statements.

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SYNOVUS FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30,	
(in thousands)	2018	2017
Operating Activities		
Net income	\$323,407	\$245,868
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	39,548	58,620
Depreciation, amortization, and accretion, net	41,716	44,786
Deferred income tax expense	9,360	114,205
Originations of mortgage loans held for sale	(429,531)	(490,202)
Proceeds from sales of mortgage loans held for sale	449,651	500,786
Gain on sales of mortgage loans held for sale, net	(9,886)	(10,587)
Increase in other assets	(82,608)	(6,678)
Increase in other liabilities	17,690	17,718
Investment securities losses, net	1,296	289
Share-based compensation expense	12,504	10,576
Net cash provided by operating activities	373,147	485,381
Investing Activities		
Proceeds from maturities and principal collections of investment securities available for sale	457,151	483,307
Proceeds from sales of investment securities available for sale	35,066	812,293
Purchases of investment securities available for sale	(510,797)	(1,195,302)
Proceeds from sales of loans	15,454	26,386
Proceeds from sales of other real estate and other assets	8,676	11,517
Net increase in loans including purchases of loans	(842,383)	(755,231)
Purchases of bank-owned life insurance policies, net of settlements	1,783	(150,000)
Net increase in premises and equipment	(39,034)	(34,717)
Net cash used in investing activities	(874,084)	(801,747)
Financing Activities		
Net (decrease) increase in demand and savings deposits	(152,313)	335,438
Net increase in certificates of deposit	437,655	1,202,926
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	29,955	(18,160)
Net change in other short-term borrowings	378,540	—
Repayments and redemption of long-term debt	(2,230,052)	(1,653,613)
Proceeds from issuance of long-term debt	2,280,000	1,375,000
Dividends paid to common shareholders	(77,020)	(36,681)
Dividends paid to preferred shareholders	(10,828)	(7,678)
Proceeds from issuance of Series D Preferred Stock	195,138	—
Redemption of Series C Preferred Stock	(130,000)	—
Stock options exercised	2,077	2,872
Repurchase of common stock	(134,804)	(135,914)
Taxes paid related to net share settlement of equity awards	(8,411)	(7,962)
Net cash provided by financing activities	579,937	1,056,228
Increase in cash and cash equivalents including restricted cash	79,000	739,862

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Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period ⁽¹⁾	932,933	999,045
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period ⁽¹⁾	\$1,011,933	\$1,738,907
Supplemental Cash Flow Information		
Cash paid during the period for:		
Income tax payments, net	\$40,340	\$11,195
Interest paid	122,182	101,632
Non-cash Activities		
Premises and equipment transferred to/(from) other assets	785	(3,387)
Loans foreclosed and transferred to other real estate	11,280	6,571
Loans transferred to/(from) other loans held for sale at fair value	4,088	77,774
Topic 606 cumulative-effect adjustment to opening balance of retained earnings	(685)	—
Equity investment securities available for sale transferred to other assets at fair value	3,162	—
Securities purchased during the period but settled after period-end	—	193,286
Dividends declared on common stock during the period but paid after period-end	29,211	17,990

See accompanying notes to unaudited interim consolidated financial statements.

⁽¹⁾ See "Note 1 - Basis of Presentation" of this Report for information on Synovus' change in presentation of cash and cash equivalents.

Notes to Unaudited Interim Consolidated Financial Statements

Note 1 - Basis of Presentation

General

The accompanying unaudited interim consolidated financial statements of Synovus Financial Corp. include the accounts of the Parent Company and its consolidated subsidiaries. Synovus Financial Corp. is a financial services company based in Columbus, Georgia. Through its wholly-owned subsidiary, Synovus Bank, a Georgia state-chartered bank that is a member of the Federal Reserve System, the company provides commercial and retail banking in addition to a full suite of specialized products and services including private banking, treasury management, wealth management, premium finance and international banking. Synovus Bank is positioned in markets in the Southeast, with 249 branches and 334 ATMs in Georgia, Alabama, South Carolina, Florida, and Tennessee. The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the instructions to the SEC Form 10-Q and Article 10 of Regulation S-X; therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, comprehensive income, and cash flows in conformity with GAAP. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the consolidated financial position and results of operations for the periods covered by this Report have been included. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes appearing in Synovus' 2017 Form 10-K.

Reclassifications

In connection with the adoption of ASU 2016-18, Statement of Cash Flows-Restricted Cash, Synovus changed its presentation of cash and cash equivalents, effective January 1, 2018, to include cash and due from banks as well as interest-bearing funds with Federal Reserve Bank, interest earning deposits with banks, and federal funds sold and securities purchased under resale agreements, which are inclusive of any restricted cash and restricted cash equivalents. Prior to 2018, cash and cash equivalents only included cash and due from banks. Prior periods have been revised to maintain comparability. Excluding the aforementioned presentation change and the recently adopted accounting standards listed below, there have been no significant changes to the accounting policies as disclosed in Synovus' 2017 Form 10-K.

Prior periods' consolidated financial statements are reclassified whenever necessary to conform to the current periods' presentation.

Use of Estimates in the Preparation of Financial Statements

In preparing the unaudited interim consolidated financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the respective consolidated balance sheets and the reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the fair value of investment securities.

Recently Adopted Accounting Standards

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) issued by the FASB in May 2014, and all subsequent ASUs that modified Topic 606. ASU 2014-09 implements a common revenue standard that establishes principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts to provide goods or services to customers. The core principle of the revenue model is that a company will recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The scope of the guidance explicitly excludes net interest income as well as many other revenues from financial assets. Management reviewed its revenue streams and contracts with customers and did not identify material changes to the timing or amount of revenue recognition. Synovus adopted these ASUs on the required effective date of January 1, 2018 utilizing the modified retrospective method of adoption. The adoption resulted in a cumulative effect adjustment of (\$685) thousand to the opening balance of retained earnings. Beginning January 1, 2018, in connection with the adoption of this standard, Synovus began including merchant discounts and other card-related fees in card fees. For periods prior to January 1, 2018, these amounts were previously presented in other non-interest income and have been reclassified

for comparability. See "Part I - Item 1. Financial Statements and Supplementary Data - Note 12 - Non-interest Income" for the required disclosures in accordance with this ASU.

ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. In February 2018, the FASB issued final guidance on reclassification of tax effects stranded in other comprehensive income due to Federal Tax Reform. The guidance provides entities the option to reclassify the tax effects that are stranded in accumulated other comprehensive income, or AOCI, as a result of Federal Tax Reform to retained earnings. The guidance is effective for fiscal years beginning after December 15, 2018; early adoption is permitted. Synovus elected to early adopt ASU 2018-02 as of January 1, 2018 and elected to reclassify the income tax effects of Federal Tax Reform from AOCI to retained earnings. For Synovus, tax effects stranded in AOCI due to Federal Tax Reform totaled \$7.6 million at December 31, 2017 and primarily related to unrealized losses on the available-for-sale investment securities portfolio. The reclassification adjustment resulted in an increase to retained earnings as of January 1, 2018 of \$7.6 million and a corresponding decrease to AOCI for the same amount.

ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the FASB issued ASU 2016-01, which included targeted amendments to accounting guidance for recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that are consolidated) to be measured at fair value with changes in fair value recognized in net income. This ASU requires a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption to reclassify the cumulative change in fair value of equity securities previously recognized in AOCI. ASU 2016-01 became effective for Synovus on January 1, 2018. The adoption of the guidance resulted in a transfer of investments in mutual funds of \$3.2 million, at fair value, from investment securities available for sale to other assets and a \$117 thousand cumulative-effect adjustment that decreased retained earnings, with offsetting related adjustments to deferred taxes and AOCI. ASU 2016-01 also emphasizes the existing requirement to use an exit price concept to measure fair value for disclosure purposes in determining the fair value of loans. Determination of the fair value under the exit price method requires judgment because substantially all of the loans within the loan portfolio do not have observable market prices. The adoption of this guidance did not have a significant impact on Synovus' fair value disclosures.

ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. In August 2018, the FASB issued ASU 2018-13, which changes the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU remove, modify, and add certain required disclosures on fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2019; early adoption is permitted. Synovus elected to early adopt ASU 2018-13 for eliminated and modified disclosures upon issuance of this ASU. Synovus will delay adoption of the additional disclosures until their effective date. The adoption of this guidance did not have a significant impact on Synovus' fair value disclosures.

