SYNOVUS FINANCIAL CORP
Form 10-Q
May 08, 2014
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 March 31, 2014
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 Suite 500, Columbus, Georgia	31901
(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	
Series B Participating Cumulative Preferred Stock	New York Stock Exchange
Purchase Rights	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C	New York Stock Exchange

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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	April 30, 2014
Common Stock, $1.00 Par Value	972,871,844

Table of Contents

Table of Contents

Table of Contents

SYNOVUS FINANCIAL CORP.
INDEX OF DEFINED TERMS

2013 Notes – Synovus' 4.875% subordinated notes due February 15, 2013
2019 Senior Notes – Synovus' outstanding 7.875% senior notes due February 15, 2019
ALCO – Synovus' Asset Liability Management Committee
Annual Meeting - Synovus' 2014 Annual Shareholders' Meeting
ASC – Accounting Standards Codification
ASU – Accounting Standards Update
AUM – assets under management
Basel III – a global regulatory framework developed by the Basel Committee on Banking Supervision
BOV – broker’s opinion of value
bp – basis point (bps - basis points)
C&I – commercial and industrial loans
CB&T – Columbus Bank and Trust Company, a division of Synovus Bank. Synovus Bank is a wholly-owned subsidiary of Synovus Financial Corp.
CCC – central clearing counterparty
CEO – Chief Executive Officer
CFO – Chief Financial Officer
CMO – Collateralized Mortgage Obligation
Code – Internal Revenue Code of 1986, as amended
Common Stock – Common Stock, par value $1.00 per share, of Synovus Financial Corp.
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
CPP – U.S. Department of the Treasury Capital Purchase Program
CRE – Commercial Real Estate
Dodd-Frank Act – The Dodd-Frank Wall Street Reform and Consumer Protection Act
DRR – dual risk rating
DTA – deferred tax asset
Exchange Act – Securities Exchange Act of 1934, as amended
FASB – Financial Accounting Standards Board
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.
FFIEC – Federal Financial Institutions Examination Council
FHLB – Federal Home Loan Bank

Table of Contents

FICO – Fair Isaac Corporation
GA DBF – Georgia Department of Banking and Finance
GAAP – Generally Accepted Accounting Principles in the United States of America
GSE – government sponsored enterprise
HAP – Home Affordability Program
HELOC – home equity line of credit
IRC – Internal Revenue Code of 1986, as amended
IRS – Internal Revenue Service
LIBOR – London Interbank Offered Rate
LTV – loan-to-collateral value ratio
MOU – Memorandum of Understanding
MSA – Metropolitan Statistical Area
NOL – net operating loss
NPA – non-performing assets
NPL – non-performing loans
NSF – non-sufficient funds
NYSE – New York Stock Exchange
OCI – other comprehensive income
ORE – other real estate
OTTI – other-than-temporary impairment
Parent Company – Synovus Financial Corp.
Rights Plan – Synovus' Shareholder Rights Plan dated April 26, 2010, as amended
SAB – SEC Staff Accounting Bulletin
SCM – State, county, and municipal
SEC – U.S. Securities and Exchange Commission
Securities Act – Securities Act of 1933, as amended
Series A Preferred Stock – Synovus' Fixed Rate Cumulative Perpetual Preferred Stock, Series A, without par value
Series C Preferred Stock – Synovus' Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, $25 liquidation preference
Synovus – Synovus Financial Corp.
Synovus Bank – A Georgia state-chartered bank, formerly known as Columbus Bank and Trust Company, and wholly-owned subsidiary of Synovus, through which Synovus conducts its banking operations
Synovus' 2013 Form 10-K – Synovus' Annual Report on Form 10-K for the year ended December 31, 2013
Synovus Mortgage – Synovus Mortgage Corp., a wholly-owned subsidiary of Synovus Bank
Synovus MOU – MOU entered into by and among Synovus, the Atlanta Fed and the GA DBF
Synovus Trust Company, N. A. – a wholly-owned subsidiary of Synovus Bank
TARP – Troubled Assets Relief Program
TBA – to-be-announced securities with respect to mortgage-related securities to be delivered in the future (MBSs and CMOs)
TDR – troubled debt restructuring (as defined in ASC 310-40)

Table of Contents

Tender Offer – Offer by Synovus to purchase, for cash, all of its outstanding 2013 Notes, which commenced on February 7, 2012 and expired on March 6, 2012
Treasury – United States Department of the Treasury
tMEDS – tangible equity units, each composed of a prepaid common stock purchase contract and a junior subordinated amortizing note
Visa – The Visa U.S.A., Inc. card association or its affiliates, collectively
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
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 15,510,737 shares of Synovus Common Stock at a per share exercise price of $9.36 expiring on December 19, 2018

Table of Contents

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

(in thousands, except share and per share data)	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$460,618	469,630
Interest bearing funds with Federal Reserve Bank	884,743	644,528
Interest earning deposits with banks	9,139	24,325
Federal funds sold and securities purchased under resale agreements	76,097	80,975
Trading account assets, at fair value	17,808	6,113
Mortgage loans held for sale, at fair value	50,390	45,384
Other loans held for sale	3,120	10,685
Investment securities available for sale, at fair value	3,132,402	3,199,358
Loans, net of deferred fees and costs	20,159,004	20,057,798
Allowance for loan losses	(300,871)	(307,560)
Loans, net	$19,858,133	19,750,238
Premises and equipment, net	467,375	468,871
Goodwill	24,431	24,431
Other intangible assets, net	1,883	3,415
Other real estate	110,757	112,629
Deferred tax asset, net	712,130	744,646
Other assets	626,400	616,376
Total assets	$26,435,426	26,201,604
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing deposits	$5,870,570	5,642,751
Interest bearing deposits, excluding brokered deposits	13,714,382	14,140,037
Brokered deposits	1,365,939	1,094,002
Total deposits	20,950,891	20,876,790
Federal funds purchased and securities sold under repurchase agreements	164,946	148,132
Long-term debt	2,106,980	2,033,141
Other liabilities	214,113	194,556
Total liabilities	$23,436,930	23,252,619
Shareholders' Equity		
Series C Preferred Stock – no par value. 5,200,000 shares outstanding at March 31, 2014 and December 31, 2013	125,980	125,862
Common stock - $1.00 par value. Authorized 1,200,000,000 shares; 978,499,721 issued at March 31, 2014 and 978,044,909 issued at December 31, 2013; 972,806,269 outstanding at March, 2014 and 972,351,457 outstanding at December 31, 2013	978,500	978,045
Additional paid-in capital	2,137,479	2,138,024
Treasury stock, at cost – 5,693,452 shares at March 31, 2014 and December 31, 2013	(114,176)	(114,176)
Accumulated other comprehensive loss, net	(30,463)	(41,258)

Accumulated deficit	(98,824)	(137,512)
Total shareholders’ equity	2,998,496	2,948,985
Total liabilities and shareholders' equity	$26,435,426	26,201,604

See accompanying notes to unaudited interim consolidated financial statements.

1

Table of Contents

SYNOVUS FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended March 31,	
(in thousands, except per share data)	2014	2013
Interest income:		
Loans, including fees	$211,343	216,554
Investment securities available for sale	15,257	10,732
Trading account assets	161	154
Mortgage loans held for sale	402	1,706
Federal Reserve Bank balances	527	780
Other earning assets	692	465
Total interest income	228,382	230,391
Interest expense:		
Deposits	14,221	16,716
Federal funds purchased and securities sold under repurchase agreements	77	91
Long-term debt	13,570	13,770
Total interest expense	27,868	30,577
Net interest income	200,514	199,814
Provision for loan losses	9,511	35,696
Net interest income after provision for loan losses	191,003	164,118
Non-interest income:		
Service charges on deposit accounts	19,214	19,521
Fiduciary and asset management fees	11,033	10,971
Brokerage revenue	6,213	7,594
Mortgage banking income	3,511	6,917
Bankcard fees	7,518	7,064
Investment securities gains, net	1,331	45
Other fee income	4,863	5,487
Decrease in fair value of private equity investments, net	(250)	(257)
Gain on sale of Memphis branches, net	5,789	—
Other non-interest income	10,960	7,379
Total non-interest income	70,182	64,721
Non-interest expense:		
Salaries and other personnel expense	93,445	93,917
Net occupancy and equipment expense	26,056	24,167
Third-party services	10,097	9,929
FDIC insurance and other regulatory fees	9,719	8,480
Professional fees	7,677	7,095
Foreclosed real estate expense, net	5,681	10,940
Losses on other loans held for sale, net	2,266	165
Visa indemnification charges	396	37
Restructuring charges	8,577	4,850
Other operating expenses	20,247	22,706
Total non-interest expense	184,161	182,286
Income before income taxes	77,024	46,553
Income tax expense	28,608	16,979
Net income	48,416	29,574
Dividends and accretion of discount on preferred stock	2,559	14,776

Net income available to common shareholders	$45,857	14,798
Net income per common share, basic	$0.05	0.02
Net income per common share, diluted	0.05	0.02
Weighted average common shares outstanding, basic	972,522	787,043
Weighted average common shares outstanding, diluted	976,527	910,835

See accompanying notes to unaudited interim consolidated financial statements.

