SYNOVUS FINANCIAL CORP
Form 10-Q
November 06, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

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

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

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $1.00 Par Value	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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

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

Class	November 5, 2018
Common Stock, $1.00 Par Value	116,376,039

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SYNOVUS FINANCIAL CORP.
INDEX OF DEFINED TERMS

ALCO – Synovus' Asset Liability Management Committee
AOCI - Accumulated other comprehensive income
ASC – Accounting Standards Codification
ASU – Accounting Standards Update
ATM – Automatic teller machine
Basel III – The third Basel Accord developed by the Basel Committee on Banking Supervision to strengthen existing regulatory capital requirements
BOLI – Bank-owned life insurance
BOV – Broker’s opinion of value
bp(s) – Basis point(s)
C&I – Commercial and industrial loans
CET1 – Common Equity Tier 1 Capital defined by Basel III capital rules
CME – Chicago Mercantile Exchange
CMO – Collateralized Mortgage Obligation
Cabela’s Transaction – The transaction completed on September 25, 2017 whereby Synovus Bank acquired certain assets and assumed certain liabilities of World's Foremost Bank ("WFB") and then immediately thereafter sold WFB’s credit card assets and certain related liabilities to Capital One Bank (USA), National Association. As a part of this transaction, Synovus Bank retained WFB’s $1.10 billion brokered time deposit portfolio and received a $75.0 million fee from Cabela’s Incorporated and Capital One. Throughout this Report, we refer to this transaction as the “Cabela’s Transaction” and the associated $75.0 million fee received from Cabela’s and Capital One as the “Cabela’s Transaction Fee”
Code – Internal Revenue Code
Company – Synovus Financial Corp. and its wholly-owned subsidiaries, except where the context requires otherwise
Covered Litigation – Certain Visa litigation for which Visa is indemnified by Visa USA members
CRE – Commercial real estate
DIF – Deposit Insurance Fund
Dodd-Frank Act – The Dodd-Frank Wall Street Reform and Consumer Protection Act
EVE – Economic value of equity
Exchange Act – Securities Exchange Act of 1934, as amended
FASB – Financial Accounting Standards Board
FCB - FCB Financial Holdings, Inc.
FDIC – Federal Deposit Insurance Corporation
Federal Reserve Bank – The 12 banks that are the operating arms of the U.S. central bank. They implement the policies of the Federal Reserve Board and also conduct economic research
Federal Reserve Board – The 7-member Board of Governors that oversees the Federal Reserve System, establishes monetary policy (interest rates, credit, etc.), and monitors the economic health of the country. Its members are appointed by the President subject to Senate confirmation, and serve 14-year terms
Federal Reserve System – The 12 Federal Reserve Banks, with each one serving member banks in its own district. This system, supervised by the Federal Reserve Board, has broad regulatory powers over the money supply and the credit structure
Federal Tax Reform – Enactment of H.R. 1, formerly known as the Tax Cuts and Jobs Act, on December 22, 2017, legislation in which a number of changes were made under the Internal Revenue Code, including a reduction of the corporate income tax rate, significant limitations on the deductibility of interest, allowance of the expensing of capital expenditures, limitation on

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deductibility of FDIC insurance premiums, and limitation of the deductibility of certain performance-based compensation, among others
FFIEC – Federal Financial Institutions Examination Council
FHLB – Federal Home Loan Bank
FICO – Fair Isaac Corporation
FTE – Fully taxable-equivalent
GA DBF – Georgia Department of Banking and Finance
GAAP – Generally Accepted Accounting Principles in the United States of America
GGL – Government guaranteed loans
Global One – Entaire Global Companies, Inc., the parent company of Global One Financial, Inc., as acquired by Synovus on October 1, 2016. Throughout this Report, we refer to this acquisition as "Global One"
GSE – Government sponsored enterprise
HELOC – Home equity line of credit
LTV – Loan-to-collateral value ratio
Merger Agreement – Agreement and Plan of Merger by and among Synovus, FCB and Azalea Merger Sub Corp. dated as of July 23, 2018
Merger – The proposed merger of Azalea Merger Sub Corp. with and into FCB pursuant to the terms and conditions of the Merger Agreement, with FCB continuing as the surviving entity. Immediately thereafter, FCB will merge with and into Synovus, with Synovus continuing as the surviving entity
NAICS – North American Industry Classification System
nm – not meaningful
NPA – Non-performing assets
NPL – Non-performing loans
NSF – Non-sufficient funds
OCI – Other comprehensive income
ORE – Other real estate
OTC– Over-the-counter
OTTI – Other-than-temporary impairment
Parent Company – Synovus Financial Corp.
SBA – Small Business Administration
SEC – U.S. Securities and Exchange Commission
Securities Act – Securities Act of 1933, as amended
Series C Preferred Stock – Synovus' Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series C, $25 liquidation preference
Series D Preferred Stock – Synovus' Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, $25 liquidation preference
Synovus – Synovus Financial Corp.
Synovus Bank – A Georgia state-chartered bank and wholly-owned subsidiary of Synovus, through which Synovus conducts its banking operations
Synovus' 2017 Form 10-K – Synovus' Annual Report on Form 10-K for the year ended December 31, 2017
Synovus Mortgage – Synovus Mortgage Corp., a wholly-owned subsidiary of Synovus Bank
Synovus Securities – Synovus Securities, Inc., a wholly-owned subsidiary of Synovus

