

SYNOVUS FINANCIAL CORP  
Form 10-Q  
August 08, 2018  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2018  
Commission file number 1-10312

SYNOVUS FINANCIAL CORP.  
(Exact name of registrant as specified in its charter)

Georgia 58-1134883  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1111 Bay Avenue 31901  
Suite 500, Columbus, Georgia  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (706) 649-2311  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$1.00 Par Value	New York Stock Exchange
Series B Participating Cumulative Preferred Stock Purchase Rights	New York Stock Exchange
Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D	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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer x Accelerated filer "

Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company "

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Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to section 7(a)2(B) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
YES  NO

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

Class	August 6, 2018
Common Stock, \$1.00 Par Value	117,348,421

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SYNOVUS FINANCIAL CORP.

INDEX OF DEFINED TERMS

ALCO – Synovus' Asset Liability Management Committee

AOCI - Accumulated other comprehensive income

ASC – Accounting Standards Codification

ASU – Accounting Standards Update

ATM – Automatic teller machine

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

BOLI – Bank-owned life insurance

BOV – Broker's opinion of value

bp(s) – Basis point(s)

C&I – Commercial and industrial loans

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

CME – Chicago Mercantile Exchange

CMO – Collateralized Mortgage Obligation

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

Code – Internal Revenue Code

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

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

CRE – Commercial real estate

DIF – Deposit Insurance Fund

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

EVE – Economic value of equity

Exchange Act – Securities Exchange Act of 1934, as amended

FASB – Financial Accounting Standards Board

FCB - FCB Financial Holdings, Inc.

FDIC – Federal Deposit Insurance Corporation

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

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

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

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



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

FFIEC – Federal Financial Institutions Examination Council

FHLB – Federal Home Loan Bank

FICO – Fair Isaac Corporation

FTE – Fully taxable-equivalent

GA DBF – Georgia Department of Banking and Finance

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

GGL – Government guaranteed loans

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

GSE – Government sponsored enterprise

HELOC – Home equity line of credit

LTV – Loan-to-collateral value ratio

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

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

NAICS – North American Industry Classification System

nm – not meaningful

NPA – Non-performing assets

NPL – Non-performing loans

NSF – Non-sufficient funds

OCI – Other comprehensive income

ORE – Other real estate

OTC – Over-the-counter

OTTI – Other-than-temporary impairment

Parent Company – Synovus Financial Corp.

SBA – Small Business Administration

SEC – U.S. Securities and Exchange Commission

Securities Act – Securities Act of 1933, as amended

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

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

Synovus – Synovus Financial Corp.

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

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

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

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

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

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

the Treasury – United States Department of the Treasury

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

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

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

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

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

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

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



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

(in thousands, except share and per share data)	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and due from banks	\$404,080	\$397,848
Interest bearing funds with Federal Reserve Bank	613,082	460,928
Interest earning deposits with banks	33,754	26,311
Federal funds sold and securities purchased under resale agreements	40,872	47,846
Total cash, cash equivalents, restricted cash, and restricted cash equivalents <sup>(1)</sup>	1,091,788	932,933
Mortgage loans held for sale, at fair value	53,673	48,024
Investment securities available for sale, at fair value	3,929,962	3,987,069
Loans, net of deferred fees and costs	25,134,056	24,787,464
Allowance for loan losses	(251,725)	(249,268)
Loans, net	24,882,331	24,538,196
Cash surrender value of bank-owned life insurance	547,261	540,958
Premises and equipment, net	428,633	426,813
Goodwill	57,315	57,315
Other intangible assets	10,458	11,254
Deferred tax asset, net	182,983	165,788
Other assets	555,901	513,487
Total assets	\$31,740,305	\$31,221,837
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits:</b>		
Non-interest bearing deposits	\$7,630,491	\$7,686,339
Interest bearing deposits, excluding brokered deposits	16,961,187	16,500,436
Brokered deposits	1,851,010	1,961,125
Total deposits	26,442,688	26,147,900
Federal funds purchased and securities sold under repurchase agreements	207,580	161,190
Long-term debt	1,656,647	1,706,138
Other liabilities	265,696	245,043
Total liabilities	28,572,611	28,260,271
<b>Shareholders' Equity</b>		
Series D Preferred Stock – no par value. Authorized 100,000,000 shares; 8,000,000 shares issued and outstanding at June 30, 2018	195,138	—
Series C Preferred Stock - no par value. 5,200,000 shares outstanding at June 30, 2018 and December 31, 2017	125,980	125,980
Common stock - \$1.00 par value. Authorized 342,857,143 shares; 143,077,973 issued at June 30, 2018 and 142,677,449 issued at December 31, 2017; 117,841,369 outstanding at June 30, 2018 and 118,897,295 outstanding at December 31, 2017	143,078	142,678
Additional paid-in capital	3,045,014	3,043,129
Treasury stock, at cost – 25,236,604 shares at June 30, 2018 and 23,780,154 shares at December 31, 2017	(916,484)	(839,674)
Accumulated other comprehensive loss	(125,720)	(54,754)

