

SYNOVUS FINANCIAL CORP
Form 10-Q
May 10, 2012
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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, 2012
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	(Zip Code)
(Address of principal executive offices)	
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
Tangible Equity Units	New York Stock Exchange
Series B Participating Cumulative Preferred Stock	New York Stock Exchange
Purchase Rights	
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 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

YES NO

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, 2012

Common Stock, \$1.00 Par Value

786,575,516 shares

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SYNOVUS FINANCIAL CORP.

INDEX OF DEFINED TERMS

2013 Senior Notes – Synovus' outstanding 4.875% Senior Notes due February 15, 2013

2019 Senior Notes – Synovus' 7.875% Senior Notes due February 15, 2019

ALCO – Synovus' Asset Liability Management Committee

ALL – Allowance for Loan Losses

ARRA – American Recovery and Reinvestment Act of 2009

ASC – Accounting Standards Codification

ASU – Accounting Standards Update

AUM – assets under management

BAM – Broadway Asset Management, Inc., a wholly-owned subsidiary of Synovus Financial Corp.

BCBS – Basel Committee on Banking Supervision

BSA/AML – Bank Secrecy Act / Anti-Money Laundering

BOV – broker's opinion of value

bp – basis point (bps - basis points)

CD – certificate of deposit

C&D – residential construction and development loans

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.

CAMELS Rating System – A term defined by bank supervisory authorities, referring to Capital, Assets, Management, Earnings, Liquidity, and Sensitivity to Market Risk

CEO – Chief Executive Officer

CFO – Chief Financial Officer

CFPB – Consumer Finance Protection Bureau

Charter Consolidation – Synovus' consolidation of its 30 banking subsidiaries into a single bank charter in 2010

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 Repurchase Program

CRE – commercial real estate

CROA – Credit Repair Organization Act

DIF – Deposit Insurance Fund

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

DRR – Designated Reserve Ratio

DTA – deferred tax asset

EBITDA – earnings before interest, depreciation and amortization

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EESA – Emergency Economic Stabilization Act of 2008
EITF – Emerging Issues Task Force
EL – expected loss
EPS – earnings per share
Exchange Act – Securities Exchange Act of 1934, as amended
FASB – Financial Accounting Standards Board
FDIC – Federal Deposit Insurance Corporation
FINRA – Financial Industry Regulatory Authority
FFIEC – Federal Financial Institutions Examination Council
FHLB – Federal Home Loan Bank
FICO – Fair Isaac Corporation
GA DBF – Georgia Department of Banking and Finance
GAAP – Accounting Principles Generally Accepted in the United States of America
GDP – gross domestic product
Georgia Commissioner – Banking Commissioner of the State of Georgia
GSE – government sponsored enterprise
HELOC – home equity line of credit
IASB – International Accounting Standards Board
IFRS – International Financial Reporting Standards
IOLTA – Interest on Lawyer Trust Account
IPO – Initial Public Offering
IRC – Internal Revenue Code of 1986, as amended
IRS – Internal Revenue Service
LGD – loss given default
LIBOR – London Interbank Offered Rate
LIHTC – Low Income Housing Tax Credit
LTV – loan-to-collateral value ratio
MAD – Managed Assets Division, a division of Synovus Bank
MBS – mortgage-backed securities
NBER – National Bureau of Economic Research
nm – not meaningful
NPA – non-performing assets
NPL – non-performing loans
NSF – non-sufficient funds
NYSE – New York Stock Exchange
OCI – Other Comprehensive Income
OFAC – Office of Foreign Assets Control
ORE – other real estate
ORM – Operational Risk Management

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OTTI – Other-than-temporary impairment
Parent Company – Synovus Financial Corp.
PD – probability of default
POS – point-of-sale
RCSA – Risk Control Self-Assessment
SAB – SEC Staff Accounting Bulletin
SBA – Small Business Administration
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
Shared Deposit – Prior to the Charter Consolidation, Synovus offered this deposit product which gave its customers the opportunity to access up to \$7.5 million in FDIC insurance by spreading deposits across its 30 separately-chartered banks.
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' 2011 Form 10-K – Synovus' Annual Report on Form 10-K for the year ended December 31, 2011
Synovus Mortgage – Synovus Mortgage Corp., a wholly-owned subsidiary of Synovus Bank
Synovus Trust Company, N. A. – a wholly-owned subsidiary of Synovus Bank
TAGP – Transaction Account Guarantee Program
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 by ASC 310-40)
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
tMEDS – tangible equity units, each composed of a prepaid common stock purchase contract and a junior subordinated amortizing note
TSYS – Total System Services, Inc.
UCL – Unfair Competition Law
USA PATRIOT Act – Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism
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 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
Visa IPO – The initial public offering of shares of Class A Common Stock by Visa, Inc. on March 25, 2008