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Synovus Trust – Synovus Trust Company, N.A., a wholly-owned subsidiary of Synovus Bank
TDR – Troubled debt restructuring (as defined in ASC 310-40)
the Treasury – United States Department of the Treasury
VIE – Variable interest entity, as defined in ASC 810-10
Visa – The Visa U.S.A., Inc. card association or its affiliates, collectively
Visa Class A shares – Class A shares of common stock issued by Visa are publicly traded shares which are not subject to restrictions on sale
Visa Class B shares – Class B shares of common stock issued by Visa which are subject to restrictions with respect to sale until all of the Covered Litigation has been settled. Class B shares will be convertible into Visa Class A shares using a then-current conversion ratio upon the lifting of restrictions with respect to sale of Visa Class B shares
Visa Derivative – A derivative contract with the purchaser of Visa Class B shares which provides for settlements between the purchaser and Synovus based upon a change in the ratio for conversion of Visa Class B shares into Visa Class A shares
Warrant – A warrant issued to the Treasury by Synovus to purchase up to 2,215,820 shares of Synovus common stock at a per share exercise price of $65.52 expiring on December 19, 2018, as was issued by Synovus to Treasury in 2008 in connection with the Capital Purchase Program, promulgated under the Emergency Stabilization Act of 2008
WFB – World's Foremost Bank, a wholly-owned subsidiary of Cabela's Incorporated

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

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

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

See accompanying notes to unaudited interim consolidated financial statements.
[1] See "Note 1 - Basis of Presentation" of this Report for information on Synovus' change in presentation of cash and cash equivalents.

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SYNOVUS FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

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

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

See accompanying notes to unaudited interim consolidated financial statements.

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

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

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

Comprehensive income	$241,912	$261,931

See accompanying notes to unaudited interim consolidated financial statements.

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

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

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

See accompanying notes to unaudited interim consolidated financial statements.

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

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

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

See accompanying notes to unaudited interim consolidated financial statements.

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

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Notes to Unaudited Interim Consolidated Financial Statements

Note 1 - Basis of Presentation

General

The accompanying unaudited interim consolidated financial statements of Synovus Financial Corp. include the accounts of the Parent Company and its consolidated subsidiaries. Synovus Financial Corp. is a financial services company based in Columbus, Georgia. Through its wholly-owned subsidiary, Synovus Bank, a Georgia state-chartered bank that is a member of the Federal Reserve System, the company provides commercial and retail banking in addition to a full suite of specialized products and services including private banking, treasury management, wealth management, premium finance and international banking. Synovus Bank is positioned in markets in the Southeast, with 249 branches and 334 ATMs in Georgia, Alabama, South Carolina, Florida, and Tennessee.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with the instructions to the SEC Form 10-Q and Article 10 of Regulation S-X; therefore, they do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, comprehensive income, and cash flows in conformity with GAAP. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the consolidated financial position and results of operations for the periods covered by this Report have been included. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes appearing in Synovus' 2017 Form 10-K.

Reclassifications

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

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

Use of Estimates in the Preparation of Financial Statements

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

Recently Adopted Accounting Standards

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

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

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

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

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

Recently Issued Accounting Standards Not Yet Adopted

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

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

Synovus has begun its implementation efforts which are led by a cross-functional steering committee. Management expects that the allowance for loan losses will be higher under the new standard; however, management is still in the process of determining the magnitude of the impact on its financial statements and regulatory capital ratios. Additionally, the extent of the expected increase on the allowance for loan losses will depend upon the composition of the loan portfolio upon adoption of the standard, as well as economic conditions and forecasts at that time.

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

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

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

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

Note 2 - Acquisitions
Cabela's Transaction
On September 25, 2017, Synovus' wholly owned subsidiary, Synovus Bank, completed the acquisition of certain assets and assumption of certain liabilities of WFB. Immediately following the closing of this transaction, Synovus Bank sold WFB’s credit card assets and related liabilities to Capital One Bank (USA), National Association, a bank subsidiary of Capital One Financial Corporation.
Synovus retained WFB’s $1.10 billion brokered time deposits portfolio, which had a weighted average remaining maturity of approximately 2.53 years and a weighted average rate of 1.83% as of September 25, 2017. The transaction was accounted for as an assumption of a liability (accounted for under the asset acquisition model). In accordance with ASC 820, Fair Value Measurements and Disclosures, the brokered time deposit portfolio was recorded at $1.10 billion, which was the amount of cash received for the deposits and represented the estimated fair value of the deposits at the transaction date. Additionally, Synovus received a $75.0 million transaction fee from Cabela’s Incorporated and Capital One, which was recognized into earnings on September 25, 2017 upon closing of the transaction, based on having achieved the recognition criteria outlined in SEC SAB Topic 13.A, Revenue Recognition.
Acquisition of Global One
On October 1, 2016, Synovus completed its acquisition of all of the outstanding stock of Global One. Prior to its acquisition, Global One was an Atlanta-based private specialty financial services company that provided financing primarily to commercial entities, with all loans fully collateralized by cash value life insurance policies and/or annuities issued by investment grade life insurance companies. Under the terms of the merger agreement, Synovus acquired Global One for an up-front payment of $30 million, consisting of the issuance of 821 thousand shares of Synovus common stock valued at $26.6 million and $3.4 million in cash, with additional payments to Global One's former shareholders over a three to five year period based on earnings from the Global One business, as further discussed below.
The acquisition of Global One constituted a business combination. Accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair values on October 1, 2016. The determination of fair value required management to make estimates about discount rates, future expected earnings and cash flows, market conditions, future loan growth, and other future events that are highly subjective in nature and subject to change. During the three months ended September 30, 2017, Synovus completed the determination of the final allocation of the purchase price with respect to the assets acquired and liabilities assumed.
Under the terms of the merger agreement, the purchase price includes additional annual payments ("Earnout Payments") to Global One's former shareholders over a three to five year period, with amounts based on a percentage of "Global One Earnings," as defined in the merger agreement. The Earnout Payments consist of shares of Synovus common stock as well as a smaller cash consideration component. The first annual Earnout Payment of stock and cash valued at $6.4 million was made during November 2017. During the quarter ended September 30, 2018, Synovus recorded an $11.7 million increase to the earnout liability driven by increased earnings projections of Global One. The total fair value of the earnout liability at September 30, 2018 was $23.0 million based on the estimated fair value of the remaining Earnout Payments.