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Retained earnings	700,688	544,207
Total shareholders' equity	3,167,694	2,961,566
Total liabilities and shareholders' equity	\$31,740,305	\$31,221,837

See accompanying notes to unaudited interim consolidated financial statements.

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

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CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

(in thousands, except per share data)	Six Months Ended		Three Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Interest income:				
Loans, including fees	\$585,396	\$511,319	\$300,056	\$261,971
Investment securities available for sale	47,812	40,099	23,884	20,266
Trading account assets	220	49	166	21
Mortgage loans held for sale	936	972	557	505
Federal Reserve Bank balances	4,568	2,515	2,818	1,304
Other earning assets	4,036	2,957	2,353	1,443
Total interest income	642,968	557,911	329,834	285,510
Interest expense:				
Deposits	58,975	35,075	32,600	18,118
Federal funds purchased and securities sold under repurchase agreements	310	84	203	45
Long-term debt	24,822	31,728	12,454	16,250
Total interest expense	84,107	66,887	45,257	34,413
Net interest income	558,861	491,024	284,577	251,097
Provision for loan losses	24,566	18,934	11,790	10,260
Net interest income after provision for loan losses	534,295	472,090	272,787	240,837
Non-interest income:				
Service charges on deposit accounts	39,938	40,370	19,999	20,252
Fiduciary and asset management fees	27,419	24,676	13,983	12,524
Card fees	21,032	19,885	10,833	10,041
Brokerage revenue	17,596	14,436	8,900	7,210
Mortgage banking income	9,887	11,548	4,839	5,784
Income from bank-owned life insurance	7,949	6,328	3,733	3,272
Investment securities (losses) gains, net	(1,296)	7,667	(1,296)	(1)
Decrease in fair value of private equity investments, net	(3,093)	(3,166)	(37)	(1,352)
Other fee income	9,877	11,033	5,259	6,164
Other non-interest income	11,124	7,762	7,174	4,807
Total non-interest income	140,433	140,539	73,387	68,701
Non-interest expense:				
Salaries and other personnel expense	225,583	212,404	111,863	105,213
Net occupancy and equipment expense	64,134	59,264	32,654	29,933
Third-party processing expense	29,012	26,223	15,067	13,620
FDIC insurance and other regulatory fees	13,335	13,645	6,543	6,875
Professional fees	11,789	12,907	6,284	7,551
Advertising expense	10,312	11,258	5,220	5,346
Valuation adjustment to Visa derivative	2,328	—	2,328	—
Foreclosed real estate expense, net	749	3,582	(107)	1,448
Earnout liability adjustment	—	1,707	—	1,707
Restructuring charges, net	(212)	6,524	103	13
Other operating expenses	42,204	41,619	24,102	20,041
Total non-interest expense	399,234	389,133	204,057	191,747
Income before income taxes	275,494	223,496	142,117	117,791