Table of Contents

FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31,					
	2014			2013		
(in thousands)	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	$77,024	(28,608)	48,416	46,553	(16,979)	29,574
Net change related to cash flow hedges:						
Reclassification adjustment for losses realized in net income	112	(43)	69	112	(43)	69
Net unrealized gains (losses) on investment securities available for sale:						
Reclassification adjustment for net gains realized in net income	(1,331)	513	(818)	(45)	16	(29)
Net unrealized gains (losses) arising during the period	18,843	(7,255)	11,588	(2,164)	833	(1,331)
Net unrealized gains (losses)	17,512	(6,742)	10,770	(2,209)	849	(1,360)
Post-retirement unfunded health benefit:						
Reclassification adjustment for gains realized in net income	(72)	28	(44)	(26)	3	(23)
Other comprehensive income (loss)	$17,552	(6,757)	10,795	(2,123)	809	(1,314)
Comprehensive income			$59,211			28,260

See accompanying notes to unaudited interim consolidated financial statements.

SYNOVUS FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

(in thousands, except per share data)	Series A Preferred Stock	Series C Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at December 31, 2012	$957,327	—	792,273	2,189,874	(114,176)	4,101	(259,968)	3,569,431
Net income	—	—	—	—	—	—	29,574	29,574
Other comprehensive loss, net of income taxes	—	—	—	—	—	(1,314)	—	(1,314)
Cash dividends declared on Common Stock - $0.01 per share	—	—	—	—	—	—	(7,876)	(7,876)
Cash dividends paid on Series A Preferred Stock	—	—	—	(12,098)	—	—	—	(12,098)
Accretion of discount on Series A Preferred Stock	2,678	—	—	(2,678)	—	—	—	—
Restricted share unit activity	—	—	1,021	(2,365)	—	—	(137)	(1,481)
Stock options exercised			25	26				51
Share-based compensation expense	—	—	—	1,819	—	—	—	1,819
Balance at March 31, 2013	$960,005	—	793,319	2,174,578	(114,176)	2,787	(238,407)	3,578,106
Balance at December 31, 2013	$—	125,862	978,045	2,138,024	(114,176)	(41,258)	(137,512)	2,948,985
Net income	—	—	—	—	—	—	48,416	48,416
Other comprehensive income, net of income taxes	—	—	—	—	—	10,795	—	10,795
Cash dividends declared on Common Stock - $0.01 per share	—	—	—	—	—	—	(9,728)	(9,728)
Cash dividends paid on Series C	—	—	—	(2,559)	—	—	—	(2,559)

Preferred Stock								
Series C Preferred Stock issuance costs	—	118	—	—	—	—	—	118
Restricted share unit activity	—	—	233	(701)	—	—	—	(468)
Stock options exercised	—	—	222	317	—	—	—	539
Share-based compensation tax benefit	—	—	—	170	—	—	—	170
Share-based compensation expense	—	—	—	2,228	—	—	—	2,228
Balance at March 31, 2014	$—	125,980	978,500	2,137,479	(114,176)	(30,463)	(98,824)	2,998,496

See accompanying notes to unaudited interim consolidated financial statements.

4

Table of Contents

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

	Three Months Ended March 31,	
(in thousands)	2014	2013
Operating Activities		
Net income	$48,416	29,574
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	9,511	35,696
Depreciation, amortization, and accretion, net	12,312	17,622
Deferred income tax expense	25,757	14,403
Decrease in interest receivable	1,051	2,467
Decrease in interest payable	(1,440)	(2,109)
(Increase) decrease in trading account assets	(11,695)	2,062
Originations of mortgage loans held for sale	(129,160)	(245,475)
Proceeds from sales of mortgage loans held for sale	126,688	315,093
Gain on sales of mortgage loans held for sale, net	(1,898)	(3,946)
(Decrease) increase in other assets	(11,586)	14,888
Decrease in accrued salaries and benefits	(3,745)	(12,090)
Increase (decrease) in other liabilities	24,343	(9,477)
Investment securities gains, net	(1,331)	(45)
Losses on sales of other loans held for sale, net	2,266	165
Losses and write-downs on other real estate, net	4,752	8,783
Decrease in fair value of private equity investments, net	250	257
Increase in accrual for Visa indemnification	396	37
Share-based compensation expense	2,228	1,819
Gain on sale of Memphis branches, net	(5,789)	—
Gain on sale of branch property	(3,116)	—
Other, net	(940)	4,508
Net cash provided by operating activities	$87,270	174,232
Investing Activities		
Net cash used in dispositions	(90,571)	—
Net decrease in interest earning deposits with banks	15,186	1,552
Net decrease (increase) in federal funds sold and securities purchased under resale agreements	4,878	(9,361)
Net (increase) decrease in interest bearing funds with Federal Reserve Bank	(240,215)	165,878
Proceeds from maturities and principal collections of investment securities available for sale	117,867	216,387
Proceeds from sales of investment securities available for sale	20,815	212,240
Purchases of investment securities available for sale	(57,709)	(509,037)
Proceeds from sales of loans	29,271	44,885
Proceeds from sales of other real estate	10,000	17,436
Principal repayments by borrowers on other loans held for sale	533	62
Net (increase) decrease in loans	(243,267)	41,739
Purchases of premises and equipment	(12,793)	(6,374)
Proceeds from disposals of premises and equipment	4,838	4
Proceeds from sales of other assets held for sale	241	543
Net cash (used in) provided by investing activities	$(440,926)	175,954
Financing Activities		

Net increase (decrease) in demand and savings deposits	251,914	(631,934)
Net increase in certificates of deposit	13,561	136,083
Net increase in federal funds purchased and securities sold under repurchase agreements	16,814	36,980
Principal repayments on long-term debt	(594)	(72,309)
Proceeds from issuance of long-term debt	74,979	—
Dividends paid to common shareholders	(9,728)	(7,876)

5

Table of Contents

Dividends paid to preferred shareholders	(2,559)	(12,098)
Stock options exercised	539	51
Excess tax benefit from share-based compensation	186	73
Restricted stock activity	(468)	(1,481)
Net cash provided by (used in) financing activities	$344,644	(552,511)
Decrease in cash and cash equivalents	(9,012)	(202,325)
Cash and cash equivalents at beginning of period	469,630	614,630
Cash and cash equivalents at end of period	$460,618	412,305
Supplemental Cash Flow Information		
Cash paid (received) during the period for:		
Income tax (refunds) payments, net	(12)	37
Interest paid	29,503	32,651
Non-cash Activities		
Loans foreclosed and transferred to other real estate	12,881	29,789
Loans transferred to other loans held for sale at fair value	24,505	46,181
Other loans held for sale transferred to loans at fair value	—	1,235
Other loans held for sale foreclosed and transferred to other real estate at fair value	—	1,395
Securities purchased during the period but settled after period-end	10,227	—
Dispositions/Acquisitions:		
Fair value of non-cash assets (sold) acquired	(100,982)	—
Fair value of liabilities (sold) assumed	(191,553)	—

See accompanying notes to unaudited interim consolidated financial statements.

Table of Contents

Notes to Unaudited Interim Consolidated Financial Statements

Note 1 - Significant Accounting Policies

Business Operations

The accompanying unaudited interim consolidated financial statements of Synovus include the accounts of the Parent Company and its consolidated subsidiaries. Synovus provides integrated financial services, including commercial and retail banking, financial management, insurance, and mortgage services to its customers through locally-branded divisions of its wholly-owned subsidiary bank, Synovus Bank, in offices located throughout Georgia, Alabama, South Carolina, Florida, and Tennessee.