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Note 3 - Investment Securities Available for Sale

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

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

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

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

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

For investment securities that Synovus does not expect to sell, or it is not more likely than not it will be required to sell prior to recovery of its amortized cost basis, the credit component of an OTTI would be recognized in earnings and the non-credit component would be recognized in OCI. Currently, unrealized losses on debt securities are attributable to increases in interest rates on comparable securities from the date of purchase. Synovus regularly evaluates its investment securities portfolio to ensure that there are no conditions that would indicate that unrealized losses represent OTTI. These factors include the length of time the security has been in a loss position, the extent that the fair value is below amortized cost, and the credit standing of the issuer. As of September 30, 2018, Synovus had 43 investment securities in a loss position for less than twelve months and 100 investment securities in a loss position for twelve months or longer.

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

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

	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
(in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Treasury securities	$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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	2018	2017	2018	2017
Proceeds from sales of investment securities available for sale	$—	$473,912	$35,066	$812,293
Gross realized gains on sales	—	—	—	7,942
Gross realized losses on sales	—	(7,956)	(1,296)	(8,231)
Investment securities losses, net	$—	$(7,956)	$(1,296)	$(289)

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Note 4 - Loans and Allowance for Loan Losses
The following is a summary of current, accruing past due, and non-accrual loans by portfolio class as of September 30, 2018 and December 31, 2017.
Current, Accruing Past Due, and Non-accrual Loans

	September 30, 2018					
(in thousands)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days or Greater Past Due	Total Accruing Past Due	Non-accrual	Total
Commercial, financial and agricultural	$7,185,447	$25,850	$ 1,159	$ 27,009	$ 69,010	$7,281,466
Owner-occupied	5,206,192	8,879	1,049	9,928	5,708	5,221,828
Total commercial and industrial	12,391,639	34,729	2,208	36,937	74,718	12,503,294
Investment properties	5,661,605	1,930	—	1,930	2,155	5,665,690
1-4 family properties	701,406	2,651	—	2,651	3,139	707,196
Land and development	333,709	765	217	982	4,829	339,520
Total commercial real estate	6,696,720	5,346	217	5,563	10,123	6,712,406
Home equity lines	1,442,451	7,819	651	8,470	14,498	1,465,419
Consumer mortgages	2,832,971	4,960	—	4,960	5,313	2,843,244
Credit cards	241,334	2,170	1,645	3,815	—	245,149
Other consumer loans	1,809,033	18,444	135	18,579	3,773	1,831,385
Total consumer	6,325,789	33,393	2,431	35,824	23,584	6,385,197
Total loans	$25,414,148	$73,468	$ 4,856	$ 78,324	$ 108,425	$25,600,897 (1)

	December 31, 2017					
(in thousands)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days or Greater Past Due	Total Accruing Past Due	Non-accrual	Total
Commercial, financial and agricultural	$7,097,127	$11,214	$ 1,016	$ 12,230	$ 70,130	$7,179,487
Owner-occupied	4,830,150	6,880	479	7,359	6,654	4,844,163
Total commercial and industrial	11,927,277	18,094	1,495	19,589	76,784	12,023,650
Investment properties	5,663,665	2,506	90	2,596	3,804	5,670,065
1-4 family properties	775,023	3,545	202	3,747	2,849	781,619
Land and development	476,131	1,609	67	1,676	5,797	483,604
Total commercial real estate	6,914,819	7,660	359	8,019	12,450	6,935,288
Home equity lines	1,490,808	5,629	335	5,964	17,455	1,514,227
Consumer mortgages	2,622,061	3,971	268	4,239	7,203	2,633,503
Credit cards	229,015	1,930	1,731	3,661	—	232,676
Other consumer loans	1,461,223	10,333	226	10,559	1,669	1,473,451
Total consumer	5,803,107	21,863	2,560	24,423	26,327	5,853,857
Total loans	$24,645,203	$47,617	$ 4,414	$ 52,031	$ 115,561	$24,812,795 (2)

(1) Total before net deferred fees and costs of $23.8 million.
(2) Total before net deferred fees and costs of $25.3 million.