ASU 2018-15, Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. In August 2018, the FASB issued ASU 2018-15, which amends ASC 350-40. The ASU aligns the requirements for capitalizing implementation costs for a hosting arrangement that is a service contract with those incurred for hosting arrangements that contain a software license as well as those incurred to develop or implement software for internal use. This guidance is effective for fiscal years beginning after December 15, 2019; early adoption is permitted. Synovus elected to early adopt ASU 2018-15, on a prospective basis, upon issuance of this ASU. As of September 30, 2018, no implementation costs have been capitalized under this ASU. Synovus expects to capitalize certain qualifying implementation, set-up, and other upfront costs related to hosting arrangements under a service contract during the fourth quarter of 2018.

Recently Issued Accounting Standards Not Yet Adopted

ASU 2016-13, Financial Instruments--Credit Losses (CECL). In June 2016, the FASB issued new guidance related to credit losses. The new guidance replaces the existing incurred loss impairment guidance with an expected credit loss methodology. The new guidance will require management's estimate of credit losses over the full remaining expected life of loans and other financial instruments. For Synovus, the standard will apply to loans, unfunded loan commitments, and debt securities available for sale. The standard is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years with early adoption permitted on January 1, 2019.

Synovus will adopt the guidance on January 1, 2020. Upon adoption, Synovus will record a cumulative-effect adjustment to retained earnings as of the beginning of the reporting period of adoption.

Synovus has begun its implementation efforts which are led by a cross-functional steering committee. Management expects that the allowance for loan losses will be higher under the new standard; however, management is still in the process of determining the magnitude of the impact on its financial statements and regulatory capital ratios.

Additionally, the extent of the expected increase on the allowance for loan losses will depend upon the composition of the loan portfolio upon adoption of the standard, as well as economic conditions and forecasts at that time.

ASU 2016-02, Leases (ASC 842). In February 2016, the FASB issued ASU 2016-02, its new standard on lease accounting. ASU 2016-02 introduces a lessee model that brings most leases on the balance sheet. Under the new standard, all lessees will

recognize a right-of-use asset and a lease liability, including operating leases, with a lease term greater than 12 months. From a lessor perspective, the accounting model is largely unchanged from existing GAAP. Additional amendments include, but are not limited to, the elimination of leveraged leases; modification to the definition of a lease; amendments on sale and leaseback transactions; and disclosure of additional qualitative and quantitative information.

In July 2018, the FASB issued ASU 2018-11, Leases (ASC 842), Targeted Improvements. The ASU 2018-11 amendments include an optional transition method to apply ASU 2016-02 on a prospective basis as of the effective date, with a cumulative-effect adjustment to retained earnings in the period of adoption, instead of applying the guidance using the modified retrospective approach as originally required under ASU 2016-02. ASU 2018-11 also provides lessors with a practical expedient, by class of underlying asset, to not separate lease and non-lease components under certain circumstances, and clarifies which guidance (ASC 842 or ASC 606) to apply to the combined lease and non-lease components.

Synovus will elect the optional transition method provided through ASU 2018-11 and will adopt ASU 2016-02 prospectively on January 1, 2019. Synovus will elect the package of practical expedients to not reassess (a) whether existing contracts contain leases, (b) lease classification for existing leases, and (c) initial direct cost for any existing leases. Synovus currently expects to recognize lease liabilities and corresponding right-of-use assets (at their present value) related to substantially all of the \$230 million of future minimum lease commitments as disclosed in Note 7 of Synovus' 2017 Form 10-K. Additionally, Synovus expects to recognize a cumulative-effect adjustment upon adoption to increase the beginning balance of retained earnings as of January 1, 2019 for any remaining deferred gains on sale-leaseback transactions that occurred prior to the date of initial application. Synovus had approximately \$5.2 million of such deferred gains recorded as of September 30, 2018. Synovus does not expect this ASU to have a material impact on the timing of expense recognition in its consolidated statements of income.

Note 2 - Acquisitions

Cabela's Transaction

On September 25, 2017, Synovus' wholly owned subsidiary, Synovus Bank, completed the acquisition of certain assets and assumption of certain liabilities of WFB. Immediately following the closing of this transaction, Synovus Bank sold WFB's credit card assets and related liabilities to Capital One Bank (USA), National Association, a bank subsidiary of Capital One Financial Corporation.

Synovus retained WFB's \$1.10 billion brokered time deposits portfolio, which had a weighted average remaining maturity of approximately 2.53 years and a weighted average rate of 1.83% as of September 25, 2017. The transaction was accounted for as an assumption of a liability (accounted for under the asset acquisition model). In accordance with ASC 820, Fair Value Measurements and Disclosures, the brokered time deposit portfolio was recorded at \$1.10 billion, which was the amount of cash received for the deposits and represented the estimated fair value of the deposits at the transaction date. Additionally, Synovus received a \$75.0 million transaction fee from Cabela's Incorporated and Capital One, which was recognized into earnings on September 25, 2017 upon closing of the transaction, based on having achieved the recognition criteria outlined in SEC SAB Topic 13.A, Revenue Recognition.

Acquisition of Global One

On October 1, 2016, Synovus completed its acquisition of all of the outstanding stock of Global One. Prior to its acquisition, Global One was an Atlanta-based private specialty financial services company that provided financing primarily to commercial entities, with all loans fully collateralized by cash value life insurance policies and/or annuities issued by investment grade life insurance companies. Under the terms of the merger agreement, Synovus acquired Global One for an up-front payment of \$30 million, consisting of the issuance of 821 thousand shares of Synovus common stock valued at \$26.6 million and \$3.4 million in cash, with additional payments to Global One's former shareholders over a three to five year period based on earnings from the Global One business, as further discussed below.

The acquisition of Global One constituted a business combination. Accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair values on October 1, 2016. The determination of fair value required management to make estimates about discount rates, future expected earnings and cash flows, market conditions, future loan growth, and other future events that are highly subjective in nature and subject to change. During the three months ended September 30, 2017, Synovus completed the determination of the final allocation of the purchase price with respect to the assets acquired and liabilities assumed.

Under the terms of the merger agreement, the purchase price includes additional annual payments ("Earnout Payments") to Global One's former shareholders over a three to five year period, with amounts based on a percentage of "Global One Earnings," as defined in the merger agreement. The Earnout Payments consist of shares of Synovus common stock as well as a smaller cash consideration component. The first annual Earnout Payment of stock and cash valued at \$6.4 million was made during November 2017. During the quarter ended September 30, 2018, Synovus recorded an \$11.7 million increase to the earnout liability driven by increased earnings projections of Global One. The total fair value of the earnout liability at September 30, 2018 was \$23.0 million based on the estimated fair value of the remaining Earnout Payments.

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Note 3 - Investment Securities Available for Sale

The amortized cost, gross unrealized gains and losses, and estimated fair values of investment securities available for sale at September 30, 2018 and December 31, 2017 are summarized below.

(in thousands)	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$123,265	\$ —	\$(2,626)	) \$120,639
U.S. Government agency securities	38,020	102	(258)	) 37,864
Mortgage-backed securities issued by U.S. Government agencies	104,933	75	(4,125)	) 100,883
Mortgage-backed securities issued by U.S. Government sponsored enterprises	2,592,827	70	(103,532)	) 2,489,365
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	1,168,378	—	(50,675)	) 1,117,703
Corporate debt and other debt securities	17,000	155	(35)	) 17,120
Total investment securities available for sale	\$4,044,423	\$ 402	\$(161,251)	) \$3,883,574

(in thousands)	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$83,608	\$ —	\$(934)	) \$82,674
U.S. Government agency securities	10,771	91	—	) 10,862
Mortgage-backed securities issued by U.S. Government agencies	121,283	519	(1,362)	) 120,440
Mortgage-backed securities issued by U.S. Government sponsored enterprises	2,666,818	5,059	(31,354)	) 2,640,523
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	1,135,259	144	(23,404)	) 1,111,999
State and municipal securities	180	—	—	) 180
Corporate debt and other securities	20,320	294	(223)	) 20,391
Total investment securities available for sale	\$4,038,239	\$ 6,107	\$(57,277)	) \$3,987,069

At September 30, 2018 and December 31, 2017, investment securities with a carrying value of \$1.29 billion and \$2.00 billion, respectively, were pledged to secure certain deposits and securities sold under repurchase agreements as required by law and contractual agreements.