In addition to our banking operations, we also provide various other financial services to our customers through direct and indirect wholly-owned non-bank subsidiaries, including: Synovus Securities, Inc., headquartered in Columbus, Georgia, which specializes in professional portfolio management for fixed-income securities, investment banking, the execution of securities transactions as a broker/dealer and the provision of individual investment advice on equity and other securities; Synovus Trust Company, N.A., headquartered in Columbus, Georgia, which provides trust, asset management and financial planning services; and Synovus Mortgage Corp., headquartered in Birmingham, Alabama, which offers mortgage services.

Basis of Presentation

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' 2013 Form 10-K. There have been no significant changes to the accounting policies as disclosed in Synovus' 2013 Form 10-K.

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 significantly from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses; the valuation of other real estate; the fair value of investment securities; the fair value of private equity investments; the valuation of deferred tax assets; and contingent liabilities related to legal matters.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and due from banks. At March 31, 2014 and December 31, 2013, cash and cash equivalents included $79.4 million and $104.9 million, respectively, on deposit to meet Federal Reserve Bank requirements. At both March 31, 2014 and December 31, 2013, $375 thousand of the due from banks balance was restricted as to withdrawal.

Short-term Investments

Short-term investments consist of interest bearing funds with the Federal Reserve Bank, interest earning deposits with banks, and Federal funds sold and securities purchased under resale agreements. Interest earning deposits with banks include $9.6 million and $11.1 million at March 31, 2014 and December 31, 2013, respectively, which is pledged as collateral in connection with certain letters of credit. Federal funds sold include $72.4 million at March 31, 2014 and $72.2 million at December 31, 2013, which are pledged to collateralize certain derivative instruments. Federal funds sold and securities purchased under resale agreements, and Federal funds purchased and securities sold under repurchase agreements, generally mature in one day.

Table of Contents

Recently Adopted Accounting Standards Updates

Effective January 1, 2014, Synovus adopted the provisions of ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU provides guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Income tax accounting guidance did not explicitly address how to present unrecognized tax benefits when a company also has net operating losses or tax credit carryforwards. Previously, most companies presented these unrecognized benefits as a liability (i.e., gross presentation), but some presented the liability as a reduction of their net operating losses or tax credit carryforwards (i.e., net presentation). To address this diversity in practice, the FASB issued ASU 2013-11, requiring unrecognized tax benefits to be offset against a deferred tax asset for a net operating loss carryforward, similar tax loss, or tax credit carryforward except when either (1) a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position, or (2) the entity does not intend to use the deferred tax asset for this purpose (provided that the tax law permits a choice). If either of these conditions exists, an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. Synovus adopted the provisions of ASU 2013-11 effective January 1, 2014. However, because prior to adoption Synovus already presented its unrecognized tax benefits as a reduction of its net operating losses, adoption of ASU 2013-11 did not have a significant impact on its consolidated balance sheet.

Reclassifications

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

Subsequent Events

Synovus has evaluated for consideration, or disclosure, all transactions, events, and circumstances, subsequent to the date of the consolidated balance sheet and through the date the accompanying unaudited interim consolidated financial statements were issued, and has reflected, or disclosed, those items deemed appropriate within the unaudited interim consolidated financial statements.

Note 2 - Subsequent Event - Reverse Stock Split and Increase in Number of Authorized Common Shares

On April 24, 2014, at Synovus' 2014 Annual Shareholders' Meeting ("Annual Meeting"), Synovus’ shareholders approved a proposal authorizing Synovus’ Board of Directors to effect a one-for-seven reverse stock split of Synovus’ common stock. Following the Annual Meeting, Synovus’ Board of Directors authorized the one-for-seven reverse stock split. The reverse stock split will become effective on May 16, 2014, and Synovus' shares of common stock will begin trading on a post-split basis on the New York Stock Exchange (NYSE) at the opening of trading on May 19, 2014. Share and per share amounts included in this Report have not been restated to reflect the approval of the one-for-seven reverse stock split because the split will not be effective until after the filing of this Report.

Pro forma share and per share information as of and for the three months ended March 31, 2014, giving effect to the one-for-seven reverse stock split is presented below:

	As of and for the three months ended March 31, 2014	
	As Reported	Pro Forma
Common stock - $1.00 par value. Outstanding shares	972,806,269	138,972,324
Net income per common share, diluted	$0.05	$0.33

Additionally, on April 24, 2014, Synovus’ shareholders also approved an amendment to Synovus’ articles of incorporation to increase the number of authorized shares of Synovus’ common stock from 1.2 billion shares to 2.4 billion shares. Synovus effected the increase in the number of authorized shares on April 24, 2014. Upon the effective date of the reverse stock split, the number of Synovus’ authorized shares of common stock will be proportionately reduced from 2.4 billion shares to 342.9 million shares.

Note 3 - Sale of Branches

On January 17, 2014, Synovus completed the sale of certain loans, premises, deposits, and other assets and liabilities of the Memphis, Tennessee operations of Trust One Bank, a division of Synovus Bank. The sale included $89.6 million in total

8

loans and $191.3 million in total deposits. Results for the three months ended March 31, 2014 reflect a pre-tax gain, net of associated costs, of $5.8 million relating to this transaction.

Note 4 - Investment Securities

The amortized cost, gross unrealized gains and losses, and estimated fair values of investment securities available for sale at March 31, 2014 and December 31, 2013 are summarized below.

	March 31, 2014			
(in thousands)	Amortized Cost[(1)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$17,792	—	—	17,792
U.S. Government agency securities	33,276	1,117	—	34,393
Securities issued by U.S. Government sponsored enterprises	112,051	1,269	—	113,320
Mortgage-backed securities issued by U.S. Government agencies	170,326	1,121	(2,228)	169,219
Mortgage-backed securities issued by U.S. Government sponsored enterprises	2,395,669	12,306	(22,011)	2,385,964
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	397,054	1,616	(4,761)	393,909
State and municipal securities	6,257	199	(2)	6,454
Equity securities	3,768	3,740	—	7,508
Other investments	4,089	—	(246)	3,843
Total investment securities available for sale	$3,140,282	21,368	(29,248)	3,132,402

	December 31, 2013			
(in thousands)	Amortized Cost[(1)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$17,791	—	—	17,791
U.S. Government agency securities	33,480	1,161	—	34,641
Securities issued by U.S. Government sponsored enterprises	112,305	1,440	—	113,745
Mortgage-backed securities issued by U.S. Government agencies	196,521	2,257	(3,661)	195,117
Mortgage-backed securities issued by U.S. Government sponsored enterprises	2,443,282	9,718	(31,640)	2,421,360
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	406,717	698	(8,875)	398,540
State and municipal securities	6,723	168	(2)	6,889
Equity securities	3,856	3,728	—	7,584
Other investments	4,074	—	(383)	3,691
Total investment securities available for sale	$3,224,749	19,170	(44,561)	3,199,358

(1) Amortized cost is adjusted for other-than-temporary impairment charges in 2014 and 2013, which have been recognized in the consolidated statements of income in the applicable year, and were considered inconsequential.

At March 31, 2014 and December 31, 2013, investment securities with a carrying value of $2.14 billion and $2.33 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 March 31, 2014 and December 31, 2013 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 income. Synovus does not intend to sell investment securities in an unrealized loss position prior to the recovery of the unrealized loss, which may 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.

Table of Contents

Declines in the fair value of available for sale securities below their cost that are deemed to have OTTI are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. 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 March 31, 2014 there were 71 securities in a loss position for less than twelve months and 5 securities in a loss position for more than 12 months.
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 March 31, 2014 and December 31, 2013, are presented below.

Table of Contents

	March 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$—	—	—	—	—	—
U.S. Government agency securities	—	—	—	—	—	—
Securities issued by U.S. Government sponsored enterprises	—	—	—	—	—	—
Mortgage-backed securities issued by U.S. Government agencies	113,935	2,134	1,116	94	115,051	2,228
Mortgage-backed securities issued by U.S. Government sponsored enterprises	1,577,319	21,020	46,342	991	1,623,661	22,011
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	173,574	4,761	—	—	173,574	4,761
State and municipal securities	—	—	41	2	41	2
Equity securities	—	—	—	—	—	—
Other investments	1,984	105	1,859	141	3,843	246
Total	$1,866,812	28,020	49,358	1,228	1,916,170	29,248

	December 31, 2013					
	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$—	—	—	—	—	—
U.S. Government agency securities	—	—	—	—	—	—
Securities issued by U.S. Government sponsored enterprises	—	—	—	—	—	—

Mortgage-backed securities issued by U.S. Government agencies	121,607	3,363	2,951	298	124,558	3,661
Mortgage-backed securities issued by U.S. Government sponsored enterprises	1,885,521	31,640	—	—	1,885,521	31,640
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	282,898	8,875	—	—	282,898	8,875
State and municipal securities	—	—	40	2	40	2
Equity securities	—	—	—	—	—	—
Other investments	1,969	105	1,722	278	3,691	383
Total	$2,291,995	43,983	4,713	578	2,296,708	44,561

Table of Contents

The amortized cost and fair value by contractual maturity of investment securities available for sale at March 31, 2014 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.