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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)	March 31, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$485,074	510,423
Interest bearing funds with Federal Reserve Bank	1,781,002	1,567,006
Interest earning deposits with banks	11,963	13,590
Federal funds sold and securities purchased under resale agreements	123,676	158,916
Trading account assets, at fair value	16,398	16,866
Mortgage loans held for sale, at fair value	96,837	161,509
Other loans held for sale	19,610	30,156
Investment securities available for sale, at fair value	3,713,003	3,690,125
Loans, net of deferred fees and costs	19,843,698	20,079,813
Allowance for loan losses	(507,794	) (536,494
Loans, net	19,335,904	19,543,319
Premises and equipment, net	479,976	486,923
Goodwill	24,431	24,431
Other intangible assets, net	7,589	8,525
Other real estate	201,429	204,232
Other assets	767,900	746,824
Total assets	\$27,064,792	27,162,845
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Non-interest bearing deposits	\$5,535,844	5,366,868
Interest bearing deposits, excluding brokered deposits	15,195,149	15,261,710
Brokered deposits	1,406,709	1,783,174
Total deposits	22,137,702	22,411,752
Federal funds purchased and securities sold under repurchase agreements	315,857	313,757
Long-term debt	1,351,823	1,364,727
Other liabilities	437,647	245,157
Total liabilities	24,243,029	24,335,393
Shareholders' Equity:		
Series A Preferred Stock – no par value. Authorized 100,000,000 shares; 967,870 issued and outstanding at March 31, 2012 and December 31, 2011	949,536	947,017
Common stock - \$1.00 par value. Authorized 1,200,000,000 shares; issued 792,268,949 at March 31, 2012 and 790,988,880 at December 31, 2011; outstanding 786,575,497 at March 31, 2012 and 785,295,428 at December 31, 2011	792,269	790,989
Additional paid-in capital	2,226,844	2,241,171
Treasury stock, at cost – 5,693,452 shares at both March 31, 2012 and December 31, 2011	(114,176	) (114,176
Accumulated other comprehensive (loss) income	(2,195) 21,093
Accumulated deficit	(1,030,515) (1,058,642

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Total shareholders' equity	2,821,763	2,827,452
Total liabilities and shareholders' equity	\$27,064,792	27,162,845
See accompanying notes to unaudited interim consolidated financial statements		

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CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(in thousands, except per share data)	Three Months Ended March 31,	
	2012	2011
Interest income:		
Loans, including fees	\$238,523	265,037
Investment securities available for sale	21,382	29,425
Trading account assets	278	256
Mortgage loans held for sale	1,367	1,811
Federal Reserve Bank balances	1,051	1,781
Other earning assets	53	122
Total interest income	262,654	298,432
Interest expense:		
Deposits	30,487	49,564
Federal funds purchased and securities sold under repurchase agreements	180	297
Long-term debt	11,028	11,137
Total interest expense	41,695	60,998
Net interest income	220,959	237,434
Provision for loan losses	66,049	141,746
Net interest income after provision for loan losses	154,910	95,688
Non-interest income:		
Service charges on deposit accounts	18,231	20,318
Fiduciary and asset management fees	10,835	11,537
Brokerage revenue	6,647	6,220
Mortgage banking income	6,003	2,495
Bankcard fees	7,579	10,657
Investment securities gains, net	20,083	1,420
Other fee income	4,700	4,931
Increase in fair value of private equity investments, net	93	132
Other non-interest income	9,968	6,454
Total non-interest income	84,139	64,164
Non-interest expense:		
Salaries and other personnel expense	92,622	93,100
Net occupancy and equipment expense	26,706	29,834
FDIC insurance and other regulatory fees	14,663	14,406
Foreclosed real estate expense, net	22,972	24,737
Losses (gains) on other loans held for sale, net	959	(2,226)
Professional fees	9,267	9,236
Data processing expense	8,024	8,950
Visa indemnification charges	2,979	4
Restructuring charges	858	24,333
Loss on curtailment of post-retirement defined benefit plan	—	398
Other operating expenses	24,083	36,944
Total non-interest expense	203,133	239,716
Income (loss) before income taxes	35,916	(79,864)
Income tax benefit	(77)	(456)
Net income (loss)	35,993	(79,408)
Net loss attributable to non-controlling interest	—	(220)