Synovus has reviewed investment securities that are in an unrealized loss position as of September 30, 2018 and December 31, 2017 for OTTI and does not consider any securities in an unrealized loss position to be other-than-temporarily impaired. If Synovus intended to sell a security in an unrealized loss position, the entire unrealized loss would be reflected in earnings. Synovus does not intend to sell investment securities in an unrealized loss position prior to the recovery of the unrealized loss, which may not be until maturity, and has the ability and intent to hold those securities for that period of time. Additionally, Synovus is not currently aware of any circumstances which will require it to sell any of the securities that are in an unrealized loss position prior to the respective securities' recovery of all such unrealized losses.

For investment securities that Synovus does not expect to sell, or it is not more likely than not it will be required to sell prior to recovery of its amortized cost basis, the credit component of an OTTI would be recognized in earnings and the non-credit component would be recognized in OCI. Currently, unrealized losses on debt securities are attributable to increases in interest rates on comparable securities from the date of purchase. Synovus regularly evaluates its investment securities portfolio to ensure that there are no conditions that would indicate that unrealized losses represent OTTI. These factors include the length of time the security has been in a loss position, the extent that

the fair value is below amortized cost, and the credit standing of the issuer. As of September 30, 2018, Synovus had 43 investment securities in a loss position for less than twelve months and 100 investment securities in a loss position for twelve months or longer.

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Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2018 and December 31, 2017 are presented below.

(in thousands)	September 30, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	\$38,352	\$ 739	\$62,905	\$ 1,887	\$101,257	\$ 2,626
U.S. Government agency securities	29,727	258	—	—	29,727	258
Mortgage-backed securities issued by U.S. Government agencies	15,655	364	73,555	3,761	89,210	4,125
Mortgage-backed securities issued by U.S. Government sponsored enterprises	830,455	24,765	1,618,843	78,767	2,449,298	103,532
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	214,420	3,406	903,283	47,269	1,117,703	50,675
Corporate debt and other debt securities	—	—	1,965	35	1,965	35
Total	\$1,128,609	\$ 29,532	\$2,660,551	\$ 131,719	\$3,789,160	\$ 161,251

(in thousands)	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	\$34,243	\$ 443	\$29,562	\$ 491	\$63,805	\$ 934
Mortgage-backed securities issued by U.S. Government agencies	36,810	357	55,740	1,005	92,550	1,362
Mortgage-backed securities issued by U.S. Government sponsored enterprises	1,271,012	10,263	929,223	21,091	2,200,235	31,354
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	653,781	9,497	426,237	13,907	1,080,018	23,404
Corporate debt and other securities	—	—	5,097	223	5,097	223
Total	\$1,995,846	\$ 20,560	\$1,445,859	\$ 36,717	\$3,441,705	\$ 57,277

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The amortized cost and fair value by contractual maturity of investment securities available for sale at September 30, 2018 are shown below. The expected life of mortgage-backed securities or CMOs may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. For purposes of the maturity table, mortgage-backed securities and CMOs, which are not due at a single maturity date, have been classified based on the final contractual maturity date.

(in thousands)	Distribution of Maturities at September 30, 2018				
	Within One Year	1 to 5 Years	5 to 10 Years	More Than 10 Years	Total
Amortized Cost					
U.S. Treasury securities	\$19,382	\$103,883	\$—	\$—	\$123,265
U.S. Government agency securities	1,917	6,118	29,985	—	38,020
Mortgage-backed securities issued by U.S. Government agencies	—	—	25,659	79,274	104,933
Mortgage-backed securities issued by U.S. Government sponsored enterprises	—	43,496	556,115	1,993,216	2,592,827
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	—	—	28,367	1,140,011	1,168,378
Corporate debt and other debt securities	—	—	15,000	2,000	17,000
Total amortized cost	\$21,299	\$153,497	\$655,126	\$3,214,501	\$4,044,423
Fair Value					
U.S. Treasury securities	\$19,382	\$101,257	\$—	\$—	\$120,639
U.S. Government agency securities	1,937	6,200	29,727	—	37,864
Mortgage-backed securities issued by U.S. Government agencies	—	—	25,154	75,729	100,883
Mortgage-backed securities issued by U.S. Government sponsored enterprises	—	42,630	534,881	1,911,854	2,489,365
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	—	—	27,198	1,090,505	1,117,703
Corporate debt and other debt securities	—	—	15,155	1,965	17,120
Total fair value	\$21,319	\$150,087	\$632,115	\$3,080,053	\$3,883,574

Proceeds from sales, gross gains, and gross losses on sales of securities available for sale for the three and nine months ended September 30, 2018 and 2017 are presented below. The specific identification method is used to reclassify gains and losses out of other comprehensive income at the time of sale. On January 1, 2018, Synovus transferred \$3.2 million, at fair value, from investment securities available for sale to other assets upon adoption of ASU 2016-01.

(in thousands)	Three Months Ended September 30,	Nine Months Ended September 30,	
	2018	2018	2017
Proceeds from sales of investment securities available for sale	\$—	\$473,912	\$35,066
Gross realized gains on sales	—	—	7,942
Gross realized losses on sales	—	(7,956)	(1,296)
Investment securities losses, net	—	—	(8,231)
	\$—	\$(7,956)	\$(1,296)

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Note 4 - Loans and Allowance for Loan Losses

The following is a summary of current, accruing past due, and non-accrual loans by portfolio class as of September 30, 2018 and December 31, 2017.

Current, Accruing Past Due, and Non-accrual Loans

September 30, 2018

(in thousands)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days or Greater Past Due	Total Accruing Past Due	Non-accrual	Total
Commercial, financial and agricultural	\$7,185,447	\$25,850	\$1,159	\$27,009	\$69,010	\$7,281,466
Owner-occupied	5,206,192	8,879	1,049	9,928	5,708	5,221,828
Total commercial and industrial	12,391,639	34,729	2,208	36,937	74,718	12,503,294
Investment properties	5,661,605	1,930	—	1,930	2,155	5,665,690
1-4 family properties	701,406	2,651	—	2,651	3,139	707,196
Land and development	333,709	765	217	982	4,829	339,520
Total commercial real estate	6,696,720	5,346	217	5,563	10,123	6,712,406
Home equity lines	1,442,451	7,819	651	8,470	14,498	1,465,419
Consumer mortgages	2,832,971	4,960	—	4,960	5,313	2,843,244
Credit cards	241,334	2,170	1,645	3,815	—	245,149
Other consumer loans	1,809,033	18,444	135	18,579	3,773	1,831,385
Total consumer	6,325,789	33,393	2,431	35,824	23,584	6,385,197
Total loans	\$25,414,148	\$73,468	\$4,856	\$78,324	\$108,425	\$25,600,897 ⁽¹⁾

December 31, 2017

(in thousands)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days or Greater Past Due	Total Accruing Past Due	Non-accrual	Total
Commercial, financial and agricultural	\$7,097,127	\$11,214	\$1,016	\$12,230	\$70,130	\$7,179,487
Owner-occupied	4,830,150	6,880	479	7,359	6,654	4,844,163
Total commercial and industrial	11,927,277	18,094	1,495	19,589	76,784	12,023,650
Investment properties	5,663,665	2,506	90	2,596	3,804	5,670,065
1-4 family properties	775,023	3,545	202	3,747	2,849	781,619
Land and development	476,131	1,609	67	1,676	5,797	483,604
Total commercial real estate	6,914,819	7,660	359	8,019	12,450	6,935,288
Home equity lines	1,490,808	5,629	335	5,964	17,455	1,514,227
Consumer mortgages	2,622,061	3,971	268	4,239	7,203	2,633,503
Credit cards	229,015	1,930	1,731	3,661	—	232,676
Other consumer loans	1,461,223	10,333	226	10,559	1,669	1,473,451
Total consumer	5,803,107	21,863	2,560	24,423	26,327	5,853,857
Total loans	\$24,645,203	\$47,617	\$4,414	\$52,031	\$115,561	\$24,812,795 ⁽²⁾

⁽¹⁾ Total before net deferred fees and costs of \$23.8 million.

⁽²⁾ Total before net deferred fees and costs of \$25.3 million.