	Distribution of Maturities at March 31, 2014					
(in thousands)	Within One Year	1 to 5 Years	5 to 10 Years	More Than 10 Years	No Stated Maturity	Total
Amortized Cost						
U.S. Treasury securities	$17,792	—	—	—	—	17,792
U.S. Government agency securities	114	9,097	24,065	—	—	33,276
Securities issued by U.S. Government sponsored enterprises	30,070	81,981	—	—	—	112,051
Mortgage-backed securities issued by U.S. Government agencies	26	1	—	170,299	—	170,326
Mortgage-backed securities issued by U.S. Government sponsored enterprises	346	2,890	1,965,354	427,079	—	2,395,669
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	—	—	22	397,032	—	397,054
State and municipal securities	756	2,372	289	2,840	—	6,257
Equity securities	—	—	—	—	3,768	3,768
Other investments	—	—	—	2,000	2,089	4,089
Total amortized cost	$49,104	96,341	1,989,730	999,250	5,857	3,140,282
Fair Value						
U.S. Treasury securities	$17,792	—	—	—	—	17,792
U.S. Government agency securities	114	9,427	24,852	—	—	34,393
Securities issued by U.S. Government sponsored enterprises	30,426	82,894	—	—	—	113,320
Mortgage-backed securities issued by U.S. Government agencies	26	1	—	169,192	—	169,219
Mortgage-backed securities issued by U.S. Government sponsored enterprises	366	3,084	1,950,681	431,833	—	2,385,964
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	—	—	22	393,887	—	393,909
State and municipal securities	766	2,417	310	2,961	—	6,454
Equity securities	—	—	—	—	7,508	7,508
Other investments	—	—	—	1,859	1,984	3,843

Total fair value	$49,490	97,823	1,975,865	999,732	9,492	3,132,402

Proceeds from sales, gross gains, and gross losses on sales of securities available for sale for the three months ended March 31, 2014 and 2013 are presented below. Other-than-temporary impairment charges of $88 thousand are included in gross realized losses for the three months ended March 31, 2014. The specific identification method is used to reclassify gains and losses out of other comprehensive income at the time of sale.

	Three Months Ended March 31,	
(in thousands)	2014	2013
Proceeds from sales of investment securities available for sale	$20,815	212,240
Gross realized gains	1,419	276
Gross realized losses	(88)	(231)
Investment securities gains, net	$1,331	45

12

Table of Contents

Note 5 - Restructuring Charges

For the three months ended March 31, 2014 and 2013 total restructuring charges are as follows:

	Three Months Ended March 31,	
(in thousands)	2014	2013
Severance charges	$8,047	4,877
Professional fees and other charges	530	(27)
Total restructuring charges	$8,577	4,850

In January 2014, Synovus announced the planned implementation during 2014 of new expense savings initiatives which are expected to result in annualized cost savings of $30 million. The initiatives include planned workforce reductions as well as planned reductions in occupancy expenses. Synovus began to implement these initiatives during the first quarter of 2014, undertaking the first targeted staff reductions. As a result of these actions, Synovus recorded aggregate restructuring charges of $8.6 million during the three months ended March 31, 2014, consisting primarily of $8.0 million in severance charges related to employees identified for involuntary termination. These termination benefits are provided under an ongoing benefit arrangement as defined in ASC 712, Compensation-Nonretirement Postemployment Benefits; accordingly, the charges were recorded pursuant to the liability recognition criteria of ASC 712.

Severance charges recorded during the three months ended March 31, 2013 relate to involuntary terminations in connection with previously announced efficiency initiatives. These termination benefits were provided under a one-time benefit arrangement as defined in ASC 420, Exit or Disposal Costs or Obligations; accordingly, the charges were recorded pursuant to the liability recognition criteria of ASC 420.

At March 31, 2014, the liability for restructuring activities was $7.8 million, and consisted primarily of involuntary termination benefits (accounted for in accordance with ASC 712) which are expected to be paid in lump sums during the remainder of 2014.

Table of Contents

Note 6 - 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 March 31, 2014 and December 31, 2013.
Current, Accruing Past Due, and Non-accrual Loans

	March 31, 2014						
(in thousands)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days or Greater Past Due	Total Accruing Past Due	Non-accrual	Total	
Investment properties	$4,645,364	2,522	—	2,522	50,583	4,698,469	
1-4 family properties	1,075,831	5,932	1,998	7,930	29,251	1,113,012	
Land acquisition	519,669	3,619	58	3,677	151,332	674,678	
Total commercial real estate	6,240,864	12,073	2,056	14,129	231,166	6,486,159	
Commercial, financial and agricultural	5,433,948	14,896	1,795	16,691	54,938	5,505,577	
Owner-occupied	3,732,210	7,303	905	8,208	33,238	3,773,656	
Small business	770,158	6,648	12	6,660	6,325	783,143	
Total commercial and industrial	9,936,316	28,847	2,712	31,559	94,501	10,062,376	
Home equity lines	1,578,593	5,090	71	5,161	18,003	1,601,757	
Consumer mortgages	1,448,207	17,720	59	17,779	38,227	1,504,213	
Credit cards	249,546	1,997	1,606	3,603	—	253,149	
Other retail	274,552	2,748	59	2,807	2,427	279,786	
Total retail	3,550,898	27,555	1,795	29,350	58,657	3,638,905	
Total loans	$19,728,078	68,475	6,563	75,038	384,324	20,187,440	(1)

	December 31, 2013						
(in thousands)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days or Greater Past Due	Total Accruing Past Due	Non-accrual	Total	
Investment properties	$4,533,708	3,552	40	3,592	66,454	4,603,754	
1-4 family properties	1,115,858	6,267	527	6,794	33,819	1,156,471	
Land acquisition	549,838	1,100	300	1,400	154,095	705,333	
Total commercial real estate	6,199,404	10,919	867	11,786	254,368	6,465,558	
Commercial, financial and agricultural	5,413,614	16,251	721	16,972	59,628	5,490,214	
Owner-occupied	3,749,052	9,341	66	9,407	36,980	3,795,439	
Small business	676,947	4,506	155	4,661	5,608	687,216	
Total commercial and industrial	9,839,613	30,098	942	31,040	102,216	9,972,869	
Home equity lines	1,564,578	4,919	136	5,055	17,908	1,587,541	
Consumer mortgages	1,460,219	18,068	1,011	19,079	39,770	1,519,068	
Credit cards	253,422	1,917	1,507	3,424	—	256,846	
Other retail	280,524	2,190	26	2,216	2,038	284,778	
Total retail	3,558,743	27,094	2,680	29,774	59,716	3,648,233	
Total loans	$19,597,760	68,111	4,489	72,600	416,300	20,086,660	(2)

(1)Total before net deferred fees and costs of $28.4 million.
(2)Total before net deferred fees and costs of $28.9 million.

Table of Contents

The credit quality of the loan portfolio is summarized 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.

In the following tables, retail loans and small business 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 retail loans (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 the associated senior lien with other financial institutions.