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Net income (loss) available to controlling interest	35,993	(79,188)
Dividends and accretion of discount on preferred stock	14,624	14,466	
Net income (loss) available to common shareholders	\$21,369	(93,654)
Earnings per common share:			
Net income (loss) available to common shareholders, basic	\$0.03	(0.12)
Net income (loss) available to common shareholders, diluted	\$0.02	(0.12)
Weighted average common shares outstanding, basic	786,135	785,243	
Weighted average common shares outstanding, diluted	908,986	785,243	

See accompanying notes to unaudited interim consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

(in thousands)	Three Months Ended March 31, 2012			Three Months Ended March 31, 2011		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income (loss)	\$35,916	77	35,993	(79,864)	456	(79,408)
Net unrealized gains (losses) on cash flow hedges:						
Net unrealized gains (losses) arising during the period	(1,135)	437	(698)	(3,905)	1,309	(2,596)
Valuation allowance for the change in deferred taxes arising from unrealized gains/losses ⁽¹⁾	—	(437)	(437)	—	(1,309)	(1,309)
Net unrealized gains/losses	(1,135)	—	(1,135)	(3,905)	—	(3,905)
Net unrealized gains/losses on investment securities available for sale:						
Net unrealized gains/losses arising during the period	(2,070)	798	(1,272)	(11,684)	4,548	(7,136)
Reclassification adjustment for (gains) losses realized in net income	(20,083)	7,734	(12,349)	(1,420)	548	(872)
Valuation allowance for the change in deferred taxes arising from unrealized gains/losses ⁽¹⁾	—	(8,532)	(8,532)	—	(5,096)	(5,096)
Net unrealized gains/losses	(22,153)	—	(22,153)	(13,104)	—	(13,104)
Other comprehensive loss	(23,288)	—	(23,288)	(17,009)	—	(17,009)
Less: comprehensive loss attributable to non-controlling interest	—	—	—	(220)	—	(220)
Comprehensive income (loss)	\$12,628	77	12,705	(96,653)	456	(96,197)

⁽¹⁾ In accordance with ASC 740-20-45-11(b), the deferred tax asset valuation allowance associated with unrealized gains and losses not recognized in income is charged directly to other comprehensive income (loss). See accompanying notes to unaudited interim consolidated financial statements.

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

(in thousands, except per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	(Accumulated Deficit) Retained Earnings	Non-Controlling Interest	Total
Balance at December 31, 2010	\$937,323	790,956	2,293,263	(114,176)	57,158	(966,606)	26,629	3,024,547
Net loss	—	—	—	—	—	(79,188)	(220)	(79,408)
Other comprehensive loss, net of taxes	—	—	—	—	(17,009)	—	—	(17,009)
Cash dividends declared on common stock - \$0.01 per share	—	—	—	—	—	(7,851)	—	(7,851)
Cash dividends paid on preferred stock	—	—	(12,098)	—	—	—	—	(12,098)
Accretion of discount on preferred stock	2,368	—	(2,368)	—	—	—	—	—
Restricted share unit activity	—	12	(12)	—	—	—	—	—
Share-based compensation expense	—	—	833	—	—	—	—	833
Change in ownership at majority-owned subsidiary	—	—	—	—	—	—	(26,315)	(26,315)
Balance at March 31, 2011	\$939,691	790,968	2,279,618	(114,176)	40,149	(1,053,645)	94	939,691 2,882,699
Balance at December 31, 2011	\$947,017	790,989	2,241,171	(114,176)	21,093	(1,058,642)	—	2,827,452
Net Income	—	—	—	—	—	35,993	—	35,993
Other comprehensive loss, net of taxes	—	—	—	—	(23,288)	—	—	(23,288)
Cash dividends declared on common stock - \$0.01 per share	—	—	—	—	—	(7,866)	—	(7,866)
	—	—	(12,098)	—	—	—	—	(12,098)