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Loans with carrying values of \$8.11 billion and \$7.93 billion were pledged as collateral for borrowings and potential borrowings at September 30, 2018 and December 31, 2017, respectively, to the FHLB and Federal Reserve Bank.

The credit quality of the loan portfolio is reviewed and updated no less frequently than quarterly using the standard asset classification system utilized by the federal banking agencies. These classifications are divided into three groups – Not Criticized (Pass), Special Mention, and Classified or Adverse rating (Substandard, Doubtful, and Loss) and are defined as follows:

Pass - loans which are well protected by the current net worth and paying capacity of the obligor (or guarantors, if any) or by the fair value, less cost to acquire and sell in a timely manner, of any underlying collateral.

Special Mention - loans which have potential weaknesses that deserve management's close attention. These loans are not adversely classified and do not expose an institution to sufficient risk to warrant an adverse classification.

Substandard - loans which are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Loans with this classification are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - loans which have all the weaknesses inherent in loans classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable on the basis of currently known facts, conditions, and values.

Loss - loans which are considered by management to be uncollectible and of such little value that their continuance on the institution's books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. Synovus fully reserves for any loans rated as Loss.

In the following tables, consumer loans are generally assigned a risk grade similar to the classifications described above; however, upon reaching 90 days and 120 days past due, they are generally downgraded to Substandard and Loss, respectively, in accordance with the FFIEC Uniform Retail Credit Classification and Account Management Policy. Additionally, in accordance with the Interagency Supervisory Guidance on Allowance for Loan and Lease Losses Estimation Practices for Loans and Lines of Credit Secured by Junior Liens on 1-4 Family Residential Properties, the risk grade classifications of home equity lines and consumer mortgages secured by junior liens on 1-4 family residential properties also consider available information on the payment status of any associated senior liens with other financial institutions.

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Loan Portfolio Credit Exposure by Risk Grade

September 30, 2018						
(in thousands)	Pass	Special Mention	Substandard ⁽¹⁾	Doubtful ⁽²⁾	Loss	Total
Commercial, financial and agricultural	\$6,986,930	\$135,359	\$157,922	\$1,251	\$4	⁽³⁾ \$7,281,466
Owner-occupied	5,077,397	79,967	64,038	426	—	5,221,828
Total commercial and industrial	12,064,327	215,326	221,960	1,677	4	12,503,294
Investment properties	5,587,389	47,667	30,634	—	—	5,665,690
1-4 family properties	687,775	7,943	11,478	—	—	707,196
Land and development	298,696	24,661	12,689	3,129	345	⁽³⁾ 339,520
Total commercial real estate	6,573,860	80,271	54,801	3,129	345	6,712,406
Home equity lines	1,446,606	—	17,513	175	1,125	⁽³⁾ 1,465,419
Consumer mortgages	2,836,972	—	6,171	101	—	2,843,244
Credit cards	243,503	—	570	—	1,076	⁽⁴⁾ 245,149
Other consumer loans	1,827,487	—	3,640	257	1	⁽³⁾ 1,831,385
Total consumer	6,354,568	—	27,894	533	2,202	6,385,197
Total loans	\$24,992,755	\$295,597	\$304,655	\$5,339	\$2,551	\$25,600,897 ⁽⁵⁾

December 31, 2017						
(in thousands)	Pass	Special Mention	Substandard ⁽¹⁾	Doubtful ⁽²⁾	Loss	Total
Commercial, financial and agricultural	\$6,929,506	\$115,912	\$132,818	\$1,251	\$—	\$7,179,487
Owner-occupied	4,713,877	50,140	80,073	73	—	4,844,163
Total commercial and industrial	11,643,383	166,052	212,891	1,324	—	12,023,650
Investment properties	5,586,792	64,628	18,645	—	—	5,670,065
1-4 family properties	745,299	19,419	16,901	—	—	781,619
Land and development	431,759	33,766	14,950	3,129	—	483,604
Total commercial real estate	6,763,850	117,813	50,496	3,129	—	6,935,288
Home equity lines	1,491,105	—	21,079	285	1,758	⁽³⁾ 1,514,227
Consumer mortgages	2,622,499	—	10,607	291	106	⁽³⁾ 2,633,503
Credit cards	230,945	—	399	—	1,332	⁽⁴⁾ 232,676
Other consumer loans	1,470,944	—	2,168	329	10	⁽³⁾ 1,473,451
Total consumer	5,815,493	—	34,253	905	3,206	5,853,857
Total loans	\$24,222,726	\$283,865	\$297,640	\$5,358	\$3,206	\$24,812,795 ⁽⁶⁾

⁽¹⁾ Includes \$204.1 million and \$190.6 million of Substandard accruing loans at September 30, 2018 and December 31, 2017, respectively.

⁽²⁾ The loans within this risk grade are on non-accrual status. Commercial loans generally have an allowance for loan losses in accordance with ASC 310, and retail loans generally have an allowance for loan losses equal to 50% of the loan amount.

⁽³⁾ The loans within this risk grade are on non-accrual status and have an allowance for loan losses equal to the full loan amount.

⁽⁴⁾ Represent amounts that were 120 days past due. These credits are downgraded to the Loss category with an allowance for loan losses equal to the full loan amount and are generally charged off upon reaching 181 days past due in accordance with the FFIEC Uniform Retail Credit Classification and Account Management Policy.

⁽⁵⁾ Total before net deferred fees and costs of \$23.8 million.

⁽⁶⁾ Total before net deferred fees and costs of \$25.3 million.

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The following table details the changes in the allowance for loan losses by loan segment for the three and nine months ended September 30, 2018 and 2017.

Allowance for Loan Losses and Recorded Investment in Loans

(in thousands)	As Of and For The Three Months Ended September 30, 2018			
	Commercial & Industrial	Commercial Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	\$130,335	\$75,205	\$46,185	\$251,725
Charge-offs	(13,526)	(1,077)	(3,993)	(18,596)
Recoveries	1,091	591	1,657	3,339
Provision for loan losses	11,417	(1,447)	5,012	14,982
Ending balance ⁽¹⁾	\$129,317	\$73,272	\$48,861	\$251,450
Ending balance: individually evaluated for impairment	\$9,108	\$3,317	\$970	\$13,395
Ending balance: collectively evaluated for impairment	\$120,209	\$69,955	\$47,891	\$238,055
Loans:				
Ending balance: total loans ⁽¹⁾⁽²⁾	\$12,503,294	\$6,712,406	\$6,385,197	\$25,600,897
Ending balance: individually evaluated for impairment	\$102,671	\$37,988	\$28,963	\$169,622
Ending balance: collectively evaluated for impairment	\$12,400,623	\$6,674,418	\$6,356,234	\$25,431,275

(in thousands)	As Of and For The Three Months Ended September 30, 2017			
	Commercial & Industrial	Commercial Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	\$123,437	\$77,527	\$47,131	\$248,095
Charge-offs	(21,855)	(8,129)	(14,367)	(44,351)
Recoveries	1,899	2,543	1,811	6,253
Provision for loan losses	23,022	6,019	10,645	39,686
Ending balance ⁽¹⁾	\$126,503	\$77,960	\$45,220	\$249,683
Ending balance: individually evaluated for impairment	\$7,360	\$4,108	\$783	\$12,251
Ending balance: collectively evaluated for impairment	\$119,143	\$73,852	\$44,437	\$237,432
Loans:				
Ending balance: total loans ⁽¹⁾⁽³⁾	\$11,727,142	\$7,226,924	\$5,557,572	\$24,511,638
Ending balance: individually evaluated for impairment	\$109,434	\$64,909	\$30,132	\$204,475
Ending balance: collectively evaluated for impairment	\$11,617,708	\$7,162,015	\$5,527,440	\$24,307,163

⁽¹⁾ As of and for the three months ended September 30, 2018 and 2017, there were no purchased credit-impaired loans and no allowance for loan losses for purchased credit-impaired loans.

⁽²⁾ Total before net deferred fees and costs of \$23.8 million.

⁽³⁾ Total before net deferred fees and costs of \$24.3 million.