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

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

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

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

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

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

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

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

Loan Portfolio Credit Exposure by Risk Grade

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

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

[1] Includes $204.1 million and $190.6 million of Substandard accruing loans at September 30, 2018 and December 31, 2017, respectively.
[2] The loans within this risk grade are on non-accrual status. Commercial loans generally have an allowance for loan losses in accordance with ASC 310, and retail loans generally have an allowance for loan losses equal to 50% of the loan amount.
[3] The loans within this risk grade are on non-accrual status and have an allowance for loan losses equal to the full loan amount.
[4] Represent amounts that were 120 days past due. These credits are downgraded to the Loss category with an allowance for loan losses equal to the full loan amount and are generally charged off upon reaching 181 days past due in accordance with the FFIEC Uniform Retail Credit Classification and Account Management Policy.
[5] Total before net deferred fees and costs of $23.8 million.
[6] Total before net deferred fees and costs of $25.3 million.

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

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

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

(1) As of and for the three months ended September 30, 2018 and 2017, there were no purchased credit-impaired loans and no allowance for loan losses for purchased credit-impaired loans.
(2) Total before net deferred fees and costs of $23.8 million.
(3) Total before net deferred fees and costs of $24.3 million.

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Allowance for Loan Losses and Recorded Investment in Loans

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

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

[1] As of and for the nine months ended September 30, 2018 and 2017, there were no purchased credit-impaired loans and no allowance for loan losses for purchased credit-impaired loans.
[2] Total before net deferred fees and costs of $23.8 million.
[3] Total before net deferred fees and costs of $24.3 million.

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

Impaired Loans (including accruing TDRs)

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

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

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Impaired Loans (including accruing TDRs)

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

Total impaired loans	$200,286	$203,757	$ 14,908	$223,009	$ 6,961

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

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

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

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

TDRs by Concession Type

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

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

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

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

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TDRs by Concession Type

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

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

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

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

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

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Note 5 - Accumulated Other Comprehensive Income (Loss)

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

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

(in thousands)	Net unrealized losses on cash flow hedges	Net unrealized gains (losses) on investment securities available for sale	Post-retirement unfunded health benefit	Total
Balance as of July 1, 2018	$(12,137)	$(114,565)	$ 982	$(125,720)
Other comprehensive loss before reclassifications	—	(17,940)	(34)	(17,974)
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	(26)	(26)
Net current period other comprehensive loss	—	(17,940)	(60)	(18,000)
Balance as of September 30, 2018	$(12,137)	$(132,505)	$ 922	$(143,720)
Balance as of July 1, 2017	$(12,137)	$(36,586)	$ 858	$(47,865)
Other comprehensive income before reclassifications	—	3,359	38	3,397
Amounts reclassified from accumulated other comprehensive income (loss)	—	4,893	(21)	4,872
Net current period other comprehensive income	—	8,252	17	8,269
Balance as of September 30, 2017	$(12,137)	$(28,334)	$ 875	$(39,596)

(in thousands)	Net unrealized gains (losses) on cash flow hedges	Net unrealized gains (losses) on investment securities available for sale	Post-retirement unfunded health benefit	Total
Balance at December 31, 2017	$(12,137)	$(43,470)	$ 853	$(54,754)
Other comprehensive loss before reclassifications	—	(82,349)	(34)	(82,383)
Amounts reclassified from accumulated other comprehensive income (loss)	—	960	(72)	888
Net current period other comprehensive loss	—	(81,389)	(106)	(81,495)
Reclassification from adoption of ASU 2018-02	—	(7,763)	175	(7,588)
Cumulative-effect adjustment from adoption of ASU 2016-01	—	117	—	117
Balance as of September 30, 2018	$(12,137)	$(132,505)	$ 922	$(143,720)
Balance at December 31, 2016	$(12,217)	$(44,324)	$ 882	$(55,659)
Other comprehensive income before reclassifications	—	15,812	38	15,850
Amounts reclassified from accumulated other comprehensive income (loss)	80	178	(45)	213
Net current period other comprehensive income	80	15,990	(7)	16,063
Balance as of September 30, 2017	$(12,137)	$(28,334)	$ 875	$(39,596)

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

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Note 6 - Fair Value Accounting
See "Part II - Item 8. Financial Statements and Supplementary Data - Note 15 - Fair Value Accounting" to the consolidated financial statements of Synovus' 2017 Form 10-K for a description of the fair value hierarchy and valuation methodologies for assets and liabilities measured at fair value on a recurring and non-recurring basis.
Assets and Liabilities Measured at Fair Value on a Recurring Basis
The following tables present all financial instruments measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017.

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

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

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

(1) Mortgage derivatives consist of customer interest rate lock commitments that relate to the potential origination of mortgage loans, which would be classified as held for sale and forward loan sales commitments with third-party investors.
(2) Earnout liability consists of contingent consideration obligation related to the Global One acquisition.