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Income tax expense	61,146	75,635	30,936	41,788
Net income	214,348	147,861	111,181	76,003
Dividends on preferred stock	5,119	5,119	2,559	2,559
Net income available to common shareholders	\$209,229	\$142,742	\$108,622	\$73,444
Net income per common share, basic	\$1.77	\$1.17	\$0.92	\$0.60
Net income per common share, diluted	1.75	1.16	0.91	0.60
Weighted average common shares outstanding, basic	118,531	122,251	118,397	122,203
Weighted average common shares outstanding, diluted	119,229	123,043	119,139	123,027

See accompanying notes to unaudited interim consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited)

(in thousands)	Six Months Ended June 30, 2018			2017		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	\$275,494	\$(61,146)	\$214,348	\$223,496	\$(75,635)	\$147,861
Net change related to cash flow hedges:						
Reclassification adjustment for losses realized in net income	—	—	—	130	(50)	80
Net unrealized (losses) gains on investment securities available for sale:						
Reclassification adjustment for net losses (gains) realized in net income	1,296	(336)	960	(7,667)	2,952	(4,715)
Net unrealized (losses) gains arising during the period	(86,921)	22,512	(64,409)	20,250	(7,797)	12,453
Net unrealized (losses) gains	(85,625)	22,176	(63,449)	12,583	(4,845)	7,738
Post-retirement unfunded health benefit:						
Reclassification adjustment for gains realized in net income	(68)	22	(46)	(40)	16	(24)
Net unrealized (realized) gains	(68)	22	(46)	(40)	16	(24)
Other comprehensive (loss) income	\$(85,693)	\$22,198	\$(63,495)	\$12,673	\$(4,879)	\$7,794
Comprehensive income			\$150,853			\$155,655

(in thousands)	Three Months Ended June 30, 2018			2017		
	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Before-tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Net income	\$142,117	\$(30,936)	\$111,181	\$117,791	\$(41,788)	\$76,003
Net change related to cash flow hedges:						
Reclassification adjustment for losses realized in net income	—	—	—	65	(25)	40
Net unrealized (losses) gains on investment securities available for sale:						
Reclassification adjustment for net losses realized in net income	1,296	(336)	960	1	—	1
Net unrealized (losses) gains arising during the period	(25,476)	6,598	(18,878)	11,150	(4,293)	6,857
Net unrealized (losses) gains	(24,180)	6,262	(17,918)	11,151	(4,293)	6,858
Post-retirement unfunded health benefit:						
Reclassification adjustment for gains realized in net income	(34)	9	(25)	(20)	8	(12)
Net unrealized (realized) gains	(34)	9	(25)	(20)	8	(12)
Other comprehensive (loss) income	\$(24,214)	\$6,271	\$(17,943)	\$11,196	\$(4,310)	\$6,886
Comprehensive income			\$93,238			\$82,889

See accompanying notes to unaudited interim consolidated financial statements.

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## SYNOVUS FINANCIAL CORP.

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(unaudited)

(in thousands, except per share data)	Series D Preferred Stock	Series C Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2016	\$—	\$ 125,980	\$ 142,026	\$ 3,028,405	\$(664,595)	\$ (55,659 )	\$ 351,767	\$ 2,927,924
Net income	—	—	—	—	—	—	147,861	147,861
Other comprehensive income, net of income taxes	—	—	—	—	—	7,794	—	7,794
Cash dividends declared on common stock - \$0.30 per share	—	—	—	—	—	—	(36,696 )	(36,696 )
Cash dividends paid on Series C Preferred Stock	—	—	—	—	—	—	(5,119 )	(5,119 )
Repurchases of common stock	—	—	—	—	(45,349 )	—	—	(45,349 )
Restricted share unit activity	—	—	330	(7,850 )	—	—	(290 )	(7,810 )
Stock options exercised	—	—	143	2,361	—	—	—	2,504
Share-based compensation expense	—	—	—	6,838	—	—	—	6,838
Balance at June 30, 2017	\$—	\$ 125,980	\$ 142,499	\$ 3,029,754	\$(709,944)	\$ (47,865 )	\$ 457,523	\$ 2,997,947
Balance at December 31, 2017	\$—	\$ 125,980	\$ 142,678	\$ 3,043,129	\$(839,674)	\$ (54,754 )	\$ 544,207	\$ 2,961,566
Cumulative effect adjustment from adoption of ASU 2014-09	—	—	—	—	—	—	(685 )	(685 )
Reclassification from adoption of ASU 2018-02	—	—	—	—	—	(7,588 )	7,588	—
Cumulative effect adjustment from adoption of ASU 2016-01	—	—	—	—	—	117	(117 )	—
Net income	—	—	—	—	—	—	214,348	214,348
	—	—	—	—	—	(63,495 )	—	(63,495 )