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Allowance for Loan Losses and Recorded Investment in Loans

(in thousands)	As Of and For The Nine Months Ended September 30, 2018			
	Commercial & Industrial	Commercial Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	\$126,803	\$74,998	\$47,467	\$249,268
Charge-offs	(37,312)	(3,523)	(13,888)	(54,723)
Recoveries	5,086	7,555	4,716	17,357
Provision for loan losses	34,740	(5,758)	10,566	39,548
Ending balance ⁽¹⁾	\$129,317	\$73,272	\$48,861	\$251,450
Ending balance: individually evaluated for impairment	\$9,108	\$3,317	\$970	\$13,395
Ending balance: collectively evaluated for impairment	\$120,209	\$69,955	\$47,891	\$238,055
Loans:				
Ending balance: total loans ⁽¹⁾⁽²⁾	\$12,503,294	\$6,712,406	\$6,385,197	\$25,600,897
Ending balance: individually evaluated for impairment	\$102,671	\$37,988	\$28,963	\$169,622
Ending balance: collectively evaluated for impairment	\$12,400,623	\$6,674,418	\$6,356,234	\$25,431,275

(in thousands)	As Of and For The Nine Months Ended September 30, 2017			
	Commercial & Industrial	Commercial Real Estate	Consumer	Total
Allowance for loan losses:				
Beginning balance	\$125,778	\$81,816	\$44,164	\$251,758
Charge-offs	(41,390)	(11,336)	(24,023)	(76,749)
Recoveries	5,181	6,191	4,682	16,054
Provision for loan losses	36,934	1,289	20,397	58,620
Ending balance ⁽¹⁾	\$126,503	\$77,960	\$45,220	\$249,683
Ending balance: individually evaluated for impairment	\$7,360	\$4,108	\$783	\$12,251
Ending balance: collectively evaluated for impairment	\$119,143	\$73,852	\$44,437	\$237,432
Loans:				
Ending balance: total loans ⁽¹⁾⁽³⁾	\$11,727,142	\$7,226,924	\$5,557,572	\$24,511,638
Ending balance: individually evaluated for impairment	\$109,434	\$64,909	\$30,132	\$204,475
Ending balance: collectively evaluated for impairment	\$11,617,708	\$7,162,015	\$5,527,440	\$24,307,163

⁽¹⁾ As of and for the nine months ended September 30, 2018 and 2017, there were no purchased credit-impaired loans and no allowance for loan losses for purchased credit-impaired loans.

⁽²⁾ Total before net deferred fees and costs of \$23.8 million.

⁽³⁾ Total before net deferred fees and costs of \$24.3 million.

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The tables below summarize impaired loans (including accruing TDRs) as of September 30, 2018 and December 31, 2017.

Impaired Loans (including accruing TDRs)

(in thousands)	September 30, 2018			Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded							
Commercial, financial and agricultural	\$20,884	\$26,878	\$ —	\$21,118	\$ —	\$14,458	\$ —
Owner-occupied	—	—	—	—	—	—	—
Total commercial and industrial	20,884	26,878	—	21,118	—	14,458	—
Investment properties	—	—	—	—	—	—	—
1-4 family properties	—	—	—	—	—	—	—
Land and development	265	1,110	—	88	—	42	—
Total commercial real estate	265	1,110	—	88	—	42	—
Home equity lines	—	—	—	—	—	949	—
Consumer mortgages	33	60	—	42	—	901	—
Credit cards	—	—	—	—	—	—	—
Other consumer loans	—	—	—	—	—	—	—
Total consumer	33	60	—	42	—	1,850	—
Total impaired loans with no related allowance recorded	\$21,182	\$28,048	\$ —	\$21,248	\$ —	\$16,350	\$ —
With allowance recorded							
Commercial, financial and agricultural	\$35,181	\$36,127	\$ 6,024	\$40,136	\$ 143	\$55,088	\$ 571
Owner-occupied	46,606	47,292	3,084	44,366	435	40,171	1,165
Total commercial and industrial	81,787	83,419	9,108	84,502	578	95,259	1,736
Investment properties	13,846	13,846	1,566	14,103	179	20,437	597
1-4 family properties	8,307	8,307	191	9,697	176	10,876	619
Land and development	15,570	17,311	1,560	16,734	61	17,765	211
Total commercial real estate	37,723	39,464	3,317	40,534	416	49,078	1,427
Home equity lines	3,209	3,223	236	3,433	20	3,693	96
Consumer mortgages	20,201	20,201	575	19,924	225	19,496	618
Credit cards	—	—	—	—	—	—	—
Other consumer loans	5,520	5,520	159	5,284	69	5,220	212
Total consumer	28,930	28,944	970	28,641	314	28,409	926
Total impaired loans with allowance recorded	\$148,440	\$151,827	\$ 13,395	\$153,677	\$ 1,308	\$172,746	\$ 4,089
Total impaired loans							
Commercial, financial and agricultural	\$56,065	\$63,005	\$ 6,024	\$61,254	\$ 143	\$69,546	\$ 571
Owner-occupied	46,606	47,292	3,084	44,366	435	40,171	1,165
Total commercial and industrial	102,671	110,297	9,108	105,620	578	109,717	1,736
Investment properties	13,846	13,846	1,566	14,103	179	20,437	597
1-4 family properties	8,307	8,307	191	9,697	176	10,876	619
Land and development	15,835	18,421	1,560	16,822	61	17,807	211
Total commercial real estate	37,988	40,574	3,317	40,622	416	49,120	1,427

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Home equity lines	3,209	3,223	236	3,433	20	4,642	96
Consumer mortgages	20,234	20,261	575	19,966	225	20,397	618
Credit cards	—	—	—	—	—	—	—
Other consumer loans	5,520	5,520	159	5,284	69	5,220	212
Total consumer	28,963	29,004	970	28,683	314	30,259	926
Total impaired loans	\$169,622	\$179,875	\$ 13,395	\$174,925	\$ 1,308	\$189,096	\$ 4,089

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Impaired Loans (including accruing TDRs)

(in thousands)	December 31, 2017			Year Ended December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Commercial, financial and agricultural	\$8,220	\$9,576	\$ —	\$21,686	\$ —
Owner-occupied	—	—	—	6,665	—
Total commercial and industrial	8,220	9,576	—	28,351	—
Investment properties	—	—	—	123	—
1-4 family properties	—	—	—	323	—
Land and development	56	1,740	—	1,816	—
Total commercial real estate	56	1,740	—	2,262	—
Home equity lines	2,746	2,943	—	1,205	—
Consumer mortgages	—	—	—	496	—
Credit cards	—	—	—	—	—
Other consumer loans	—	—	—	—	—
Total consumer	2,746	2,943	—	1,701	—
Total impaired loans with no related allowance recorded	\$11,022	\$14,259	\$ —	\$32,314	\$ —
With allowance recorded					
Commercial, financial and agricultural	\$65,715	\$65,851	\$ 7,406	\$50,468	\$ 1,610
Owner-occupied	37,399	37,441	2,109	40,498	1,382
Total commercial and industrial	103,114	103,292	9,515	90,966	2,992
Investment properties	23,364	23,364	1,100	28,749	1,144
1-4 family properties	15,056	15,056	504	16,257	925
Land and development	18,420	18,476	2,636	23,338	404
Total commercial real estate	56,840	56,896	4,240	68,344	2,473
Home equity lines	5,096	5,096	114	7,476	334
Consumer mortgages	18,668	18,668	569	19,144	896
Credit cards	—	—	—	—	—
Other consumer loans	5,546	5,546	470	4,765	266
Total consumer	29,310	29,310	1,153	31,385	1,496
Total impaired loans with allowance recorded	\$189,264	\$189,498	\$ 14,908	\$190,695	\$ 6,961
Total impaired loans					
Commercial, financial and agricultural	\$73,935	\$75,427	\$ 7,406	\$72,154	\$ 1,610
Owner-occupied	37,399	37,441	2,109	47,163	1,382
Total commercial and industrial	111,334	112,868	9,515	119,317	2,992
Investment properties	23,364	23,364	1,100	28,872	1,144
1-4 family properties	15,056	15,056	504	16,580	925
Land and development	18,476	20,216	2,636	25,154	404
Total commercial real estate	56,896	58,636	4,240	70,606	2,473
Home equity lines	7,842	8,039	114	8,681	334
Consumer mortgages	18,668	18,668	569	19,640	896
Credit cards	—	—	—	—	—
Other consumer loans	5,546	5,546	470	4,765	266
Total consumer	32,056	32,253	1,153	33,086	1,496

Total impaired loans	\$200,286	\$203,757	\$ 14,908	\$223,009	\$ 6,961
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The average recorded investment in impaired loans was \$218.7 million and \$228.9 million respectively for the three and nine months ended September 30, 2017. Excluding accruing TDRs, there was no interest income recognized for the investment in impaired loans for the three and nine months ended September 30, 2017. Interest income recognized for accruing TDRs was \$1.7 million and \$5.2 million respectively for the three and nine months ended September 30, 2017. At September 30, 2018 and December 31, 2017, impaired loans of \$54.9 million and \$49.0 million, respectively, were on non-accrual status.