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Fair Value Option

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

Changes in Fair Value Included in Net Income

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

Mortgage Loans Held for Sale

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

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

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

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

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

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

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

Quantitative Information about Level 3 Fair Value Measurements

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

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

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Assets Measured at Fair Value on a Non-recurring Basis

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

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

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

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

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

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

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

Quantitative Information about Level 3 Fair Value Measurements

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

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

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

Fair Value of Financial Instruments

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

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(in thousands)	September 30, 2018 Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$1,011,933	$1,011,933	$1,011,933	$—	$ —
Trading account assets	8,849	8,849	998	7,851	—
Mortgage loans held for sale	37,276	37,276	—	37,276	—
Other loans held for sale	12	12	—	—	12
Investment securities available for sale	3,883,574	3,883,574	120,639	3,760,970	1,965
Private equity investments	13,112	13,112	—	—	13,112
Mutual funds	3,118	3,118	3,118	—	—
Mutual funds held in rabbi trusts	14,100	14,100	14,100	—	—
Loans, net	25,325,666	25,138,896	—	—	25,138,896
GGL/SBA loans servicing asset	3,761	3,761	—	—	3,761
Derivative assets	10,014	10,014	—	10,014	—
Financial liabilities					
Trading account liabilities	3,540	3,540	—	3,540	—
Non-interest bearing deposits	$7,628,736	$7,628,736	$—	$7,628,736	$ —
Non-time interest-bearing deposits	13,847,104	13,847,104	—	13,847,104	—
Time deposits	4,957,818	4,937,216	—	4,937,216	—
Total deposits	$26,433,658	$26,413,056	$—	$26,413,056	$ —
Federal funds purchased and securities sold under repurchase agreements	191,145	191,145	191,145	—	—
Other short-term borrowings	475,000	475,000	—	475,000	—
Long-term debt	1,656,909	1,654,002	—	1,654,002	—
Earnout liabilities	23,000	23,000	—	—	23,000
Derivative liabilities	$22,812	$22,812	$—	$20,822	$ 1,990

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	December 31, 2017				
(in thousands)	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Total cash, cash equivalents, restricted cash, and restricted cash equivalents	$932,933	$932,933	$932,933	$—	$ —
Trading account assets	3,820	3,820	522	3,298	—
Mortgage loans held for sale	48,024	48,024	—	48,024	—
Other loans for sale	11,356	11,356			11,356
Investment securities available for sale	3,987,069	3,987,069	85,836	3,899,298	1,935
Private equity investments	15,771	15,771	—	—	15,771
Mutual funds held in rabbi trusts	14,140	14,140	14,140	—	—
Loans, net	24,538,196	24,507,141	—	—	24,507,141
GGL/SBA loans servicing asset	4,101	4,101	—	—	4,101
Derivative assets	11,722	11,722	—	11,722	—
Financial liabilities					
Trading account liabilities	1,000	1,000	—	1,000	—
Non-interest-bearing deposits	$7,686,339	$7,686,339	$—	$7,686,339	$ —
Non-time interest-bearing deposits	13,941,814	13,941,814	—	13,941,814	—
Time deposits	4,519,747	4,523,661	—	4,523,661	—
Total deposits	$26,147,900	$26,151,814	$—	$26,151,814	$ —
Federal funds purchased and securities sold under repurchase agreements	161,190	161,190	161,190	—	—
Other short-term borrowings	100,000	100,000	—	100,000	—
Long-term debt	1,606,138	1,621,814	—	1,621,814	—
Earnout liabilities	11,348	11,348	—	—	11,348
Derivative liabilities	$17,097	$17,097	$—	$12,767	$ 4,330

Note 7 - Derivative Instruments

As part of its overall interest rate risk management activities, Synovus utilizes derivative instruments to manage its exposure to various types of interest rate risk. These derivative instruments generally consist of interest rate swaps, interest rate lock commitments made to prospective mortgage loan customers, and commitments to sell fixed-rate mortgage loans. Interest rate lock commitments represent derivative instruments since it is intended that such loans will be sold. Synovus may also utilize interest rate swaps to manage interest rate risks primarily arising from its core banking activities. As of September 30, 2018 and December 31, 2017, Synovus had no outstanding interest rate swap contracts utilized to manage interest rate risk related to core banking activities. Synovus is party to master netting arrangements with its dealer counterparties; however, Synovus does not offset assets and liabilities under these arrangements for financial statement presentation purposes. See "Part II - Item 8. Financial Statements and Supplementary Data - Note 16 - Derivative Instruments" of Synovus' 2017 Form 10-K for additional information on Synovus' derivative instruments.

Counterparty Credit Risk and Collateral

Entering into derivative contracts potentially exposes Synovus to the risk of counterparties’ failure to fulfill their legal obligations, including, but not limited to, potential amounts due or payable under each derivative contract. Notional principal amounts are often used to express the volume of these transactions, but the amounts potentially subject to credit risk are much smaller. Synovus assesses the credit risk of its dealer counterparties by regularly monitoring publicly available credit rating information, evaluating other market indicators, and periodically reviewing detailed financials. Dealer collateral requirements are determined via risk-based policies and procedures and in accordance with existing agreements. Synovus seeks to minimize dealer credit risk by dealing with highly rated counterparties and by obtaining collateral for exposures above certain predetermined limits. Management closely monitors credit conditions within the customer swap portfolio, which management deems to be of higher risk than dealer counterparties. Collateral is secured at origination and credit related fair value adjustments are recorded against the asset value of the derivative as deemed necessary based upon an analysis, which includes consideration of the current asset value of the swap, customer credit rating, collateral value, and customer standing with regards to its swap contractual obligations and other related matters. Such asset values fluctuate based upon changes in interest rates regardless of changes in notional amounts and changes in customer specific risk.