Other comprehensive loss, net of income taxes									
Cash dividends declared on common stock - \$0.50 per share	—	—	—	—	—	—	(59,185 )	(59,185 )	
Cash dividends paid on Series C Preferred Stock	—	—	—	—	—	—	(5,119 )	(5,119 )	
Issuance of Series D Preferred Stock, net of issuance costs	195,138	—	—	—	—	—	—	195,138	
Repurchases of common stock	—	—	—	—	(76,810 )	—	—	(76,810 )	
Restricted share unit activity	—	—	289	(8,220 )	—	—	(349 )	(8,280 )	
Stock options exercised	—	—	111	1,785	—	—	—	1,896	
Share-based compensation expense	—	—	—	8,320	—	—	—	8,320	
Balance at June 30, 2018	\$ 195,138	\$ 125,980	\$ 143,078	\$ 3,045,014	\$ (916,484)	\$ (125,720 )	\$ 700,688	\$ 3,167,694	

See accompanying notes to unaudited interim consolidated financial statements.



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CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	Six Months Ended June	
	30,	
(in thousands)	2018	2017
<b>Operating Activities</b>		
Net income	\$214,348	\$147,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	24,566	18,934
Depreciation, amortization, and accretion, net	28,661	29,334
Deferred income tax expense	5,222	70,484
Originations of mortgage loans held for sale	(286,070 )	(325,094 )
Proceeds from sales of mortgage loans held for sale	287,175	323,861
Gain on sales of mortgage loans held for sale, net	(6,198 )	(7,049 )
Increase in other assets	(52,294 )	(4,124 )
Increase (decrease) in other liabilities	8,292	(9,667 )
Investment securities losses (gains), net	1,296	(7,667 )
Share-based compensation expense	8,320	6,838
Net cash provided by operating activities	233,318	243,711
<b>Investing Activities</b>		
Proceeds from maturities and principal collections of investment securities available for sale	294,152	313,902
Proceeds from sales of investment securities available for sale	35,066	338,381
Purchases of investment securities available for sale	(367,458 )	(748,754 )
Proceeds from sales of loans	13,954	10,747
Proceeds from sales of other real estate	4,631	5,492
Net increase in loans	(382,086 )	(612,309 )
Purchases of bank-owned life insurance policies, net of settlements	1,783	(73,110 )
Net increase in premises and equipment	(26,780 )	(15,386 )
Proceeds from sales of other assets held for sale	2,106	3,158
Net cash used in investing activities	(424,632 )	(777,879 )
<b>Financing Activities</b>		
Net (decrease) increase in demand and savings deposits	(39,614 )	367,450
Net increase in certificates of deposit	334,130	202,927
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	46,390	(9,320 )
Repayments and redemption of long-term debt	(2,330,052 )	(1,128,591 )
Proceeds from issuance of long-term debt	2,280,000	1,075,000
Dividends paid to common shareholders	(47,510 )	(18,349 )
Dividends paid to preferred shareholders	(5,119 )	(5,119 )
Proceeds from issuance of Series D Preferred Stock	195,138	—
Stock options exercised	1,896	2,504
Repurchase of common stock	(76,810 )	(45,349 )
Taxes paid related to net share settlement of equity awards	(8,280 )	(7,810 )
Net cash provided by financing activities	350,169	433,343
Increase/(decrease) in cash and cash equivalents including restricted cash	158,855	(100,825 )
	932,933	999,045