Table of Contents

Loan Portfolio Credit Exposure by Risk Grade

	March 31, 2014					
(in thousands)	Pass	Special Mention	Substandard[1]	Doubtful[2]	Loss	Total
Investment properties	$4,328,462	227,404	140,891	1,712	—	4,698,469
1-4 family properties	872,167	120,235	112,603	8,007	—	1,113,012
Land acquisition	418,627	70,442	184,661	948	—	674,678
Total commercial real estate	5,619,256	418,081	438,155	10,667	—	6,486,159
Commercial, financial and agricultural	5,129,502	186,826	177,969	11,192	88 [3]	5,505,577
Owner-occupied	3,483,270	135,649	153,672	1,065	—	3,773,656
Small business	769,095	—	13,259	789	—	783,143
Total commercial and industrial	9,381,867	322,475	344,900	13,046	88	10,062,376
Home equity lines	1,575,012	—	22,627	1,771	2,347 [3]	1,601,757
Consumer mortgages	1,460,349	—	40,480	3,100	284 [3]	1,504,213
Credit cards	251,543	—	642	—	964 [4]	253,149
Other retail	275,807	—	3,812	50	117 [3]	279,786
Total retail	3,562,711	—	67,561	4,921	3,712	3,638,905
Total loans	$18,563,834	740,556	850,616	28,634	3,800	20,187,440 [5]

	December 31, 2013					
(in thousands)	Pass	Special Mention	Substandard[1]	Doubtful[2]	Loss	Total
Investment properties	$4,184,748	249,890	167,392	1,724	—	4,603,754
1-4 family properties	892,512	126,715	128,890	8,062	292 [3]	1,156,471
Land acquisition	421,956	94,316	186,514	2,547	—	705,333
Total commercial real estate	5,499,216	470,921	482,796	12,333	292	6,465,558
Commercial, financial and agricultural	5,053,808	224,620	201,410	10,286	90 [3]	5,490,214
Owner-occupied	3,478,359	155,097	160,173	1,810	—	3,795,439
Small business	674,200	—	12,219	797	—	687,216
Total commercial and industrial	9,206,367	379,717	373,802	12,893	90	9,972,869
Home equity lines	1,559,272	—	24,931	1,448	1,890 [3]	1,587,541
Consumer mortgages	1,475,928	—	40,935	1,918	287 [3]	1,519,068
Credit cards	255,339	—	541	—	966 [4]	256,846
Other retail	281,179	—	3,400	75	124 [3]	284,778
Total retail	3,571,718	—	69,807	3,441	3,267	3,648,233
Total loans	$18,277,301	850,638	926,405	28,667	3,649	20,086,660 [6]

[1] Includes $351.9 million and $384.0 million of non-accrual Substandard loans at March 31, 2014 and December 31, 2013, respectively.
[2] The loans within this risk grade are on non-accrual status and 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 $28.4 million.
(6)Total before net deferred fees and costs of $28.9 million.

Table of Contents

The following table details the changes in the allowance for loan losses by loan segment for the three months ended March 31, 2014 and 2013.
Allowance for Loan Losses and Recorded Investment in Loans

	As Of and For The Three Months Ended March 31, 2014				
(in thousands)	Commercial Real Estate	Commercial & Industrial	Retail	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$127,012	116,069	41,479	23,000	307,560
Allowance for loan losses of sold branches	(281)	(398)	(340)	—	(1,019)
Charge-offs	(7,946)	(8,036)	(6,293)	—	(22,275)
Recoveries	2,227	1,953	2,914	—	7,094
Provision (credit) for loan losses	5,943	18,758	7,810	(23,000)	9,511
Ending balance	$126,955	128,346	45,570	—	300,871
Ending balance: individually evaluated for impairment	42,894	20,678	1,595	—	65,167
Ending balance: collectively evaluated for impairment	$84,061	107,668	43,975	—	235,704
Loans:					
Ending balance: total loans[(1)]	$6,486,159	10,062,376	3,638,905	—	20,187,440
Ending balance: individually evaluated for impairment	481,684	220,376	52,243	—	754,303
Ending balance: collectively evaluated for impairment	$6,004,475	9,842,000	3,586,662	—	19,433,137

	As Of and For The Three Months Ended March 31, 2013				
(in thousands)	Commercial Real Estate	Commercial & Industrial	Retail	Unallocated	Total
Allowance for loan losses:					
Beginning balance	$167,926	138,495	38,984	28,000	373,405
Charge-offs	(36,276)	(19,218)	(11,625)	—	(67,119)
Recoveries	3,602	4,418	1,770	—	9,790
Provision for loan losses	10,739	10,962	13,995	—	35,696
Ending balance	$145,991	134,657	43,124	28,000	351,772
Ending balance: individually evaluated for impairment	44,252	22,563	2,199	—	69,014
Ending balance: collectively evaluated for impairment	$101,739	112,094	40,925	28,000	282,758
Loans:					
Ending balance: total loans[(2)]	$6,422,635	9,540,141	3,426,663	—	19,389,439
Ending balance: individually evaluated for impairment	644,627	272,756	67,133	—	984,516
Ending balance: collectively evaluated for impairment	$5,778,008	9,267,385	3,359,530	—	18,404,923

(1) Total before net deferred fees and costs of $28.4 million.
(2) Total before net deferred fees and costs of $21.6 million.

During the first quarter of 2014, Synovus designated $23.0 million of allowance for loan losses that was included in the unallocated component of the allowance for loan losses at December 31, 2013 to the allowance for loan losses allocated to the respective loan segments. The allocation of the allowance for loan losses to the loan segments related to the qualitative factors evaluated at December 31, 2013 on a total loan portfolio basis and included in the unallocated component of the allowance for loan losses at December 31, 2013. These qualitative factors consider the inherent risk of loss relating to the following:

- Experience, ability, and depth of lending management, loan review personnel, and other relevant staff
- National and local economic trends and conditions
- Underlying value of collateral dependent loans, which impacts trends in charge-offs and recoveries that are not included in the expected loss factors
- Trends in volume and terms of loans
- Effects of changes in credit concentrations
- Model uncertainty

Management determined that prospectively the assessment of these qualitative factors for each loan segment would improve the overall level of precision of the allowance for loan loss estimation process. The designation of this component of the unallocated allowance to the allocated allowance did not result in a change to the total allowance for loan losses or

Table of Contents

provision expense during the first quarter of 2014. The allowance for loan losses continues to consist of an allocated component (which includes the qualitative factors noted above as well as the qualitative factors disclosed in the 2013 Form 10-K) and an unallocated component. Effective March 31, 2014, the unallocated component relates to risk elements, if any, which are not already included in the allocated allowance.

Table of Contents

The tables below summarize impaired loans (including accruing TDRs) as of March 31, 2014 and December 31, 2013.
Impaired Loans (including accruing TDRs)

	March 31, 2014			Three Months Ended March 31, 2014	
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Investment properties	$14,297	16,927	—	14,189	—
1-4 family properties	6,494	25,664	—	8,582	—
Land acquisition	29,280	72,395	—	29,380	—
Total commercial real estate	50,071	114,986	—	52,151	—
Commercial, financial and agricultural	11,173	19,235	—	12,920	—
Owner-occupied	21,557	29,098	—	23,660	—
Small business	—	—	—	—	—
Total commercial and industrial	32,730	48,333	—	36,580	—
Home equity lines	—	—	—	—	—
Consumer mortgages	1,678	3,173	—	654	—
Credit cards	—	—	—	—	—
Other retail	—	—	—	—	—
Total retail	1,678	3,173	—	654	—
Total impaired loans with no related allowance recorded	$84,479	166,492	—	89,385	—
With allowance recorded					
Investment properties	$160,764	167,390	10,569	168,365	1,078
1-4 family properties	104,007	104,858	7,496	110,373	814
Land acquisition	166,842	185,982	24,829	173,779	472
Total commercial real estate	431,613	458,230	42,894	452,517	2,364
Commercial, financial and agricultural	98,064	98,247	15,176	105,791	758
Owner-occupied	81,499	83,219	5,086	85,960	730
Small business	8,083	8,083	416	7,041	15
Total commercial and industrial	187,646	189,549	20,678	198,792	1,503
Home equity lines	2,955	2,955	117	2,606	70
Consumer mortgages	42,416	42,416	1,385	42,590	—
Credit cards	—	—	—	—	—
Other retail	5,194	5,194	93	4,230	56
Total retail	50,565	50,565	1,595	49,426	126
Total impaired loans with allowance recorded	$669,824	698,344	65,167	700,735	3,993
Total impaired loans					
Investment properties	$175,061	184,317	10,569	182,554	1,078
1-4 family properties	110,501	130,522	7,496	118,955	814
Land acquisition	196,122	258,377	24,829	203,159	472
Total commercial real estate	481,684	573,216	42,894	504,668	2,364
Commercial, financial and agricultural	109,237	117,482	15,176	118,711	758
Owner-occupied	103,056	112,317	5,086	109,620	730
Small business	8,083	8,083	416	7,041	15
Total commercial and industrial	220,376	237,882	20,678	235,372	1,503
Home equity lines	2,955	2,955	117	2,606	70
Consumer mortgages	44,094	45,589	1,385	43,244	—

Credit cards	—	—	—	—	—
Other retail	5,194	5,194	93	4,230	56
Total retail	52,243	53,738	1,595	50,080	126
Total impaired loans	$754,303	864,836	65,167	790,120	3,993