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Collateral Requirements

Pursuant to the Dodd-Frank Act, certain derivative transactions have collateral requirements, both at the inception of the trade and as the value of each derivative position changes. As of September 30, 2018, collateral totaling $31.1 million was pledged to the derivative counterparties to comply with collateral requirements. For derivatives cleared through central clearing houses, the variation margin payments made are legally characterized as settlements of the derivatives. As a result, these variation margin payments are netted against the fair value of the respective derivative contracts in the balance sheet and related disclosures. At September 30, 2018 and December 31, 2017, Synovus had a variation margin of $11.6 million and $1.5 million, respectively, reducing the derivative asset.

The following table reflects the notional amount and fair value of derivative instruments included on the consolidated balance sheets.

	September 30, 2018			December 31, 2017		
		Fair Value			Fair Value	
(in thousands)	Notional Amount	Derivative Assets (1)	Derivative Liabilities (2)	Notional Amount	Derivative Assets (1)	Derivative Liabilities (2)
Derivatives not designated as hedging instruments:						
Interest rate contracts (3)	$1,667,397	$8,892	$ 20,822	$1,466,059	10,786	$ 12,638
Mortgage derivatives - interest rate lock commitments	59,289	875	—	49,304	936	—
Mortgage derivatives - forward commitments to sell fixed-rate mortgage loans	85,500	247	—	72,500	—	129
Visa derivative	—	—	1,990	—	—	4,330
Total derivatives not designated as hedging instruments		$10,014	$ 22,812		$11,722	$ 17,097

(1) Derivative assets are recorded in other assets on the consolidated balance sheets.
(2) Derivative liabilities are recorded in other liabilities on the consolidated balance sheets.
(3) Includes interest rate contracts for customer swaps and offsetting positions, net of variation margin payments.

The pre-tax effect of changes in fair value from derivative instruments not designated as hedging instruments on the consolidated statements of income for the three and nine months ended September 30, 2018 and 2017 is presented below.

		Gain (Loss) Recognized in Consolidated Statements of Income			
		Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	Location in Consolidated Statements of Income	2018	2017	2018	2017
Derivatives not designated as hedging instruments:					
Interest rate contracts(1)	Other non-interest income	$1	$(4)	$(8)	$(5)
Mortgage derivatives - interest rate lock commitments	Mortgage banking income	(427)	(180)	(61)	(595)
	Mortgage banking income	495	(271)	376	(1,929)

Mortgage derivatives - forward commitments to sell fixed-rate mortgage loans					
Visa derivative	Other non-interest expense	—	—	(2,328)	—
Total		$69	$(455)	$(2,021)	$(2,529)

(1) Gain (loss) represents net fair value adjustments (including credit-related adjustments) for customer swaps and offsetting positions.

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Note 8 - Shareholders' Equity

Issuance of Series D Preferred Stock

On June 21, 2018, Synovus completed a $200 million public offering of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D, $25.00 per share liquidation preference. The offering generated net proceeds of $195.1 million. Dividends on the shares are non-cumulative and, if declared, will accrue and be payable, in arrears, quarterly at a rate per annum equal to 6.300% for each dividend period from the original issue date to, but excluding, June 21, 2023. From and including June 21, 2023, the dividend rate will change to a floating rate equal to the three-month LIBOR plus a spread of 3.352% per annum. The Series D Preferred Stock is perpetual and has no maturity date. The Series D Preferred Stock is redeemable at Synovus' option in whole or in part, from time to time, on any dividend payment date on or after June 21, 2023, or in whole, but not in part, at any time within 90 days following a regulatory capital treatment event at a redemption price equal to $25.00 per share, plus any declared and unpaid dividends, without accumulation of any undeclared dividends. The Series D Preferred Stock has no preemptive or conversion rights. Except in limited circumstances, the Series D Preferred Stock does not have any voting rights.

Redemption of Series C Preferred Stock

On August 1, 2018, Synovus redeemed all 5,200,000 outstanding shares of Series C Preferred Stock for a cash price of $25.00 per share, without interest, for an aggregate redemption price of $130.0 million and paid a dividend of $2.6 million on the Series C Preferred Stock. The redemption of the Series C Preferred Stock was funded primarily with proceeds from Synovus' public offering of $200 million of Series D Preferred Stock completed in June 2018. Concurrent with the redemption, Synovus recognized a one-time, non-cash redemption charge of $4.0 million.

Repurchases of Common Stock

On January 23, 2018, Synovus announced a share repurchase program of up to $150 million to be completed during 2018. As of September 30, 2018, Synovus had repurchased under this program a total of $134.8 million, or 2.6 million shares of its common stock, at an average price of $51.85 per share. As of September 30, 2018, the remaining authorization under this program was $15.2 million. During October 2018, the program was concluded with the remaining $15.2 million, or 345 thousand shares, repurchased. In total, 2.9 million shares were repurchased during 2018 at an average price of $50.96 per share.