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Cash, cash equivalents, restricted cash, and restricted cash equivalents at beginning of period <sup>(1)</sup>		
Cash, cash equivalents, restricted cash, and restricted cash equivalents at end of period <sup>(1)</sup>	\$ 1,091,788	\$ 898,220
Supplemental Cash Flow Information		
Cash paid during the period for:		
Income tax payments, net	\$38,619	\$ 8,768
Interest paid	80,884	67,007
Non-cash Activities		
Premises and equipment transferred to other assets held for sale	785	—
Other assets held for sale transferred to premises and equipment	—	4,450
Loans foreclosed and transferred to other real estate	7,561	5,516
Loans transferred to other loans held for sale at fair value	5,233	10,584
ASU 2014-09 cumulative effect adjustment to opening balance of retained earnings	(685	) —
Equity investment securities available for sale transferred to other assets at fair value	3,162	—
Dividends declared on common stock during the period but paid after period-end	29,510	18,349

See accompanying notes to unaudited interim consolidated financial statements.

<sup>(1)</sup> See "Note 1 - Significant Accounting Policies" of this Report for information on Synovus' change in presentation of cash and cash equivalents.

Notes to Unaudited Interim Consolidated Financial Statements

Note 1 - Significant Accounting Policies

Business Operations

The accompanying unaudited interim consolidated financial statements of Synovus Financial Corp. include the accounts of the Parent Company and its consolidated subsidiaries. Synovus Financial Corp. is a financial services company based in Columbus, Georgia. Through its wholly-owned subsidiary, Synovus Bank, a Georgia state-chartered bank that is a member of the Federal Reserve System, the company provides commercial and retail banking in addition to a full suite of specialized products and services including private banking, treasury management, wealth management, premium finance and international banking.

Synovus Bank is positioned in some of the highest growth markets in the Southeast, with 250 branches and 334 ATMs 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, comprehensive income, and cash flows in conformity with GAAP. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the consolidated financial position and results of operations for the periods covered by this Report have been included. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes appearing in Synovus' 2017 Form 10-K.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and due from banks, interest bearing funds with the Federal Reserve Bank, interest earning deposits with banks, federal funds sold and securities purchased under resale agreements, and is inclusive of any restricted cash and restricted cash equivalents. Restricted cash and restricted cash equivalents primarily relate to cash held on deposit with the Federal Reserve to meet reserve requirements as well as cash posted as collateral for derivatives in a liability position. At June 30, 2018 and December 31, 2017, interest bearing funds with the Federal Reserve Bank included \$35.7 million and \$8.6 million, respectively, on deposit to meet Federal Reserve Bank requirements. Interest earning deposits with banks include \$2.7 million and \$5.9 million at June 30, 2018 and December 31, 2017, respectively, which are pledged as collateral in connection with certain letters of credit. Federal funds sold include \$30.6 million and \$43.8 million at June 30, 2018 and December 31, 2017, respectively, which are pledged to collateralize certain derivative financial instruments. Federal funds sold and securities purchased under resale agreements generally mature in one day.

Income Taxes

On December 22, 2017, Federal Tax Reform was enacted into law. The new legislation included a decrease in the corporate federal income tax rate from 35% to 21% effective January 1, 2018. Under ASC 740, the effects of the changes in tax rates and laws are recognized in the period in which the new legislation is enacted. Therefore, Synovus

was required to remeasure its deferred tax assets and liabilities and record the adjustment to income tax expense effective December 22, 2017. In December 2017, the SEC issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allowed companies to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. Since Federal Tax Reform was enacted late in 2017, management expects that certain deferred tax assets and liabilities will continue to be evaluated in the context of Federal Tax Reform through the date of the filing of our 2017 federal income tax return, and may change as a result of evolving management interpretations, elections, and assumptions, as well as new guidance that may be issued by the Internal Revenue Service. Accordingly, the federal income tax expense of \$47.2 million

recorded in 2017 relating to the effects from Federal Tax Reform is considered provisional. Management expects to complete its analysis within the measurement period in accordance with SAB 118.

