

SYNOVUS FINANCIAL CORP  
Form 10-Q  
November 05, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended September 30, 2015  
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  |   |
| Series B Participating Cumulative Preferred Stock                         | New York Stock Exchange                   |
| Purchase Rights   | New York Stock Exchange                   |
| Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C | New York Stock Exchange                   |
| Securities registered pursuant to Section 12(g) of the Act: NONE          |   |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO "

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

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

|                         |                                     |                           |                          |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <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                          | October 31, 2015 |
| Common Stock, \$1.00 Par Value | 130,600,417      |

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INDEX OF DEFINED TERMS

ALCO – Synovus' Asset Liability Management Committee

ASC – Accounting Standards Codification

ASR – Accelerated share repurchase

ASU – Accounting Standards Update

Basel III – A global regulatory framework developed by the Basel Committee on Banking Supervision

BOLI – Bank-Owned Life Insurance

BOV – Broker's opinion of value

bp – Basis point (bps - basis points)

C&I – Commercial and industrial loans

CCC – Central clearing counterparty

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

CMO – Collateralized Mortgage Obligation

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

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

Exchange Act – Securities Exchange Act of 1934, as amended

FASB – Financial Accounting Standards Board

FDIC – Federal Deposit Insurance Corporation

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

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

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

FFIEC – Federal Financial Institutions Examination Council

FHLB – Federal Home Loan Bank

FICO – Fair Isaac Corporation

GA DBF – Georgia Department of Banking and Finance

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

HELOC – Home equity line of credit

IRC – Internal Revenue Code of 1986, as amended

LIBOR – London Interbank Offered Rate

LTV – Loan-to-collateral value ratio

NAICS – North American Industry Classification System

NPA – Non-performing assets

NPL – Non-performing loans

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NSF – Non-sufficient funds

OCI – Other comprehensive income

ORE – Other real estate

OTTI – Other-than-temporary impairment

Parent Company – Synovus Financial Corp.

SCM – State, county, and municipal

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

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' 2014 Form 10-K – Synovus' Annual Report on Form 10-K for the year ended December 31, 2014

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

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

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

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 B shares – Class B shares of common stock issued by Visa which are subject to restrictions with respect to sale until all of the Covered Litigation has been settled

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

Warrant – A warrant issued to the Treasury by Synovus to purchase up to 2,215,820 shares of Synovus common stock at a per share exercise price of \$65.52 expiring on December 19, 2018

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

| (in thousands, except share and per share data)  | September 30, 2015 | December 31,<br>2014 |
|--|--------------------|----------------------|
| <b>ASSETS</b>  |                    |                      |
| Cash and cash equivalents  | \$ 329,396         | 485,489              |
| Interest bearing funds with Federal Reserve Bank   | 837,641            | 721,362              |
| Interest earning deposits with banks   | 21,170             | 11,810               |
| Federal funds sold and securities purchased under resale agreements  | 69,732             | 73,111               |
| Trading account assets, at fair value  | 5,844              | 13,863               |
| Mortgage loans held for sale, at fair value  | 73,623             | 63,328               |
| Investment securities available for sale, at fair value  | 3,487,332          | 3,041,406            |
| Loans, net of deferred fees and costs  | 21,864,309         | 21,097,699           |
| Allowance for loan losses  | (250,900)          | (261,317)            |
| Loans, net   | \$ 21,613,409      | 20,836,382           |
| Premises and equipment, net  | 449,078            | 455,235              |
| Goodwill   | 24,431             | 24,431               |
| Other real estate  | 64,346             | 85,472               |
| Deferred tax asset, net  | 526,492            | 622,464              |
| Other assets   | 665,333            | 616,878              |
| Total assets   | \$ 28,167,827      | 27,051,231           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                    |                      |
| <b>Liabilities</b>   |                    |                      |
| <b>Deposits:</b>   |                    |                      |
| Non-interest bearing deposits  | \$ 6,570,227       | 6,228,472            |
| Interest bearing deposits, excluding brokered deposits   | 14,961,388         | 13,660,830           |
| Brokered deposits  | 1,245,798          | 1,642,398            |
| Total deposits   | 22,777,413         | 21,531,700           |
| Federal funds purchased and securities sold under repurchase agreements  | 135,475            | 126,916              |
| Long-term debt   | 2,038,719          | 2,140,319            |
| Other liabilities  | 199,104            | 211,026              |
| Total liabilities  | \$ 25,150,711      | 24,009,961           |
| <b>Shareholders' Equity</b>  |                    |                      |
| Series C Preferred Stock – no par value. 5,200,000 shares outstanding at September 30, 2015 and December 31, 2014  | 125,980            | 125,980              |
| Common stock - \$1.00 par value. Authorized 342,857,143 shares; 140,525,608 issued at September 30, 2015 and 139,950,422 issued at December 31, 2014; 130,632,731 outstanding at September 30, 2015 and 136,122,843 outstanding at December 31, 2014 | 140,526            | 139,950              |
| Additional paid-in capital   | 2,986,333          | 2,960,825            |
| Treasury stock, at cost – 9,892,877 shares at September 30, 2015 and 3,827,579 shares at December 31, 2014   | (364,428)          | (187,774)            |
| Accumulated other comprehensive loss, net  | (6,092)            | (12,605)             |
| Retained earnings  | 134,797            | 14,894               |
| Total shareholders' equity   | 3,017,116          | 3,041,270            |