Concessions provided in a TDR are primarily in the form of providing a below market interest rate given the borrower's credit risk, a period of time generally less than one year with a reduction of required principal and/or interest payments (e.g., interest only for a period of time), or an extension of the maturity of the loan generally for less than one year. Insignificant periods of reduction of principal and/or interest payments, or one-time deferrals of 3 months or less, are generally not considered to be financial concessions.

As of September 30, 2018 and December 31, 2017, there were no commitments to lend a material amount of additional funds to any customer whose loan was classified as a troubled debt restructuring.

The following tables represent, by concession type, the post-modification balance for loans modified or renewed during the three and nine months ended September 30, 2018 and 2017 that were reported as accruing or non-accruing TDRs.

TDRs by Concession Type

Three Months Ended September 30, 2018					
(in thousands, except contract data)	Number of Contracts	Principal Forgiveness	Below Market Interest Rate	Term Extensions and/or Other Concessions	Total
Commercial, financial and agricultural	7	\$	—\$—	\$ 565	\$565
Owner-occupied	3	—	727	4,839	5,566
Total commercial and industrial	10	—	727	5,404	6,131
Investment properties	1	—	42	—	42
1-4 family properties	5	—	445	766	1,211
Land and development	1	—	—	71	71
Total commercial real estate	7	—	487	837	1,324
Home equity lines	1	—	—	191	191
Consumer mortgages	2	—	670	—	670
Credit cards	—	—	—	—	—
Other consumer loans	44	—	695	2,784	3,479
Total consumer	47	—	1,365	2,975	4,340
Total TDRs	64	\$	—\$2,579	\$ 9,216	\$11,795 ⁽¹⁾

Nine Months Ended September 30, 2018					
(in thousands, except contract data)	Number of Contracts	Principal Forgiveness	Below Market Interest Rate	Term Extensions and/or Other Concessions	Total
Commercial, financial and agricultural	21	\$	—\$—	\$ 2,130	\$2,130
Owner-occupied	9	—	5,526	5,523	11,049
Total commercial and industrial	30	—	5,526	7,653	13,179
Investment properties	4	—	6,053	2,215	8,268
1-4 family properties	12	—	1,408	1,259	2,667
Land and development	4	—	—	1,856	1,856
Total commercial real estate	20	—	7,461	5,330	12,791
Home equity lines	4	—	172	339	511

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Consumer mortgages	16	—	5,365	87	5,452
Credit cards	—	—	—	—	—
Other consumer loans	75	—	1,621	3,606	5,227
Total consumer	95	—	7,158	4,032	11,190
Total TDRs	145	\$	—\$20,145	\$ 17,015	\$37,160 ⁽¹⁾

⁽¹⁾ Net charge-offs of \$88 thousand were recorded during both the three and nine months ended September 30, 2018 upon restructuring of these loans.

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TDRs by Concession Type

Three Months Ended September 30, 2017					
(in thousands, except contract data)	Number of Contracts	Principal Forgiveness	Below Market Interest Rate	Term Extensions and/or Other Concessions	Total
Commercial, financial and agricultural	22	\$	—\$2,943	\$ 5,866	\$8,809
Owner-occupied	3	—	35	1,683	1,718
Total commercial and industrial	25	—	2,978	7,549	10,527
Investment properties	—	—	—	—	—
1-4 family properties	5	—	—	964	964
Land and development	3	—	157	760	917
Total commercial real estate	8	—	157	1,724	1,881
Home equity lines	—	—	—	—	—
Consumer mortgages	7	—	248	1,181	1,429
Credit cards	—	—	—	—	—
Other consumer loans	17	—	682	388	1,070
Total consumer	24	—	930	1,569	2,499
Total TDRs	57	\$	—\$4,065	\$ 10,842	\$14,907 ⁽²⁾

Nine Months Ended September 30, 2017					
(in thousands, except contract data)	Number of Contracts	Principal Forgiveness	Below Market Interest Rate	Term Extensions and/or Other Concessions	Total
Commercial, financial and agricultural	50	\$	—\$8,703	\$ 12,145	\$20,848
Owner-occupied	4	—	35	1,705	1,740
Total commercial and industrial	54	—	8,738	13,850	22,588
Investment properties	—	—	—	—	—
1-4 family properties	21	—	2,090	1,477	3,567
Land and development	4	—	157	895	1,052
Total commercial real estate	25	—	2,247	2,372	4,619
Home equity lines	—	—	—	—	—
Consumer mortgages	8	—	248	1,190	1,438
Credit cards	—	—	—	—	—
Other consumer loans	25	—	682	958	1,640
Total consumer	33	—	930	2,148	3,078
Total TDRs	112	\$	—\$11,915	\$ 18,370	\$30,285 ⁽²⁾

⁽²⁾ No net charge-offs were recorded during the three and nine months ended September 30, 2017 upon restructuring of these loans.

For the three months ended September 30, 2018 there were no defaults, and for the nine months ended September 30, 2018, there were eight defaults with a recorded investment of \$10.5 million on accruing TDRs restructured during the previous twelve months (defaults are defined as the earlier of the TDR being placed on non-accrual status or reaching 90 days past due with respect to principal and/or interest payments) compared to one default with a recorded investment of \$206 thousand and four defaults with a recorded investment of \$498 thousand for the three and nine months ended September 30, 2017, respectively.

If, at the time a loan was designated as a TDR, the loan was not already impaired, the measurement of impairment that resulted from the TDR designation closely approximates the reserve derived through specific loan measurement of impairment in accordance with ASC 310-10-35. Generally, the change in the allowance for loan losses resulting from such TDR designation is not significant. At September 30, 2018, the allowance for loan losses allocated to accruing TDRs totaling \$114.7 million was \$6.9 million compared to accruing TDRs of \$151.3 million with an allocated allowance for loan losses of \$8.7 million at December 31, 2017. Non-accrual, non-homogeneous loans (commercial-type impaired loans greater than \$1 million) that are designated as TDRs are individually measured for the amount of impairment, if any, both before and after the TDR designation.

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Note 5 - Accumulated Other Comprehensive Income (Loss)

The following tables illustrate activity within the balances in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2018 and 2017.

Changes in Accumulated Other Comprehensive Income (Loss) by Component (Net of Income Taxes)

(in thousands)	Net unrealized losses on cash flow hedges	Net unrealized gains (losses) on investment securities available for sale	Post-retirement unfunded health benefit	Total
Balance as of July 1, 2018	\$(12,137)	\$(114,565)	\$ 982	\$(125,720)
Other comprehensive loss before reclassifications	—	(17,940)	(34)	(17,974)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	(26)	(26)
Net current period other comprehensive loss	—	(17,940)	(60)	(18,000)
Balance as of September 30, 2018	\$(12,137)	\$(132,505)	\$ 922	\$(143,720)
Balance as of July 1, 2017	\$(12,137)	\$(36,586)	\$ 858	\$(47,865)
Other comprehensive income before reclassifications	—	3,359	38	3,397
Amounts reclassified from accumulated other comprehensive income (loss)	—	4,893	(21)	4,872
Net current period other comprehensive income	—	8,252	17	8,269
Balance as of September 30, 2017	\$(12,137)	\$(28,334)	\$ 875	\$(39,596)
(in thousands)	Net unrealized gains (losses) on cash flow hedges	Net unrealized gains (losses) on investment securities available for sale	Post-retirement unfunded health benefit	Total
Balance at December 31, 2017	\$(12,137)	\$(43,470)	\$ 853	\$(54,754)
Other comprehensive loss before reclassifications	—	(82,349)	(34)	(82,383)
Amounts reclassified from accumulated other comprehensive income (loss)	—	960	(72)	888
Net current period other comprehensive loss	—	(81,389)	(106)	(81,495)
Reclassification from adoption of ASU 2018-02	—	(7,763)	175	(7,588)
Cumulative-effect adjustment from adoption of ASU 2016-01	—	117	—	117
Balance as of September 30, 2018	\$(12,137)	\$(132,505)	\$ 922	\$(143,720)
Balance at December 31, 2016	\$(12,217)	\$(44,324)	\$ 882	\$(55,659)
Other comprehensive income before reclassifications	—	15,812	38	15,850
Amounts reclassified from accumulated other comprehensive income (loss)	80	178	(45)	213
Net current period other comprehensive income	80	15,990	(7)	16,063
Balance as of September 30, 2017	\$(12,137)	\$(28,334)	\$ 875	\$(39,596)