#### Recently Adopted Accounting Standards Updates

ASU 2014-09, Revenue from Contracts with Customers (Topic 606) issued by the FASB in May 2014, and all subsequent ASUs that modified 606. ASU 2014-09 implements a common revenue standard that establishes principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts to provide goods or services to customers. The core principle of the revenue model is that a company will recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The scope of the guidance explicitly excludes net interest income as well as many other revenues from financial assets. Management reviewed its revenue streams and contracts with customers and did not identify material changes to the timing or amount of revenue recognition. Synovus adopted these ASUs on the required effective date of January 1, 2018 utilizing the modified retrospective method of adoption. The adoption resulted in a cumulative effect adjustment of (\$685) thousand to the opening balance of retained earnings. Beginning January 1, 2018, in connection with the adoption of this standard, Synovus began including merchant discounts and other card-related fees in card fees. For periods prior to January 1, 2018, these amounts were previously presented in other non-interest income and have been reclassified for comparability. See "Part I - Item 1. Financial Statements and Supplementary Data - Note 12 - Non-interest Income" for the required disclosures in accordance with this ASU.

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

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

#### Reclassifications

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

Note 2 - Acquisitions

Cabela's Transaction

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

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

Acquisition of Global One

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

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

Under the terms of the merger agreement, the purchase price includes additional annual payments ("Earnout Payments") to Global One's former shareholders over a three to five year period, with amounts based on a percentage of "Global One Earnings," as defined in the merger agreement. The Earnout Payments consist of shares of Synovus common stock as well as a smaller cash consideration component. The first annual Earnout Payment of stock and cash valued at \$6.4 million was made during November 2017. The balance of the earnout liability at June 30, 2018 was \$11.3 million based on the estimated fair value of the remaining Earnout Payments.

Note 3 - Share Repurchase Program

On January 23, 2018, Synovus announced a share repurchase program of up to \$150 million to be completed during 2018. As of June 30, 2018, Synovus had repurchased under this program a total of \$76.8 million, or 1.5 million shares of its common stock, at an average price of \$52.72 per share.

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## Note 4 - Investment Securities Available for Sale

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

(in thousands)	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$122,800	\$ —	\$(2,167)	\$120,633
U.S. Government agency securities	40,753	181	—	40,934
Mortgage-backed securities issued by U.S. Government agencies	111,406	107	(3,569)	107,944
Mortgage-backed securities issued by U.S. Government sponsored enterprises	2,614,668	59	(87,882)	2,526,845
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	1,159,859	139	(43,550)	1,116,448
State and municipal securities	115	—	—	115
Corporate debt and other debt securities	17,000	186	(143)	17,043
Total investment securities available for sale	\$4,066,601	\$ 672	\$(137,311)	\$3,929,962

  

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

At June 30, 2018 and December 31, 2017, investment securities with a carrying value of \$1.35 billion and \$2.00 billion, respectively, were pledged to secure certain deposits and securities sold under repurchase agreements as required by law and contractual agreements.

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

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.

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As of June 30, 2018, Synovus had 80 investment securities in a loss position for less than twelve months and 55 investment securities in a loss position for twelve months or longer.

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 June 30, 2018 and December 31, 2017 are presented below.