|  |              |            |
|--|--------------|------------|
| Total liabilities and shareholders' equity | \$28,167,827 | 27,051,231 |
|--|--------------|------------|

See accompanying notes to unaudited interim consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

| (in thousands, except per share data)                                      | Nine Months Ended<br>September 30, |          | Three Months Ended<br>September 30, |         |
|--|------------------------------------|----------|-------------------------------------|---------|
|  | 2015                               | 2014     | 2015                                | 2014    |
| Interest income:   |                                    |          |                                     |         |
| Loans, including fees  | \$652,807                          | 644,392  | \$220,782                           | 217,288 |
| Investment securities available for sale                                   | 43,043                             | 43,775   | 14,926                              | 14,029  |
| Trading account assets   | 258                                | 357      | 34                                  | 106     |
| Mortgage loans held for sale   | 2,060                              | 1,719    | 662                                 | 701     |
| Federal Reserve Bank balances  | 2,413                              | 1,561    | 821                                 | 562     |
| Other earning assets   | 2,567                              | 2,185    | 868                                 | 708     |
| Total interest income  | 703,148                            | 693,989  | 238,093                             | 233,394 |
| Interest expense:  |                                    |          |                                     |         |
| Deposits   | 48,859                             | 41,246   | 17,227                              | 13,504  |
| Federal funds purchased and securities sold under<br>repurchase agreements | 134                                | 186      | 46                                  | 35      |
| Long-term debt   | 39,457                             | 40,728   | 13,030                              | 13,592  |
| Total interest expense   | 88,450                             | 82,160   | 30,303                              | 27,131  |
| Net interest income  | 614,698                            | 611,829  | 207,790                             | 206,263 |
| Provision for loan losses  | 13,990                             | 25,638   | 2,956                               | 3,843   |
| Net interest income after provision for loan losses                        | 600,708                            | 586,191  | 204,834                             | 202,420 |
| Non-interest income:   |                                    |          |                                     |         |
| Service charges on deposit accounts  | 59,621                             | 58,610   | 20,692                              | 20,159  |
| Fiduciary and asset management fees  | 34,722                             | 33,536   | 11,308                              | 11,207  |
| Brokerage revenue  | 20,978                             | 20,201   | 6,946                               | 7,281   |
| Mortgage banking income  | 19,960                             | 13,459   | 5,965                               | 4,665   |
| Bankcard fees  | 24,910                             | 24,394   | 8,334                               | 8,182   |
| Investment securities gains, net   | 2,710                              | 1,331    | —                                   | —       |
| Other fee income   | 15,371                             | 14,495   | 5,521                               | 4,704   |
| Gain on sale of Memphis branches, net                                      | —                                  | 5,789    | —                                   | —       |
| Other non-interest income  | 23,474                             | 25,740   | 8,293                               | 7,787   |
| Total non-interest income  | 201,746                            | 197,555  | 67,059                              | 63,985  |
| Non-interest expense:  |                                    |          |                                     |         |
| Salaries and other personnel expense                                       | 285,394                            | 279,855  | 94,341                              | 93,870  |
| Net occupancy and equipment expense  | 79,650                             | 79,436   | 26,937                              | 26,956  |
| Third-party processing expense   | 31,858                             | 29,604   | 10,844                              | 10,044  |
| FDIC insurance and other regulatory fees                                   | 20,315                             | 25,369   | 6,591                               | 7,839   |
| Professional fees  | 18,382                             | 18,427   | 6,371                               | 2,526   |
| Advertising expense  | 11,797                             | 15,935   | 5,488                               | 7,177   |
| Foreclosed real estate expense, net  | 18,350                             | 18,818   | 4,503                               | 9,074   |
| Visa indemnification charges   | 1,092                              | 2,731    | 363                                 | 1,979   |
| Restructuring charges, net   | (33                                | ) 17,101 | 69                                  | 809     |
| Other operating expenses   | 67,816                             | 72,839   | 22,400                              | 33,475  |
| Total non-interest expense   | 534,621                            | 560,115  | 177,907                             | 193,749 |
| Income before income taxes   | 267,833                            | 223,631  | 93,986                              | 72,656  |
| Income tax expense   | 100,149                            | 81,554   | 36,058                              | 25,868  |
| Net income   | 167,684                            | 142,077  | 57,928                              | 46,788  |