Cash dividends paid on preferred stock								
Accretion of discount on preferred stock	2,519	—	(2,526)	—	—	—	—	(7)
Restricted share unit activity	—	1,280	(1,280)	—	—	—	—	—
Share-based compensation expense	—	—	1,577	—	—	—	—	1,577
Balance at March 31, 2012	\$949,536	792,269	2,226,844	(114,176)	(2,195)	(1,030,515)	—	2,821,763

See accompanying notes to unaudited interim consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(in thousands)	Three Months Ended March 31,	
	2012	2011
Operating Activities		
Net income (losses)	\$35,993	(79,408)
Adjustments to reconcile net income (losses) to net cash provided by operating activities:		
Provision for loan losses	66,049	141,746
Depreciation, amortization, and accretion, net	11,883	11,433
Deferred income tax expense (benefit)	153	(360)
Decrease in interest receivable	4,549	4,912
Increase (decrease) in interest payable	766	(6,133)
Decrease in trading account assets	468	4,653
Originations of mortgage loans held for sale	(247,142)	(190,502)
Proceeds from sales of mortgage loans held for sale	310,094	314,703
(Gains) losses on sale of mortgage loans held for sale, net	(2,526)	296
(Decrease) increase in prepaid and other assets	(25,544)	26,375
Decrease in accrued salaries and benefits	(3,935)	(4,199)
Increase in other liabilities	193,120	884
Investment securities gains, net	(19,633)	(1,420)
Losses (gains) on sale of other loans held for sale, net	959	(2,226)
Losses on other real estate	17,310	18,624
Increase in fair value of private equity investments, net	(93)	(132)
Gains on sale of other assets held for sale, net	(169)	—
Write downs on other assets held for sale	621	—
Losses on curtailment of post-retirement health benefit	—	398
Increase in accrual for Visa indemnification	2,513	—
Share-based compensation	1,596	833
Other, net	100	(7,504)
Net cash provided by operating activities	347,132	232,973
Investing Activities		
Net decrease (increase) in interest earning deposits with banks	1,627	(5,771)
Net decrease in federal funds sold and securities purchased under repurchase agreements	35,240	30,564
Net (increase) decrease in interest bearing funds with Federal Reserve Bank	(213,996)	562,012
Proceeds from maturities and principal collections of investment securities available for sale	312,721	315,486
Proceeds from sales of investment securities available for sale	474,415	8,043
Purchases of investment securities available for sale	(819,430)	(242,292)
Proceeds from sale of other real estate	30,057	39,004
Principal repayments by borrowers on other loans held for sale	2,443	24,638
Net decrease in loans	3,690	232,370
Proceeds from sale of other loans held for sale	98,157	106,106
Purchases of premises and equipment	(3,161)	(3,129)
Proceeds from disposals of premises and equipment	2,969	43
Proceeds from sales of other assets held for sale	3,519	—

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Additions to other intangible assets	—	—	
Net cash (used in) provided by investing activities	(71,749)	1,067,074
Financing Activities			
Net increase (decrease) in demand and savings deposits	392,157	(421,015)
Net decrease in certificates of deposit	(666,207	)	(873,410
Net increase (decrease) in federal funds purchased and other short-term borrowings	2,100	(74,017)
Principal repayments on long-term debt	(302,180)	(58,476
Proceeds from issuance of long-term debt	293,370		165,000

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Tax deficiency from share-based payment arrangements	(13)	—	
Dividends paid to common shareholders	(7,861)	(7,851)
Dividends paid to preferred shareholders	(12,098	)	(12,098)
Net cash used in financing activities	(300,732	)	(1,281,867)
(Decrease) increase in cash and cash equivalents	(25,349	)	18,180	
Cash and cash equivalents at beginning of period	510,423		389,021	
Cash and cash equivalents at end of period	\$485,074		407,201	
Supplemental Cash Flow Information				
Cash (Received) Paid During the Period for:				
Income tax refunds, net of taxes paid	\$(10,399	)	285	
Interest paid	40,134		53,300	
Non-cash Investing Activities (at Fair Value):				
Increase in net unrealized gains on available for sale securities ⁽¹⁾	(22,513	)	(13,104)
(Decrease) increase in net unrealized gains on hedging instruments ⁽¹⁾	(1,135	)	3,905	
Mortgage loans held for sale transferred to loans at fair value	1,441		3,904	
Loans foreclosed and transferred to other real estate at fair value	42,264		60,110	
Loans transferred to other loans held for sale	94,564		164,400	
Other loans held for sale foreclosed and transferred to other real estate at fair value	2,330		5,377	
Premises and equipment transferred to other assets held for sale	1,945		38,241	
Write downs to fair value on other loans held for sale	1,221		2,963	
Impairment loss on available for sale securities	(450)	—	