(in thousands)	June 30, 2018					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	\$72,386	\$ 1,378	\$29,255	\$ 789	\$101,641	\$ 2,167
Mortgage-backed securities issued by U.S. Government agencies	23,240	632	67,765	2,937	91,005	3,569
Mortgage-backed securities issued by U.S. Government sponsored enterprises	1,703,526	49,197	812,767	38,685	2,516,293	87,882
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	609,505	21,190	412,961	22,360	1,022,466	43,550
Corporate debt and other debt securities	—	—	1,857	143	1,857	143
Total	\$2,408,657	\$ 72,397	\$1,324,605	\$ 64,914	\$3,733,262	\$ 137,311
(in thousands)	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	\$34,243	\$ 443	\$29,562	\$ 491	\$63,805	\$ 934
Mortgage-backed securities issued by U.S. Government agencies	36,810	357	55,740	1,005	92,550	1,362
Mortgage-backed securities issued by U.S. Government sponsored enterprises	1,271,012	10,263	929,223	21,091	2,200,235	31,354
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	653,781	9,497	426,237	13,907	1,080,018	23,404
Corporate debt and other securities	—	—	5,097	223	5,097	223
Total	\$1,995,846	\$ 20,560	\$1,445,859	\$ 36,717	\$3,441,705	\$ 57,277

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

(in thousands)	Distribution of Maturities at June 30, 2018				Total
	Within One Year	1 to 5 Years	5 to 10 Years	More Than 10 Years	
<b>Amortized Cost</b>					
U.S. Treasury securities	\$18,993	\$103,807	\$—	\$—	\$122,800
U.S. Government agency securities	2,330	6,437	31,986	—	40,753
Mortgage-backed securities issued by U.S. Government agencies	—	—	27,725	83,681	111,406
Mortgage-backed securities issued by U.S. Government sponsored enterprises	1	1,471	615,334	1,997,862	2,614,668
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	—	—	17,355	1,142,504	1,159,859
State and municipal securities	115	—	—	—	115
Corporate debt and other debt securities	—	—	15,000	2,000	17,000
Total amortized cost	\$21,439	\$111,715	\$707,400	\$3,226,047	\$4,066,601
<b>Fair Value</b>					
U.S. Treasury securities	\$18,993	\$101,640	\$—	\$—	\$120,633
U.S. Government agency securities	2,337	6,455	32,142	—	40,934
Mortgage-backed securities issued by U.S. Government agencies	—	—	27,266	80,678	107,944
Mortgage-backed securities issued by U.S. Government sponsored enterprises	1	1,520	596,366	1,928,958	2,526,845
Collateralized mortgage obligations issued by U.S. Government agencies or sponsored enterprises	—	—	16,855	1,099,593	1,116,448
State and municipal securities	115	—	—	—	115
Corporate debt and other debt securities	—	—	15,186	1,857	17,043
Total fair value	\$21,446	\$109,615	\$687,815	\$3,111,086	\$3,929,962

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

(in thousands)	Six Months Ended June 30,		Three Months Ended June 30,	
	2018	2017	2018	2017
Proceeds from sales of investment securities available for sale	\$35,066	\$338,381	\$35,066	\$55,752
Gross realized gains on sales	—	7,942	—	239
Gross realized losses on sales	(1,296 )	(275 )	(1,296 )	(240 )
Investment securities (losses) gains, net	\$(1,296 )	\$7,667	\$(1,296 )	\$(1 )



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## Note 5 - Restructuring Charges

For the six and three months ended June 30, 2018 and 2017, total restructuring charges consist of the following components:

(in thousands)	Six Months		Three Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Severance charges	\$—	\$6,453	\$—	\$—
Other charges, net	(212 )	71	103	13
Total restructuring charges, net	\$(212)	\$6,524	\$103	\$13

For the six months ended June 30, 2018, Synovus recorded net lease termination accrual reversals of \$377 thousand related to branches closed in prior years offset somewhat by other property related charges of \$165 thousand. During the six months ended June 30, 2017, Synovus recorded severance charges of \$6.5 million including \$6.2 million for termination benefits incurred in conjunction with a voluntary early retirement program offered to Synovus employees during the first quarter of 2017.