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|   |           |         |          |         |
|---|-----------|---------|----------|---------|
| Dividends on preferred stock                        | 7,678     | 7,678   | 2,559    | 2,559   |
| Net income available to common shareholders         | \$160,006 | 134,399 | \$55,369 | 44,229  |
| Net income per common share, basic                  | \$1.20    | 0.97    | \$0.42   | 0.32    |
| Net income per common share, diluted                | 1.20      | 0.96    | 0.42     | 0.32    |
| Weighted average common shares outstanding, basic   | 133,120   | 138,989 | 131,516  | 139,043 |
| Weighted average common shares outstanding, diluted | 133,876   | 139,600 | 132,297  | 139,726 |

See accompanying notes to unaudited interim consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(unaudited)

| (in thousands)  | Nine Months Ended September 30, |                             |                      |                      |                             |                         |
|---|---------------------------------|-----------------------------|----------------------|----------------------|-----------------------------|-------------------------|
|   | 2015                            |                             |                      | 2014                 |                             |                         |
|   | Before-tax<br>Amount            | Tax<br>(Expense)<br>Benefit | Net of Tax<br>Amount | Before-tax<br>Amount | Tax<br>(Expense)<br>Benefit | Net of<br>Tax<br>Amount |
| Net income  | 267,833                         | (100,149 )                  | 167,684              | 223,631              | (81,554 )                   | 142,077                 |
| Net change related to cash flow hedges:                           |                                 |                             |                      |                      |                             |                         |
| Reclassification adjustment for losses realized in net income     | 336                             | (130 )                      | 206                  | 336                  | (130 )                      | 206                     |
| Net unrealized gains on investment securities available for sale: |                                 |                             |                      |                      |                             |                         |
| Reclassification adjustment for net gains realized in net income  | (2,710 )                        | 1,043                       | (1,667 )             | (1,331 )             | 513                         | (818 )                  |
| Net unrealized gains arising during the period                    | 12,907                          | (4,966 )                    | 7,941                | 27,467               | (10,579 )                   | 16,888                  |
| Net unrealized gains  | 10,197                          | (3,923 )                    | 6,274                | 26,136               | (10,066 )                   | 16,070                  |
| Post-retirement unfunded health benefit:                          |                                 |                             |                      |                      |                             |                         |
| Reclassification adjustment for gains realized in net income      | (178 )                          | 68                          | (110 )               | (144 )               | 56                          | (88 )                   |
| Actuarial gains arising during the period                         | 236                             | (93 )                       | 143                  | 395                  | (152 )                      | 243                     |
| Net unrealized gains  | \$58                            | (25 )                       | 33                   | 251                  | (96 )                       | 155                     |
| Other comprehensive income  | \$10,591                        | (4,078 )                    | 6,513                | 26,723               | (10,292 )                   | 16,431                  |
| Comprehensive income  |                                 |                             | \$174,197            |                      |                             | 158,508                 |

See accompanying notes to unaudited interim consolidated financial statements.

| (in thousands)   | Three Months Ended September 30, |                             |                      |                      |                             |                         |
|--|----------------------------------|-----------------------------|----------------------|----------------------|-----------------------------|-------------------------|
|  | 2015                             |                             |                      | 2014                 |                             |                         |
|  | Before-tax<br>Amount             | Tax<br>(Expense)<br>Benefit | Net of Tax<br>Amount | Before-tax<br>Amount | Tax<br>(Expense)<br>Benefit | Net of<br>Tax<br>Amount |
| Net income   | 93,986                           | (36,058 )                   | 57,928               | 72,656               | (25,868 )                   | 46,788                  |
| Net change related to cash flow hedges:                                    |                                  |                             |                      |                      |                             |                         |
| Reclassification adjustment for losses realized in net income              | 112                              | (43 )                       | 69                   | 112                  | (43 )                       | 69                      |
| Net unrealized gains (losses) on investment securities available for sale: |                                  |                             |                      |                      |                             |                         |
| Net unrealized gains (losses) arising during the period                    | 26,374                           | (10,154 )                   | 16,220               | (18,173 )            | 6,993                       | (11,180 )               |
| Net unrealized gains (losses)  | 26,374                           | (10,154 )                   | 16,220               | (18,173 )            | 6,993                       | (11,180 )               |
| Post-retirement unfunded health benefit:                                   |                                  |                             |                      |                      |                             |                         |
| Reclassification adjustment for gains realized in net income               | (94 )                            | 36                          | (58 )                | —                    | —                           | —                       |
| Actuarial gains arising during the period                                  | —                                | —                           | —                    | —                    | —                           | —                       |
| Net unrealized gains   | \$(94 )                          | 36                          | (58 )                | —                    | —                           | —                       |