Table of Contents

Impaired Loans (including accruing TDRs)

(in thousands)	December 31, 2013			Year Ended December 31, 2013	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded					
Investment properties	$14,218	15,820	—	18,046	—
1-4 family properties	9,679	29,741	—	23,879	—
Land acquisition	30,595	78,470	—	41,007	—
Total commercial real estate	54,492	124,031	—	82,932	—
Commercial, financial and agricultural	13,490	22,312	—	15,355	—
Owner-occupied	24,839	32,626	—	22,556	—
Small business	—	—	—	—	—
Total commercial and industrial	38,329	54,938	—	37,911	—
Home equity lines	—	—	—	33	—
Consumer mortgages	1,180	2,840	—	1,487	—
Credit cards	—	—	—	—	—
Other retail	—	—	—	4	—
Total retail	1,180	2,840	—	1,524	—
Total	$94,001	181,809	—	122,367	—
With allowance recorded					
Investment properties	$186,058	193,765	8,863	226,987	5,062
1-4 family properties	115,063	117,410	11,126	115,614	3,464
Land acquisition	183,029	202,048	26,789	191,807	2,931
Total commercial real estate	484,150	513,223	46,778	534,408	11,457
Commercial, financial and agricultural	112,291	117,049	15,364	126,242	3,534
Owner-occupied	86,661	92,529	4,327	106,186	3,590
Small business	5,669	5,669	336	4,132	162
Total commercial and industrial	204,621	215,247	20,027	236,560	7,286
Home equity lines	2,750	2,750	116	4,668	176
Consumer mortgages	44,019	44,019	967	48,674	1,910
Credit cards	—	—	—	—	—
Other retail	7,013	7,013	109	5,555	285
Total retail	53,782	53,782	1,192	58,897	2,371
Total	$742,553	782,252	67,997	829,865	21,114
Total					
Investment properties	$200,276	209,585	8,863	245,033	5,062
1-4 family properties	124,742	147,151	11,126	139,493	3,464
Land acquisition	213,624	280,518	26,789	232,814	2,931
Total commercial real estate	538,642	637,254	46,778	617,340	11,457
Commercial, financial and agricultural	125,781	139,361	15,364	141,597	3,534
Owner-occupied	111,500	125,155	4,327	128,742	3,590
Small business	5,669	5,669	336	4,132	162
Total commercial and industrial	242,950	270,185	20,027	274,471	7,286
Home equity lines	2,750	2,750	116	4,701	176
Consumer mortgages	45,199	46,859	967	50,161	1,910
Credit cards	—	—	—	—	—
Other retail	7,013	7,013	109	5,559	285

Total retail	54,962	56,622	1,192	60,421	2,371
Total impaired loans	$836,554	964,061	67,997	952,232	21,114

The average recorded investment in impaired loans was $984.5 million for the three months ended March 31, 2013. Excluding accruing TDRs, there was no interest income recognized for the investment in impaired loans for the three months ended March 31, 2013. Interest income recognized for accruing TDRs was $5.5 million for the three months ended March 31, 2013. At March 31,

Table of Contents

2014, and 2013, all impaired loans other than $495.4 million and $623.9 million, respectively, of accruing TDRs, 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 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.

The following tables represent, by concession type, the post-modification balance for loans modified or renewed during the three months ended March 31, 2014 and 2013, respectively, that were reported as accruing or non-accruing TDRs.

TDRs by Concession Type

	Three Months Ended March 31, 2014					
(in thousands, except contract data)	Number of Contracts	Principal Forgiveness	Below Market Interest Rate	Term Extensions and/or Other Concessions	Total	
Investment properties	3	$—	7,143	320	7,463	
1-4 family properties	4	—	133	1,086	1,219	
Land acquisition	1	—	—	534	534	
Total commercial real estate	8	—	7,276	1,940	9,216	
Commercial, financial and agricultural	7	—	1,791	2,205	3,996	
Owner-occupied	7	—	2,488	2,818	5,306	
Small business	23	—	296	3,316	3,612	
Total commercial and industrial	37	—	4,575	8,339	12,914	
Home equity lines	2	—	241	46	287	
Consumer mortgages	1	—	101	—	101	
Credit cards	—	—	—	—	—	
Other retail	4	—	—	117	117	
Total retail	7	—	342	163	505	
Total TDRs	52	$—	12,193	10,442	22,635	(1)

	Three Months Ended March 31, 2013				
(in thousands, except contract data)	Number of Contracts	Principal Forgiveness	Below Market Interest Rate	Term Extensions and/or Other Concessions	Total
Investment properties	14	$—	15,777	2,114	17,891
1-4 family properties	37	424	6,964	4,184	11,572
Land acquisition	10	74	3,979	329	4,382
Total commercial real estate	61	498	26,720	6,627	33,845
Commercial, financial and agricultural	27	183	8,477	1,737	10,397
Owner-occupied	17	—	5,283	2,454	7,737
Small business	13	—	887	674	1,561
Total commercial and industrial	57	183	14,647	4,865	19,695
Home equity lines	1	—	—	80	80
Consumer mortgages	46	—	4,920	2,603	7,523
Credit cards	—	—	—	—	—

Other retail	24	—	372	666	1,038	
Total retail	71	—	5,292	3,349	8,641	
Total TDRs	189	$681	46,659	14,841	62,181	(2)

(1) No net charge-offs were recorded during the three months ended March 31, 2014 upon restructuring of these loans.
(2) Net charge-offs of $53 thousand were recorded during the three months ended March 31, 2013 upon restructuring of these loans.

Table of Contents

The following table presents TDRs that defaulted in the periods indicated and which were modified or renewed in a TDR within 12 months of the default date.

Troubled Debt Restructurings Entered Into That Subsequently Defaulted[1] During

	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013[2]	
(in thousands, except contract data)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Investment properties	1	$186	2	$4,519
1-4 family properties	—	—	2	8,945
Land acquisition	—	—	—	—
Total commercial real estate	1	186	4	13,464
Commercial, financial and agricultural	1	522	1	271
Owner-occupied	—	—	1	856
Small business	—	—	—	—
Total commercial and industrial	1	522	2	1,127
Home equity lines	—	—	—	—
Consumer mortgages	—	—	10	558
Credit cards	—	—	—	—
Other retail	—	—	1	195
Total retail	—	—	11	753
Total TDRs	2	$708	17	$15,344

[1] Default is defined as the earlier of the troubled debt restructuring being placed on non-accrual status or reaching 90 days past due with respect to principal and/or interest payments.

(2) Amounts related to loans modified or renewed into TDRs within 12 months of the default date that subsequently defaulted during the three months ended March 31, 2013 were previously disclosed as 29 contracts with a recorded investment totaling $19.4 million. These amounts were revised in the table above due to a re-evaluation of the defaulted status of certain loans during this period.

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 changes from a general pool-level reserve to a 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 March 31, 2014, the allowance for loan losses allocated to accruing TDRs totaling $495.4 million was $24.9 million compared to accruing TDRs of $623.9 million with an allocated allowance for loan losses of $38.9 million at March 31, 2013. 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.

Note 7 - Other Real Estate

ORE consists of properties obtained through a foreclosure proceeding or through an in-substance foreclosure in satisfaction of loans. In accordance with provisions of ASC 310-10-35 regarding subsequent measurement of loans for impairment and ASC 310-40-15 regarding accounting for troubled debt restructurings by a creditor, a loan is classified as an in-substance foreclosure when Synovus has taken possession of the collateral regardless of whether formal foreclosure proceedings have taken place.

At foreclosure, ORE is recorded at the lower of cost or fair value less the estimated cost to sell, which establishes a new cost basis. Subsequent to foreclosure, ORE is evaluated quarterly and reported at fair value less estimated costs to sell, not to exceed the new cost basis, determined on the basis of current appraisals, comparable sales, and other estimates of fair value obtained principally from independent sources, adjusted for estimated selling costs. Management also considers other factors or recent developments such as changes in absorption rates or market conditions from the time of valuation and anticipated sales values considering management’s plans for disposition,

which could result in an adjustment to lower the collateral value estimates indicated in the appraisals. At the time of foreclosure or initial possession of collateral, any excess of the loan balance over the fair value of the real estate held as collateral, less costs to sell, is recorded as a charge against the allowance for loan losses. Revenue and expenses from ORE operations as well as gains or losses on sales are recorded as foreclosed real estate expense, net, a component of non-interest expense on the consolidated statements of income. Subsequent declines in fair value are recorded on a property-by-property basis through use of a valuation allowance within other real estate on the consolidated balances sheets and valuation adjustment account in foreclosed real estate expense, net, a component of non-interest expense on the consolidated statements of income.
The carrying value of ORE was $110.8 million and $112.6 million at March 31, 2014 and December 31, 2013, respectively. During the three months ended March 31, 2014 and 2013, $12.9 million and $31.2 million, respectively, of loans and other loans held for sale were foreclosed and transferred to other real estate at fair value. During the three months ended March 31, 2014 and

Table of Contents

2013, Synovus recognized foreclosed real estate expense, net, of $5.7 million and $10.9 million, respectively. These expenses included write-downs for declines in fair value of ORE subsequent to the date of foreclosure and net realized losses resulting from sales transactions totaling $4.8 million and $8.8 million for the three months ended March 31, 2014 and 2013, respectively.