⁽¹⁾ Changes in net unrealized gains on available for sale securities, fair value hedges, and cash flow hedges have not been adjusted for the impact of deferred taxes.

See accompanying notes to unaudited interim consolidated financial statements.

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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 30 locally-branded divisions of its wholly-owned subsidiary bank, Synovus Bank, and other offices in Georgia, Alabama, South Carolina, Florida, and Tennessee.

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, 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 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' 2011 Form 10-K. There have been no significant changes to the accounting policies as disclosed in Synovus' 2011 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 valuation of impaired and other loans held for sale; the fair value of investment securities; the fair value of private equity investments, the valuation of long-lived assets and other intangible assets; the valuation of deferred tax assets; the valuation of the Visa indemnification liability; and other contingent liabilities. In connection with the determination of the allowance for loan losses and the valuation of certain impaired loans and other real estate, management obtains independent appraisals for significant properties and properties collateralizing impaired loans. In making this determination, management also considers other factors or recent developments, such as changes in absorption rates or market conditions at the time of valuation and anticipated sales prices based on management's plans for disposition.

A substantial portion of Synovus' loans are secured by real estate in five Southeastern states (Georgia, Alabama, Florida, South Carolina, and Tennessee). Accordingly, the ultimate collectability of a substantial portion of Synovus' loan portfolio is susceptible to changes in market conditions in these areas. Total commercial real estate loans represent 35.5% of the total loan portfolio at March 31, 2012. Due to declines in real estate values over the past four years, the commercial real estate portfolio loans may have a greater risk of non-collection than other loans. Based on available information, management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, the ability of borrowers to repay their loans, and management's plans for disposition. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Synovus' allowance for loan losses. Such agencies may require Synovus to make changes to the allowance for loan losses based on their judgment of information available to them at the time of their examination.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and due from banks. At March 31, 2012 and December 31, 2011, cash and cash equivalents included \$81.5 million and \$73.3 million, respectively, on deposit to meet Federal Reserve Bank requirements. At March 31, 2012 and December 31, 2011, \$15.6 million of the due from banks balance was restricted as to withdrawal, including \$15.0 million on deposit pursuant to a payment network arrangement.

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 \$9.9 million at March 31, 2012 and \$10.4 million at December 31, 2011, which is pledged as collateral in connection with certain letters of credit. Federal funds sold include \$119.9 million at March 31, 2012, and \$141.0 million at December 31, 2011, which is pledged to collateralize certain derivative instruments in a net liability position. Federal funds sold, federal funds purchased, securities purchased under resale agreements, and securities sold under repurchase agreements generally mature in one day.

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Recently Adopted Accounting Standards Updates

Effective January 1, 2012, Synovus adopted the provisions of ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 was the result of a joint project with the IASB and FASB, and amends the guidance in ASC 220, Comprehensive Income, by eliminating the option to present components of OCI in the statement of changes in shareholders' equity. Instead, the new guidance now requires entities to present all non-owner changes in shareholders' equity either as a single continuous statement of comprehensive income or as two separate but consecutive statements. This statement was temporarily amended by ASU 2011-12, which addresses the presentation of reclassification adjustments out of accumulated other comprehensive income. Synovus has elected the two separate statement approach.

Effective January 1, 2012, Synovus adopted the provisions of ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure in U.S. GAAP and IFRSs. This ASU amends Topic 820 to add both additional clarifications to existing fair value measurement and disclosure requirements. Clarifications were made to the relevancy of the highest and best use valuation concept, measurement of an instrument classified in an entity's shareholders' equity and disclosure of quantitative information about the unobservable inputs for Level 3 fair value measurements. Changes to disclosures included measurement of financial instruments within a portfolio and additional disclosures related to fair value measurements, as provided in Note 7.