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|                                   |          |           |          |           |       |           |
|-----------------------------------|----------|-----------|----------|-----------|-------|-----------|
| Other comprehensive income (loss) | \$26,392 | (10,161 ) | 16,231   | (18,061 ) | 6,950 | (11,111 ) |
| Comprehensive income              |          |           | \$74,159 |           |       | 35,677    |

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 C Preferred Stock | Common Stock | Additional Paid-in Capital | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Retained Earnings (Deficit) | Total      |
|--|--------------------------|--------------|----------------------------|----------------|---|-----------------------------|------------|
| Balance at December 31, 2013   | \$ 125,862               | 139,721      | 2,976,348                  | (114,176)      | (41,258 )                                     | (137,512 )                  | 2,948,985  |
| Net income   | —                        | —            | —                          | —              | —   | 142,077                     | 142,077    |
| Other comprehensive income, net of income taxes                                  | —                        | —            | —                          | —              | 16,431  | —                           | 16,431     |
| Cash dividends declared on common stock - \$0.21 per share                       | —                        | —            | —                          | —              | —   | (29,194 )                   | (29,194 )  |
| Cash dividends paid on Series C Preferred Stock                                  | —                        | —            | (7,678 )                   | —              | —   | —                           | (7,678 )   |
| Series C Preferred Stock-adjustment to issuance costs                            | 118                      | —            | —                          | —              | —   | —                           | 118        |
| Restricted share unit activity   | —                        | 41           | (509 )                     | —              | —   | —                           | (468 )     |
| Stock options exercised  | —                        | 116          | 1,869                      | —              | —   | —                           | 1,985      |
| Share-based compensation net tax deficiency                                      | —                        | —            | (3,164 )                   | —              | —   | —                           | (3,164 )   |
| Share-based compensation expense   | —                        | —            | 7,453                      | —              | —   | —                           | 7,453      |
| Balance at September 30, 2014  | \$ 125,980               | 139,878      | 2,974,319                  | (114,176)      | (24,827 )                                     | (24,629 )                   | 3,076,545  |
| Balance at December 31, 2014   | \$ 125,980               | 139,950      | 2,960,825                  | (187,774)      | (12,605 )                                     | 14,894                      | 3,041,270  |
| Net income   | —                        | —            | —                          | —              | —   | 167,684                     | 167,684    |
| Other comprehensive income, net of income taxes                                  | —                        | —            | —                          | —              | 6,513   | —                           | 6,513      |
| Cash dividends declared on common stock - \$0.30 per share                       | —                        | —            | —                          | —              | —   | (39,736 )                   | (39,736 )  |
| Cash dividends paid on Series C Preferred Stock                                  | —                        | —            | —                          | —              | —   | (7,678 )                    | (7,678 )   |
| Repurchases and completion of ASR agreement to repurchase shares of common stock | —                        | —            | 14,516                     | (176,654)      | —   | —                           | (162,138 ) |
| Restricted share unit activity   | —                        | 282          | (4,376 )                   | —              | —   | (367 )                      | (4,461 )   |
| Stock options exercised  | —                        | 294          | 4,603                      | —              | —   | —                           | 4,897      |
| Share-based compensation net tax benefit   | —                        | —            | 1,303                      | —              | —   | —                           | 1,303      |
| Share-based compensation expense   | —                        | —            | 9,462                      | —              | —   | —                           | 9,462      |
| Balance at September 30, 2015  | \$ 125,980               | 140,526      | 2,986,333                  | (364,428)      | (6,092 )                                      | 134,797                     | 3,017,116  |

See accompanying notes to unaudited interim consolidated financial statements.



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CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

| (in thousands)  | Nine Months Ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2015                            | 2014      |
| Operating Activities  |                                 |           |
| Net income  | 167,684                         | 142,077   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |           |
| Provision for loan losses   | 13,990                          | 25,638    |
| Depreciation, amortization, and accretion, net                                    | 42,725                          | 39,524    |
| Deferred income tax expense   | 93,198                          | 74,940    |
| Decrease (increase) in trading account assets                                     | 8,019                           | (6,592)   |
| Originations of mortgage loans held for sale                                      | (656,987)                       | (579,139) |
| Proceeds from sales of mortgage loans held for sale                               | 658,787                         | 561,796   |
| Gain on sales of mortgage loans held for sale, net                                | (12,531)                        | (8,971)   |
| (Increase) decrease in other assets   | (12,534)                        | ) 816     |
| (Decrease) increase in other liabilities  | (11,679)                        | ) 20,131  |
| Investment securities gains, net  | (2,710)                         | ) (1,331) |
| Losses and write-downs on other real estate, net                                  | 14,864                          | 16,734    |
| Share-based compensation expense  | 9,462                           | 7,453     |