Note 8 - Other Comprehensive Income (Loss)

The following table illustrates activity within the balances in accumulated other comprehensive income (loss) by component, and is shown for the three months ended March 31, 2014 and 2013.

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

(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 as of December 31, 2013	$(13,099)	(28,936)	777	(41,258)
Other comprehensive income (loss) before reclassifications	—	11,588	—	11,588
Amounts reclassified from accumulated other comprehensive income (loss)	69	(818)	(44)	(793)
Net current period other comprehensive income (loss)	69	10,770	(44)	10,795
Balance as of March 31, 2014	$(13,030)	(18,166)	733	(30,463)

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

(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 as of December 31, 2012	$(13,373)	17,111	363	4,101
Other comprehensive income (loss) before reclassifications	—	(1,331)	—	(1,331)
Amounts reclassified from accumulated other comprehensive income (loss)	69	(29)	(23)	17
Net current period other comprehensive income (loss)	69	(1,360)	(23)	(1,314)
Balance as of March 31, 2013	$(13,304)	15,751	340	2,787

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). Thus, during the years 2010 and 2011, Synovus recorded a deferred tax asset valuation allowance associated with unrealized gains and 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 financial instruments, equity securities, and debt securities as a single portfolio. As of March 31, 2014, 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.

Table of Contents

The following table illustrates activity within the reclassifications out of accumulated other comprehensive income (loss), for the three months ended March 31, 2014 and 2013.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)
For the Three Months Ended March 31, 2014

Details about accumulated other comprehensive income (loss) components	Amount reclassified from accumulated other comprehensive income (loss)		Affected line item in the statement where net income is presented
Net unrealized gains (losses) on cash flow hedges:			
Amortization of deferred losses	$(112	)	Interest expense
	43		Income tax (expense) benefit
	$(69	)	Reclassifications, net of income taxes
Net unrealized gains (losses) on investment securities available for sale:			
Realized gain on sale of securities	$1,331		Investment securities gains, net
	(513	)	Income tax (expense) benefit
	$818		Reclassifications, net of income taxes
Post-retirement unfunded health benefit:			
Amortization of actuarial gains	$72		Salaries and other personnel expense
	(28	)	Income tax (expense) benefit
	$44		Reclassifications, net of income taxes

Reclassifications out of Accumulated Other Comprehensive Income (Loss)
For the Three Months Ended March 31, 2013

Details about accumulated other comprehensive income (loss) components	Amount reclassified from accumulated other comprehensive income (loss)		Affected line item in the statement where net income is presented
Net unrealized gains (losses) on cash flow hedges:			
Amortization of deferred losses	$(112	)	Interest expense
	43		Income tax (expense) benefit
	$(69	)	Reclassifications, net of income taxes
Net unrealized gains (losses) on investment securities available for sale:			
Realized gain on sale of securities	$45		Investment securities gains, net
	(16	)	Income tax (expense) benefit
	$29		Reclassifications, net of income taxes
Post-retirement unfunded health benefit:			
Amortization of actuarial gains	$26		Salaries and other personnel expense
	(3	)	Income tax (expense) benefit
	$23		Reclassifications, net of income taxes

Note 9 - Fair Value Accounting

Synovus carries various assets and liabilities at fair value based on the fair value accounting guidance under ASC 820 and ASC 825. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an “exit price”) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Synovus has implemented controls and processes for the determination of the fair value of financial instruments. The ultimate responsibility for the determination of fair value rests with Synovus. Synovus has established a process that has been designed to ensure there is an independent review and validation of fair values by a function independent of those entering into the transaction. This includes specific controls to ensure consistent pricing policies and procedures that incorporate verification for both market and derivative transactions. For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilized. Where the market for a financial instrument is not active, fair value is determined using a valuation technique or pricing model. These valuation techniques and models involve a degree of estimation, the extent of which depends on each instrument's complexity and the availability of market-based data.

The most frequently applied pricing model and valuation technique utilized by Synovus is the discounted cash flow model. Discounted cash flows determine the value by estimating the expected future cash flows from assets or liabilities discounted to their present value. Synovus may also use a relative value model to determine the fair value of a financial instrument based on the market prices of similar assets or liabilities or an option pricing model such as binomial pricing that includes probability-based techniques. Assumptions and inputs used in valuation techniques and models include benchmark interest rates, credit spreads and other inputs used in estimating discount rates, bond and equity prices, price volatilities and correlations, prepayment rates, probability of default, and loss severity upon default.

Synovus refines and modifies its valuation techniques as markets develop and as pricing for individual financial instruments become more or less readily available. While Synovus believes its valuation techniques are appropriate and consistent with other market participants, the use of different methodologies or assumptions could result in different estimates of fair value at the balance sheet date. In order to determine the fair value, where appropriate, management applies valuation adjustments to the pricing information. These adjustments reflect management's assessment of factors that market participants would consider in setting a price, to the extent that these factors have not already been included in the pricing information. Furthermore, on an ongoing basis, management assesses the appropriateness of any model used. To the extent that the price provided by internal models does not represent the fair value of the financial instrument, management makes adjustments to the model valuation to calibrate it to other available pricing sources. Where unobservable inputs are used, management may determine a range of possible valuations based upon differing stress scenarios to determine the sensitivity associated with the valuation. As a final step, management considers the need for further adjustments to the modeled price to reflect how market participants would price the financial instrument.

Fair Value Hierarchy

Synovus determines the fair value of its financial instruments based on the fair value hierarchy established under ASC 820-10, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the financial instrument's fair value measurement in its entirety. There are three levels of inputs that may be used to measure fair value. The three levels of inputs of the valuation hierarchy are defined below:

Level 1	Quoted prices (unadjusted) in active markets for identical assets and liabilities for the instrument or security to be valued. Level 1 assets include marketable equity securities as well as U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.
Level 2	Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or model-based valuation techniques for which all significant assumptions are derived principally from or corroborated by observable market data. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined by using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. U.S. Government sponsored agency securities, mortgage-backed securities issued by U.S. Government sponsored enterprises and agencies, obligations of states and municipalities, collateralized mortgage obligations issued by U.S. Government sponsored enterprises, and mortgage loans held-for-sale are generally included in this category. Certain private equity investments that invest in publicly traded companies are also considered Level 2 assets.
Level 3	Unobservable inputs that are supported by little, if any, market activity for the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow models and similar techniques, and may also include the use of market prices of assets or liabilities that are not directly comparable to the subject asset or liability. These methods of

valuation may result in a significant portion of the fair value being derived from unobservable assumptions that reflect Synovus' own estimates for assumptions that market participants would use in pricing the asset or liability. This category primarily includes collateral-dependent impaired loans, other real estate, certain equity investments, and certain private equity investments.

Fair Value Option

Synovus has elected the fair value option for mortgage loans held for sale primarily to ease the operational burdens required to maintain hedge accounting for these loans. Synovus is still able to achieve effective economic hedges on mortgage loans held for sale without the operational time and expense needed to manage a hedge accounting program.