In accordance with ASC 740-20-45-11(b), a deferred tax asset valuation allowance associated with unrealized gains and losses not recognized in income is charged directly to other comprehensive income (loss). During the years 2010 and 2011, Synovus recorded a deferred tax asset valuation allowance associated with net unrealized losses not recognized in income directly to other comprehensive income (loss) by applying the portfolio approach for allocation of the valuation allowance. Synovus has consistently applied the portfolio approach which treats derivative instruments and available for sale securities as a single portfolio. As of September 30, 2018, the ending balance in net unrealized gains (losses) on cash flow hedges and net unrealized gains (losses) on investment securities available for sale includes unrealized losses of \$12.1 million and \$13.3 million, respectively, related to the residual tax effects remaining in OCI due to the previously established deferred tax asset valuation allowance. Under the portfolio approach, these unrealized losses are realized at the time the entire portfolio is sold or disposed.

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Note 6 - Fair Value Accounting

See "Part II - Item 8. Financial Statements and Supplementary Data - Note 15 - Fair Value Accounting" to the consolidated financial statements of Synovus' 2017 Form 10-K for a description of the fair value hierarchy and valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present all financial instruments measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017.

(in thousands)	September 30, 2018			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets and Liabilities at Fair Value
Assets				
Trading securities:				
U.S. Government agency securities	\$—	\$6,532	\$ —	\$6,532
Mortgage-backed securities issued by U.S. Government agencies	—	921	—	921
Collateralized mortgage obligations issued by U.S. Government sponsored enterprises	—	183	—	183
State and municipal securities	—	177	—	177
Other investments	998	38	—	1,036
Total trading securities	\$998	\$7,851	\$ —	\$8,849
Mortgage loans held for sale	—	37,276	—	37,276
Investment securities available for sale:				
U.S. Treasury securities	\$120,639	\$—	\$ —	\$120,639
U.S. Government agency securities	—	37,864	—	37,864
Mortgage-backed securities issued by U.S. Government agencies	—	100,883	—	100,883
Mortgage-backed securities issued by U.S. Government sponsored enterprises	—	2,489,365	—	2,489,365
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	—	1,117,703	—	1,117,703
Corporate debt and other debt securities	—	15,155	1,965	17,120
Total investment securities available for sale	\$120,639	\$3,760,970	\$ 1,965	\$3,883,574
Private equity investments	—	—	13,112	13,112
Mutual funds	3,118	—	—	3,118
Mutual funds held in rabbi trusts	14,100	—	—	14,100
GGL/SBA loans servicing asset	—	—	3,761	3,761
Derivative assets:				
Interest rate contracts	\$—	\$8,892	\$ —	\$8,892
Mortgage derivatives ⁽¹⁾	—	1,122	—	1,122
Total derivative assets	\$—	\$10,014	\$ —	\$10,014
Liabilities				
Trading account liabilities	—	3,540	—	3,540
Earnout liability ⁽²⁾	—	—	23,000	23,000

Derivative liabilities:

Interest rate contracts	\$—	\$ 20,822	\$ —	20,822
Visa derivative	—	—	1,990	1,990
Total derivative liabilities	\$—	\$ 20,822	\$ 1,990	\$22,812

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	December 31, 2017			
	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Assets and Liabilities at Fair Value
(in thousands)				
Assets				
Trading securities:				
Mortgage-backed securities issued by U.S. Government agencies	\$—	\$ 3,002	\$ —	\$3,002
Collateralized mortgage obligations issued by U.S. Government sponsored enterprises	—	296	—	296
Other investments	522	—	—	522
Total trading securities	\$522	\$ 3,298	\$ —	\$3,820
Mortgage loans held for sale	—	48,024	—	48,024
Investment securities available for sale:				
U.S. Treasury securities	\$82,674	\$—	\$ —	\$82,674
U.S. Government agency securities	—	10,862	—	10,862
Mortgage-backed securities issued by U.S. Government agencies	—	120,440	—	120,440
Mortgage-backed securities issued by U.S. Government sponsored enterprises	—	2,640,523	—	2,640,523
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	—	1,111,999	—	1,111,999
State and municipal securities	—	180	—	180
Corporate debt and other securities	3,162	15,294	1,935	20,391
Total investment securities available for sale	\$85,836	\$3,899,298	\$ 1,935	\$3,987,069
Private equity investments	—	—	15,771	15,771
Mutual funds held in rabbi trusts	14,140	—	—	14,140
GGL/SBA loan servicing asset	—	—	4,101	4,101
Derivative assets:				
Interest rate contracts	\$—	\$ 10,786	\$ —	\$10,786
Mortgage derivatives ⁽¹⁾	—	936	—	936
Total derivative assets	\$—	\$ 11,722	\$ —	\$11,722
Liabilities				
Trading account liabilities	—	1,000	—	1,000
Earnout liability ⁽²⁾	—	—	11,348	11,348
Derivative liabilities:				
Interest rate contracts	\$—	\$ 12,638	\$ —	\$12,638
Mortgage derivatives ⁽¹⁾	—	129	—	129
Visa derivative	—	—	4,330	4,330
Total derivative liabilities	\$—	\$ 12,767	\$ 4,330	\$17,097

⁽¹⁾ Mortgage derivatives consist of customer interest rate lock commitments that relate to the potential origination of mortgage loans, which would be classified as held for sale and forward loan sales commitments with third-party investors.

⁽²⁾ Earnout liability consists of contingent consideration obligation related to the Global One acquisition.

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Fair Value Option

The following table summarizes the difference between the fair value and the unpaid principal balance of mortgage loans held for sale measured at fair value and the changes in fair value of these loans. Mortgage loans held for sale are initially measured at fair value with subsequent changes in fair value recognized in earnings. Changes in fair value are recorded as a component of mortgage banking income in the consolidated statements of income. An immaterial portion of these changes in fair value was attributable to changes in instrument-specific credit risk.

Changes in Fair Value Included in Net Income

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
(in thousands)	2018	2017	2018	2017
Mortgage loans held for sale	\$ (569)	\$ (104)	\$ (414)	\$ 850

Mortgage Loans Held for Sale

	As of September 30, 2018	As of December 31, 2017
(in thousands)		
Fair value	\$37,276	\$ 48,024
Unpaid principal balance	36,505	46,839
Fair value less aggregate unpaid principal balance	\$771	\$ 1,185

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

During the three and nine months ended September 30, 2018 and 2017, Synovus did not have any transfers in or out of Level 3 in the fair value hierarchy. For the three and nine months ended September 30, 2018, total net losses included in earnings attributable to the change in unrealized losses relating to assets/liabilities still held at September 30, 2018 was \$11.8 million and \$17.9 million, respectively. For the three and nine months ended September 30, 2017, total net losses included in earnings attributable to the change in unrealized losses relating to assets/liabilities still held at September 30, 2017 was \$2.1 million and \$7.7 million, respectively.