Effective January 1, 2012, Synovus adopted the provisions of ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements. The ASU focuses the transferor's assessment of effective control on its contractual rights and obligations by removing the requirements to assess its ability to exercise those rights or honor those obligations. Synovus does not currently access wholesale funding markets through sales of securities with agreements to repurchase. Repurchase agreements are offered through a commercial banking sweep product as a short-term investment opportunity for customers. All such arrangements are considered typical of the banking industry and are accounted for as borrowings. There was no material impact to Synovus' unaudited interim consolidated financial statements upon adoption of this standard.

Effective January 1, 2012, Synovus adopted the provisions of ASU 2011-08, Testing Goodwill for Impairment. Under the new standard, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. An entity can choose to perform the qualitative assessment on none, some or all of its reporting units. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. Management does not anticipate making significant changes to the current approach that has been applied on a historic basis in the application of the new guidance.

Recently Issued but Not Currently Effective Accounting Standards Updates

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The ASU requires additional disclosures about financial instruments and derivative instruments that are offset or subject to an enforceable master netting arrangement or similar agreement. The ASU is effective for the interim reporting period ending March 31, 2013, with retrospective disclosure for all comparative periods presented. Synovus does not offset assets and liabilities in this manner, therefore, the ASU is not expected to materially impact Synovus' financial position, results of operations, or EPS.

Reclassifications

Prior years' consolidated financial statements are reclassified whenever necessary to conform to the current year'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 within the unaudited interim consolidated financial statements and related footnotes as deemed appropriate, if any.

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Note 2 - Investment Securities

The following table summarizes Synovus' available for sale investment securities as of March 31, 2012 and December 31, 2011.

(in thousands)	March 31, 2012			
	Amortized Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$357	—	—	357
U.S. Government agency securities	37,272	2,547	—	39,819
Securities issued by U.S. Government sponsored enterprises	637,869	5,306	(67)	) 643,108
Mortgage-backed securities issued by U.S. Government agencies	197,109	8,018	—	205,127
Mortgage-backed securities issued by U.S. Government sponsored enterprises	2,122,904	40,937	(865)	) 2,162,976
Collateralized mortgage obligations issued by U.S. Government sponsored enterprises	632,224	2,623	(4,282)	) 630,565
State and municipal securities	22,446	787	(20)	) 23,213
Equity securities	3,647	—	(4)	) 3,643
Other investments	5,000	19	(824)	) 4,195
Total	\$3,658,828	60,237	(6,062)	) 3,713,003
	December 31, 2011			
(in thousands)	Amortized Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$426	—	—	426
U.S. Government agency securities	37,489	3,004	—	40,493
Securities issued by U.S. Government sponsored enterprises	667,707	8,333	(619)	) 675,421
Mortgage-backed securities issued by U.S. Government agencies	266,682	19,071	—	285,753
Mortgage-backed securities issued by U.S. Government sponsored enterprises	1,955,988	46,275	(257)	) 2,002,006
Collateralized mortgage obligations issued by U.S. Government sponsored enterprises	651,379	1,646	(1,525)	) 651,500
State and municipal securities	24,530	808	(20)	) 25,318
Equity securities	4,147	—	(388)	) 3,759
Other investments	5,449	—	—	5,449
Total	\$3,613,797	79,137	(2,809)	) 3,690,125

⁽¹⁾ Amortized cost is adjusted for other-than-temporary impairment charges in 2012 and 2011, which have been recognized on the consolidated statements of operations in the applicable period, and were considered inconsequential.

At March 31, 2012 and December 31, 2011, investment securities with a carrying value of \$2.34 billion and \$2.48 billion, respectively, were pledged to secure certain deposits, payment network arrangements, and FHLB advances as required by law and contractual agreements.

Synovus has reviewed investment securities that are in an unrealized loss position as of March 31, 2012 and December 31, 2011 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 any of these investment securities prior to the recovery of the unrealized loss, which may be until maturity. 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. 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

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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 other-than-temporary impairment. These factors include length of time that the security has been in a loss position, the extent that the fair value has been below amortized cost, and the credit standing of the issuer.

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, 2012 are presented below.

(in thousands)	March 31, 2012		Total Fair Value
	Less than 12 Months	12 Months or Longer	
	Fair		
	Value		