Valuation Methodology by Product
Following is a description of the valuation methodologies used for the major categories of financial assets and liabilities measured at fair value.
Trading Account Assets and Investment Securities Available-for-Sale
The fair values of trading securities and investment securities available for sale are primarily based on actively traded markets where prices are based on either quoted market prices or observed transactions. Management employs independent third-party pricing services to provide fair value estimates for Synovus' investment securities available for sale and trading securities. Fair values for fixed income investment securities are typically determined based upon quoted market prices, broker/dealer quotations for identical or similar securities, and/or inputs that are observable in the market, either directly or indirectly, for substantially similar securities. Level 1 securities are typically exchange quoted prices and include financial instruments such as U.S. Treasury securities, equity securities, and mutual fund investments. Level 2 securities are typically matrix priced by the third-party pricing service to calculate the fair value. Such fair value measurements consider observable data such as relevant broker/dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayments speeds, credit information, and the respective terms and conditions for debt instruments. The types of securities classified as Level 2 within the valuation hierarchy primarily consist of collateralized mortgage obligations, mortgage-backed securities, debt securities of U.S. Government-sponsored enterprises and agencies, corporate debt, and state and municipal securities.
When there is limited activity or less transparency around inputs to valuation, Synovus develops valuations based on assumptions that are not readily observable in the marketplace; these securities are classified as Level 3 within the valuation hierarchy. The majority of the balance of Level 3 investment securities available for sale consists primarily of trust preferred securities issued by financial institutions. Synovus also carries non-marketable common equity securities within this category. Synovus accounts for the non-marketable common equity securities in accordance with ASC 325-20, which requires these investments to be carried at cost. To determine the fair value of the trust preferred securities, management uses a measurement technique to reflect one that utilizes credit spreads and/or credit indices available from a third-party pricing service. In addition, for each trust preferred security, management projects non-credit adjusted cash flows, and discounts those cash flows to net present value incorporating a relevant credit spread in the discount rate. Other inputs to calculating fair value include potential discounts for lack of marketability.
Management uses various validation procedures to confirm the prices received from pricing services and quotations received from dealers are reasonable. Such validation procedures include reference to relevant broker/dealer quotes or other market quotes and a review of valuations and trade activity of comparable securities. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided by the third-party pricing service. Further, management also employs the services of an additional independent pricing firm as a means to verify and confirm the fair values of the primary independent pricing firms.
Mortgage Loans Held for Sale
Synovus elected to apply the fair value option for mortgage loans originated with the intent to sell to investors. When quoted market prices are not available, fair value is derived from a hypothetical bulk sale model used to estimate the exit price of the loans in a loan sale. The bid pricing convention is used for loan pricing for similar assets. The valuation model is based upon forward settlements of a pool of loans of identical coupon, maturity, product, and credit attributes. The inputs to the model are continuously updated with available market and historical data. As the loans are sold in the secondary market and predominantly used as collateral for securitizations, the valuation model represents the highest and best use of the loans in Synovus’ principal market. Mortgage loans held for sale are classified within Level 2 of the valuation hierarchy.
Private Equity Investments
Private equity investments consist primarily of equity method investments in venture capital funds, which are primarily classified as Level 3 within the valuation hierarchy. The valuation of these investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. Based on these factors, the ultimate realizable value of these investments could differ significantly from the value reflected in the accompanying unaudited interim consolidated financial statements. For ownership in

publicly traded companies held in the funds, valuation is based on the closing market price at the balance sheet date, and the valuation of marketable securities that have market restrictions is discounted until the securities can be freely traded. The private equity investments in which Synovus holds a limited partner interest consist of funds that invest in privately held companies. For privately held companies in the funds, the general partner estimates the fair value of the company in accordance with GAAP as clarified by ASC 820 and guidance specific to investment companies. The estimated fair value of the company is the estimated fair value as an exit price the fund would receive if it were to sell the company in the marketplace. The fair value of the fund's underlying investments is estimated through the use of valuation models such as option pricing or a discounted cash flow model. Valuation factors, such as a company's operational performance against budget or milestones, last price paid by investors, with consideration given on whether financing is provided by insiders or unrelated new investors, public market comparables, liquidity of the market, industry and economic trends, and change of management or key personnel, are used in the determination of fair value.

Also, Synovus holds an interest in an investment fund that invests in publicly traded financial services companies. Although the fund holds investments in publicly traded entities, the fair value of this investment is classified as Level 2 in the valuation hierarchy because there is no actively traded market for the fund itself, and the value of the investment is based on the aggregate fair value of the publicly traded companies that are held in the fund for investment.

Investments Held in Rabbi Trusts

The investments held in Rabbi Trusts primarily include mutual funds that invest in equity and fixed income securities. Shares of mutual funds are valued based on quoted market prices, and are therefore classified within Level 1 of the fair value hierarchy.

Salary Stock Units

Salary stock units represent fully vested stock awards that have been granted to certain key employees of Synovus. The salary stock units are classified as liabilities and are settled in cash, as determined by the closing Common Stock price on the date of settlement and the number of salary stock units being settled. Accordingly, salary stock units are classified as Level 1 within the fair value hierarchy.

Derivative Assets and Liabilities

As part of its overall interest rate risk management activities, Synovus utilizes derivative instruments to manage its exposure to various types of interest rate risk. With the exception of one derivative contract discussed herein, Synovus' derivative financial instruments are all Level 2 financial instruments. The majority of derivatives entered into by Synovus are executed over-the-counter and consist of interest rate swaps. The fair values of these derivative instruments are determined based on an internally developed model that uses readily observable market data, as quoted market prices are not available for these instruments. The valuation models and inputs depend on the type of derivative and the nature of the underlying instrument, and include interest rates, prices and indices to generate continuous yield or pricing curves, volatility factors, and customer credit related adjustments. The principal techniques used to model the value of these instruments are an income approach, discounted cash flows, Black-Scholes or binomial pricing models. The sale of TBA mortgage-backed securities for current month delivery or in the future and the purchase of option contracts of similar duration are derivatives utilized by Synovus’ mortgage banking subsidiary, and are valued by obtaining prices directly from dealers in the form of quotes for identical securities or options using a bid pricing convention with a spread between bid and offer quotations. Interest rate swaps, floors, caps and collars, and TBA mortgage-backed securities are classified as Level 2 within the valuation hierarchy.

Synovus' mortgage banking subsidiary enters into interest rate lock commitments related to expected funding of residential mortgage loans at specified times in the future. Interest rate lock commitments that relate to the origination of mortgage loans that will be held-for-sale are considered derivative instruments under applicable accounting guidance. As such, Synovus records its interest rate lock commitments and forward loan sales commitments at fair value, determined as the amount that would be required to settle each of these derivative financial instruments at the balance sheet date. In the normal course of business, the mortgage subsidiary enters into contractual interest rate lock commitments to extend credit, if approved, at a fixed interest rate and with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within the time frames established by the mortgage banking subsidiary. Market risk arises if interest rates move adversely between the time of the interest rate lock by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing interest rate lock commitments to borrowers, the mortgage banking subsidiary enters into best efforts forward sales contracts with third party investors. The forward sales contracts lock in a price for the sale of loans similar to the specific interest rate lock commitments. Both the interest rate lock commitments to the borrowers and the forward sales contracts to the investors that extend through to the date the loan may close are derivatives, and accordingly, are marked to fair value through earnings. In estimating the fair value of an interest rate lock commitment, Synovus assigns a probability to the interest rate lock commitment based on an expectation that it will be exercised and the loan will be funded. The fair value of the interest rate lock commitment is derived from the fair value of related mortgage loans, which is based on observable market data and includes the expected net future cash flows related to servicing of the loans. The fair value of the interest rate lock commitment is also derived from inputs that include guarantee fees negotiated with the agencies and private investors, buy-up and buy-down values provided by the agencies and private investors, and interest rate spreads for the difference between retail and wholesale mortgage rates. Management also applies fall-out ratio assumptions for those interest rate lock commitments for which we do not close a mortgage loan. The fall-out ratio assumptions are based on the mortgage subsidiary's historical experience, conversion ratios for similar loan commitments, and market conditions. While fall-out tendencies are not exact predictions of which loans will or will not close, historical performance review of loan-level data provides the basis for determining the appropriate hedge ratios. In addition, on a periodic basis, the mortgage banking subsidiary performs analysis of actual rate lock fall-out experience to determine the sensitivity of the mortgage pipeline to interest rate changes from the date of the commitment through loan origination, and then period end, using applicable published mortgage-backed investment security prices. The expected fall-out ratios (or conversely the "pull-through" percentages) are applied to the determined fair value of the unclosed mortgage pipeline

Table of Contents

in accordance with GAAP. Changes to the fair value of interest rate lock commitments are recognized based on interest rate changes, changes in the probability that the commitment will be exercised, and the passage of time. The fair value of the forward sales contracts to investors considers the market price movement of the same type of security between the trade date and the balance sheet date. These instruments are defined as Level 2 within the valuation hierarchy.

In November 2009, Synovus sold certain Visa Class B shares to another Visa USA member financial instituti