The following tables present aggregate activity within the accrual for restructuring charges for the six and three months ended June 30, 2018 and 2017:

(in thousands)	Severance Charges	Lease Termination Charges	Total
Balance at December 31, 2017	\$ 336	\$ 3,276	\$3,612
Accruals for lease terminations	—	(377 )	(377 )
Payments	(336 )	(1,031 )	(1,367 )
Balance at June 30, 2018	\$ —	\$ 1,868	\$1,868
Balance at April 1, 2018	—	2,506	2,506
Payments	—	(638 )	(638 )
Balance at June 30, 2018	\$ —	\$ 1,868	\$1,868

(in thousands)	Severance Charges	Lease Termination Charges	Total
Balance at December 31, 2016	\$ 81	\$ 3,968	\$4,049
Accrual for voluntary and involuntary termination benefits	6,453	—	6,453
Payments	(2,803 )	(438 )	(3,241 )
Balance at June 30, 2017	\$ 3,731	\$ 3,530	\$7,261
Balance at April 1, 2017	6,315	3,689	10,004
Payments	(2,584 )	(159 )	(2,743 )
Balance at June 30, 2017	\$ 3,731	\$ 3,530	\$7,261

All other charges were paid in the quarters in which they were incurred. No other restructuring charges resulted in payment accruals.

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## 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 June 30, 2018 and December 31, 2017.

## Current, Accruing Past Due, and Non-accrual Loans

June 30, 2018

(in thousands)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days or Greater Past Due	Total Accruing Past Due	Non-accrual	Total
Commercial, financial and agricultural	\$7,170,877	\$ 18,425	\$ 547	\$ 18,972	\$ 81,231	\$7,271,080
Owner-occupied	4,994,038	4,180	98	4,278	6,076	5,004,392
Total commercial and industrial	12,164,915	22,605	645	23,250	87,307	12,275,472
Investment properties	5,505,409	1,838	611	2,449	1,738	5,509,596
1-4 family properties	715,154	2,309	—	2,309	3,247	720,710
Land and development	407,639	1,602	—	1,602	4,624	413,865
Total commercial real estate	6,628,202	5,749	611	6,360	9,609	6,644,171
Home equity lines	1,430,778	8,450	362	8,812	14,265	1,453,855
Consumer mortgages	2,741,064	4,805	244	5,049	4,822	2,750,935
Credit cards	235,406	1,793	1,225	3,018	—	238,424
Other consumer loans	1,783,466	8,990	135	9,125	1,325	1,793,916
Total consumer	6,190,714	24,038	1,966	26,004	20,412	6,237,130
Total loans	\$24,983,831	\$52,392	\$ 3,222	\$ 55,614	\$ 117,328	\$25,156,773 <sup>(1)</sup>

December 31, 2017

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

<sup>(1)</sup> Total before net deferred fees and costs of \$22.7 million.

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



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

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

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

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

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

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

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

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## Loan Portfolio Credit Exposure by Risk Grade

June 30, 2018

(in thousands)	Pass	Special Mention	Substandard <sup>(1)</sup>	Doubtful <sup>(2)</sup>	Loss	Total
Commercial, financial and agricultural	\$6,996,081	\$107,251	\$ 164,581	\$ 3,167	\$ —	\$7,271,080
Owner-occupied	4,873,936	63,373	67,010	73	—	5,004,392
Total commercial and industrial	11,870,017	170,624	231,591	3,240	—	12,275,472
Investment properties	5,422,727	51,279	35,590	—	—	5,509,596
1-4 family properties	698,532	9,245	12,933	—	—	720,710
Land and development	369,071	29,612	12,053	3,129	—	413,865
Total commercial real estate	6,490,330	90,136	60,576	3,129	—	6,644,171
Home equity lines	1,435,724	—	16,599	175	1,357 <sup>(3)</sup>	1,453,855
Consumer mortgages	2,743,245	—	7,588	102	— <sup>(3)</sup>	2,750,935
Credit cards	237,198	—	447	—	779 <sup>(4)</sup>	238,424
Other consumer loans	1,792,568	—	1,087	257	4 <sup>(3)</sup>	1,793,916
Total consumer						