Note 9 - Net Income Per Common Share

The following table displays a reconciliation of the information used in calculating basic and diluted earnings per common share for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Basic Net Income Per Common Share:				
Net income available to common shareholders	$99,330	$95,448	$308,559	$238,190
Weighted average common shares outstanding	117,241	120,900	118,096	121,796
Net income per common share, basic	$0.85	$0.79	$2.61	$1.96
Diluted Net Income Per Common Share:				
Net income available to common shareholders	$99,330	$95,448	$308,559	$238,190
Weighted average common shares outstanding	117,241	120,900	118,096	121,796
Potentially dilutive shares from outstanding equity-based awards and earnout payments	854	914	751	832
Weighted average diluted common shares	118,095	121,814	118,847	122,628
Net income per common share, diluted	$0.84	$0.78	$2.60	$1.94

Basic net income per common share is computed by dividing net income available to common shareholders by the average common shares outstanding for the period. Diluted net income per common share reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted. The dilutive effect of outstanding stock options and restricted share units is reflected in diluted net income per common share, unless the impact is anti-dilutive, by application of the treasury stock method.

As of September 30, 2018 and 2017, there were 2.2 million potentially dilutive shares related to the Warrant to purchase shares of common stock that were outstanding during 2018 and 2017 but were not included in the computation of diluted net income per common share because the effect would have been anti-dilutive.

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Note 10 - Share-based Compensation

General Description of Share-based Plans

Synovus has a long-term incentive plan under which the Compensation Committee of the Board of Directors has the authority to grant share-based awards to Synovus employees. The 2013 Omnibus Plan authorizes 8.6 million common share equivalents available for grant, where grants of options count as one share equivalent and grants of full value awards (e.g., restricted share units, market restricted share units, and performance share units) count as two share equivalents. Any restricted share units that are forfeited and options that expire unexercised will again become available for issuance under the Plan. At September 30, 2018, Synovus had a total of 4.9 million shares of its authorized but unissued common stock reserved for future grants under the 2013 Omnibus Plan. The Plan permits grants of share-based compensation including stock options, restricted share units, market restricted share units, and performance share units. The grants generally include vesting periods ranging from three to five years and contractual terms of ten years. Vesting for grants made in 2018 accelerates upon retirement for plan participants who have reached age 65 and who also have no less than 10 years of service at the date of their election to retire. Market restricted share units and performance share units are granted at a defined target level and are compared annually to required market and performance metrics to determine actual units vested and compensation expense. Synovus has historically issued new shares to satisfy share option exercises and share unit conversions. Dividend equivalents are paid on outstanding restricted share units, market restricted share units, and performance share units in the form of additional restricted share units that vest over the same vesting period or the vesting period left on the original restricted share unit grant.

Share-based Compensation Expense

Total share-based compensation expense was $4.2 million and $12.5 million for the three and nine months ended September 30, 2018, respectively, and $3.7 million and $10.6 million for the three and nine months ended September 30, 2017, respectively.

Stock Options

No stock option grants were made during the nine months ended September 30, 2018. At September 30, 2018, there were 643 thousand outstanding stock options to purchase shares of common stock with a weighted average exercise price of $16.94 per share.

Restricted Share Units, Performance Share Units, and Market Restricted Share Units

During the nine months ended September 30, 2018, Synovus awarded 236 thousand restricted share units that have a service-based vesting period of three years and awarded 87 thousand performance share units that vest upon service and performance conditions. Synovus also granted 58 thousand market restricted share units during the nine months ended September 30, 2018. The weighted average grant-date fair value of the awarded restricted share units, performance share units and market restricted share units was $47.69 per share. Market restricted share units and performance share units are granted at target and are compared annually to required market and performance metrics. The performance share units vest upon meeting certain service and performance conditions. Return on average assets (ROAA) and return on average tangible common equity (ROATCE) performance is evaluated each year over a three-year performance period, with share distribution determined at the end of the three years. The number of performance share units that will ultimately vest ranges from 0% to 150% of target based on Synovus' three-year weighted average ROAA (as defined) and ROATCE (as defined). The market restricted share units have a three-year service-based vesting component as well as a total shareholder return multiplier. The number of market restricted share units that will ultimately vest ranges from 75% to 125% of target based on Synovus' total shareholder return. At September 30, 2018, including dividend equivalents granted, there were 909 thousand restricted share units, performance share units and market restricted share units outstanding with a weighted average grant-date fair value of $40.86 per share.

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Note 11 - Income Taxes

Synovus' provision for income taxes for the three and nine months ended September 30, 2018 and 2017 is based on the estimated annual effective tax rate, plus discrete items.