	Three Months Ended September 30, 2018				
(in thousands)	Investment Securities Available for Sale	Private Equity Investments	GGL / SBA Loans Servicing Asset	Earnout Liability	Visa Derivative
Beginning balance, July 1, 2018	\$1,857	\$ 12,678	\$ 4,186	\$ (11,348)	\$ (5,943)
Total (losses) gains realized/unrealized:					
Included in earnings	—	434	(561)	(11,652)	—
Unrealized gains (losses) included in OCI	108	—	—	—	—
Additions	—	—	136	—	—
Settlements	—	—	—	—	3,953
Ending balance, September 30, 2018	\$1,965	\$ 13,112	\$ 3,761	\$ (23,000)	\$ (1,990)
Total net losses for the period included in earnings attributable to the change in unrealized losses relating to assets/liabilities still held at September 30, 2018	\$ —	\$ 434	\$ (561)	\$ (11,652)	\$ —

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Three Months Ended September 30, 2017

(in thousands)

Investment Securities Available for Sale	Private Equity Investments	GGL / SBA Loans Servicing Asset	Earnout Liability	Visa Derivative
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Beginning balance, July 1, 2017	\$1,927	\$ 15,698	\$ 4,297	\$(13,941)	\$(5,053)
Total (losses) gains realized/unrealized:					
Included in earnings	—	(27)	(27)	(2,059)	—
Unrealized gains (losses) included in OCI	(9)	—	—	—	—
Settlements	—	—	—	—	360
Ending balance, September 30, 2017	\$1,918	\$ 15,671	\$ 4,270	\$(16,000)	\$(4,693)
Total net losses for the period included in earnings attributable to the change in unrealized losses relating to assets/liabilities still held at September 30, 2017	\$—	\$ (27)	\$(27)	\$(2,059)	\$—

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(in thousands)	Nine Months Ended September 30, 2018				
	Investment Securities Available for Sale	Private Equity Investments	GGL / SBA Loans Servicing Asset	Earnout Liability	Visa Derivative
Beginning balance, January 1, 2018	\$1,935	\$15,771	\$4,101	\$(11,348)	\$(4,330)
Total (losses) gains realized/unrealized:					
Included in earnings	—	(2,659)	(1,295)	(11,652)	(2,328)
Unrealized gains (losses) included in OCI	30	—	—	—	—
Additions	—	—	955	—	—
Settlements	—	—	—	—	4,668
Ending balance, September 30, 2018	\$1,965	\$13,112	\$3,761	\$(23,000)	\$(1,990)
Total net losses for the period included in earnings attributable to the change in unrealized losses relating to assets/liabilities still held at September 30, 2018	\$—	\$(2,659)	\$(1,295)	\$(11,652)	\$(2,328)

(in thousands)	Nine Months Ended September 30, 2017				
	Investment Securities Available for Sale	Private Equity Investments	GGL / SBA Loans Servicing Asset	Earnout Liability	Visa Derivative
Beginning balance, January 1, 2017	\$1,796	\$25,493	\$—	\$(14,000)	\$(5,768)
Total (losses) gains realized/unrealized:					
Included in earnings	—	(3,193)	(721)	(3,766)	—
Unrealized gains (losses) included in OCI	122	—	—	—	—
Additions	—	—	539	—	—
Sales and settlements	—	(6,629)	—	—	1,075
Transfer from amortization method to fair value	—	—	4,452	—	—
Measurement period adjustments related to Global One	—	—	—	1,766	—
Ending balance, September 30, 2017	\$1,918	\$15,671	\$4,270	\$(16,000)	\$(4,693)
Total net losses for the period included in earnings attributable to the change in unrealized losses relating to assets/liabilities still held at September 30, 2017	\$—	\$(3,193)	\$(721)	\$(3,766)	\$—

Quantitative Information about Level 3 Fair Value Measurements

			September 30, 2018		December 31, 2017	
Assets and liabilities measured at fair value on a recurring basis	Valuation Technique	Significant Unobservable Input	Level 3 Fair Value	Range or Weighted Average	Level 3 Fair Value	Range or Weighted Average
Investment Securities Available for Sale - Other Investments: Trust preferred securities	Discounted cash flow analysis	Credit spread embedded in discount rate	\$1,965	389 bps	\$1,935	398 bps

Private equity investments	Individual analysis of each investee company	Multiple factors, including but not limited to, current operations, financial condition, cash flows, evaluation of business management and financial plans, and recently executed financing transactions related to the investee companies	13,112	N/A	15,771	N/A
GGL/SBA loans servicing asset	Discounted cash flow analysis	Discount rate Prepayment speeds	3,761	13.40% 8.64%	4,101	13.16% 7.50%
Earnout liability	Option pricing methods and Monte Carlo simulation	Earning projections of Global One	23,000	N/A	11,348	N/A
Visa derivative liability	Discounted cash flow analysis	Estimated timing of resolution of covered litigation, future cumulative deposits to the litigation escrow for settlement of the covered litigation, and estimated future monthly fees payable to the derivative counterparty	1,990	1-2 years	4,330	1-4 years

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Assets Measured at Fair Value on a Non-recurring Basis

Certain assets are recorded at fair value on a non-recurring basis. Non-recurring fair value adjustments typically are a result of the application of lower of cost or fair value accounting or a write-down occurring during the period. For example, if the fair value of an asset in these categories falls below its cost basis, it is considered to be at fair value at the end of the period of the adjustment. The following table presents assets measured at fair value on a non-recurring basis as of the dates indicated for which there was a fair value adjustment during the nine months ended September 30, 2018 and year ended December 31, 2017.

	September 30, 2018			December 31, 2017		
(in thousands)	Level 1	Level 2	Level 3 Total	Level 1	Level 2	Level 3 Total
Impaired loans ⁽¹⁾	\$—	\$—	\$17,270	\$—	\$—	\$3,603
Other loans held for sale	—	—	—	—	10,197	10,197
Other real estate	—	—	507	—	3,363	3,363
Other assets held for sale	—	—	302	—	5,334	5,334

⁽¹⁾ Collateral-dependent impaired loans that were written down to fair value during the period.

Other real estate (ORE) properties are included in other assets on the consolidated balance sheets. The carrying value of ORE at September 30, 2018 and December 31, 2017 was \$8.5 million and \$3.8 million, respectively.

The following table presents fair value adjustments recognized in earnings for the three and nine months ended September 30, 2018 and 2017 for assets measured at fair value on a non-recurring basis still held at period-end.

	Three Months Ended		Nine Months Ended	
(in thousands)	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Impaired loans ⁽¹⁾	\$1,223	\$ 83	\$4,594	\$1,075
Other loans held for sale	—	25,051	—	25,051
Other real estate	61	5,165	61	5,165
Other assets held for sale	—	1,683	499	1,683

⁽¹⁾ Collateral-dependent impaired loans that were written down to fair value during the period.

Quantitative Information about Level 3 Fair Value Measurements

Assets measured at fair value on a non-recurring basis	Valuation Technique	Significant Unobservable Input	September 30, 2018 Range (Weighted Average) ⁽¹⁾	December 31, 2017 Range (Weighted Average) ⁽¹⁾
Collateral dependent impaired loans	Third-party appraised value of collateral less estimated selling costs	Discount to appraised value Estimated selling costs	0% - 68% (25%) 0% - 10% (7%)	0%-50% (15%) 0%-10% (7%)
Other loans held for sale	Third-party appraised value of collateral less estimated selling costs	Discount to appraised value Estimated selling costs	N/A N/A	5% - 99% (54%) 0% - 10% (2%)

Other real estate	Third-party appraised value of real estate less estimated selling costs	Discount to appraised value	0% - 7% (4%)	0%-85% (35%)
		Estimated selling costs	0% - 10% (7%)	0%-10% (7%)
Other assets held for sale	Third-party appraised value less estimated selling costs or BOV	Discount to appraised value	0%-42% (42%)	21%-52% (25%)
		Estimated selling costs	0%-10% (7%)	0%-10% (7%)

(1) The range represents management's estimate of the high and low of the value that would be assigned to a particular input. For assets measured at fair value on a non-recurring basis, the weighted average is the measure of central tendencies; it is not the value that management is using for the asset or liability.

Fair Value of Financial Instruments

The following tables present the carrying and fair values of financial instruments, as well as the level within the fair value hierarchy, at September 30, 2018 and December 31, 2017. The fair values represent management's estimates based on various methodologies and assumptions. For financial instruments that are not recorded at fair value on the balance sheet, such as loans held for investment, interest-bearing deposits, and long-term debt, the fair value amounts should not be taken as an estimate of the amount that would be realized if all such financial instruments were to be settled immediately.

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(in thousands)	September 30, 2018				
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	\$1,011,933	\$1,011,933	\$1,011,933	\$ —	\$ —
Trading account assets	8,849	8,849	998	7,851	—
Mortgage loans held for sale	37,276	37,276	—	37,276	—
Other loans held for sale	12	12	—	—	12
Investment securities available for sale	3,883,574	3,883,574	120,639	3,760,970	