The following table presents the provision for income taxes and the effective tax rates for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2018	2017	2018	2017
Income before income tax expense	$128,008	$152,675	$403,502	$376,171
Income tax expense	18,949	54,668	80,095	130,303
Effective tax rate	14.8 %	35.8 %	19.8 %	34.6 %

The difference between Synovus' effective tax rate for the three and nine months ended September 30, 2018 and the U.S. statutory tax rate of 21%, primarily relates to third quarter 2018 discrete tax benefits of $12.7 million, which included a $3.9 million tax benefit for the refinement of provisional amounts previously reported under SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), a $5.5 million return to provision benefit associated with the preparation of the 2017 tax return and a $3.3 million benefit associated with insignificant adjustments to tax returns from several prior years. In addition, the effective income tax rate for the nine months ended September 30, 2018 included a net discrete income tax benefit of $2.8 million resulting from tax benefits associated with the exercise and vesting of employee equity awards. Other items impacting the difference between Synovus' effective tax rates for the three and nine months ended September 30, 2018 and 2017 and the U.S. statutory tax rates of 21% and 35%, respectively, primarily relate to, but are not limited to, the level of pre-tax income, bank-owned life insurance, state income taxes (net of federal income tax benefit), tax-exempt interest and nondeductible expenses. In addition, the effective tax rate is affected by items that may occur in any given period but are not consistent from period-to-period, such as tax benefits related to share-based compensation, jurisdiction statutory tax rate changes, valuation allowance changes and changes to unrecognized tax benefits. Accordingly, the comparability of the effective tax rate between periods may be impacted.

Impact of Tax Reform

On December 22, 2017, Federal Tax Reform was enacted into law. The new legislation included a decrease in the U.S. statutory 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 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, Synovus expected that certain deferred tax assets and liabilities would continue to be evaluated in the context of Federal Tax Reform through the date of the filing of the 2017 federal income tax return, and that changes might result from evolving internal 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 was considered provisional. During the third quarter of 2018, Synovus completed its 2017 federal income tax return and recorded a $3.9 million tax benefit for the refinement of provisional amounts previously reported under SAB 118; thus, the accounting under SAB 118 for Federal Tax Reform is now complete.

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Note 12 - Non-interest Income

The following table reflects revenue disaggregated by revenue type and line of business for the three and nine months ended September 30, 2018 and 2017.

Non-interest Income by Line of Business

	For the Three Months Ended September 30, 2018					
(in thousands)	Community Banking	Corporate Banking	Retail Banking	Financial Management Services	Other	Total
Service charges on deposit accounts	$5,660	$ 475	$13,792	$ —	$655	$20,582
Fiduciary and asset management fees	—	—	—	13,462	—	13,462
Card fees	208	—	10,400	—	—	10,608
Brokerage revenue	—	—	—	9,329	—	9,329
Insurance revenue	—	—	—	1,148	—	1,148
Other fees	—	—	454	—	266	720
	$5,868	$ 475	$24,646	$ 23,939	$921	$55,849
Other revenues[1]	1,142	1,836	1,645	5,994	5,202	15,819
Total non-interest income	$7,010	$ 2,311	$26,291	$ 29,933	$6,123	$71,668

	For the Three Months Ended September 30, 2017					
(in thousands)	Community Banking	Corporate Banking	Retail Banking	Financial Management Services	Other	Total
Service charges on deposit accounts	$5,613	$ 432	$14,024	$ —	$609	$20,678
Fiduciary and asset management fees	—	—	—	12,615	—	12,615
Card fees	210	—	9,519	—	—	9,729
Brokerage revenue	—	—	—	7,511	—	7,511
Insurance revenue	—	—	—	1,059	—	1,059
Other fees	—	—	463	—	265	728
	$5,823	$ 432	$24,006	$ 21,185	$874	$52,320
Other revenues[1]	2,642	1,460	1,574	6,558	70,881	83,115
Total non-interest income	$8,465	$ 1,892	$25,580	$ 27,743	$71,755	$135,435

[1] Other revenues primarily relate to revenues not derived from contracts with customers.

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Non-interest Income by Line of Business

(in thousands)	Community Banking	Corporate Banking	Retail Banking	Financial Management Services	Other	Total
	For the Nine Months Ended September 30, 2018					
Service charges on deposit accounts	$17,064	$ 1,460	$40,310	$ —	$1,687	$60,521
Fiduciary and asset management fees	—	—	—	40,881	—	40,881
Card fees	628	—	31,012	—	—	31,640
Brokerage revenue	—	—	—	26,924	—	26,924
Insurance revenue	—	—	—	4,240	—	4,240
Other fees	—	—	1,487	—	821	2,308
	$17,692	$ 1,460	$72,809	$ 72,045	$2,508	$166,514
Other revenues[1]	6,983	5,417	4,887	17,402	10,898	45,587
Total non-interest income	$24,675	$ 6,877	$77,696	$ 89,447	$13,406	$212,101

(in thousands)	Community Banking	Corporate Banking	Retail Banking	Financial Management Services	Other	Total
	For the Nine Months Ended September 30, 2017					
Service charges on deposit accounts	$17,028	$ 1,319	$40,994	$ —	$1,707	$61,048
Fiduciary and asset management fees	—	—	—	37,290	—	37,290
Card fees	647	—	28,967	—	—	29,614
Brokerage revenue	—	—	—	21,947	—	21,947
Insurance revenue	—	—	—	3,424	—	3,424
Other fees	—	—	1,525	—	795	2,320
	$17,675	$ 1,319	$71,486	$ 62,661	$2,502	$155,643
Other revenues[1]	7,283	5,836	4,756	19,971	82,485	120,331
Total non-interest income	$24,958	$ 7,155	$76,242	$ 82,632	$84,987	$275,974

[1] Other revenues primarily relate to revenues not derived from contracts with customers.

Following is a discussion of key revenues within the scope of Topic 606:

Service Charges on Deposit Accounts: Revenue from service charges on deposit accounts is earned through cash management, wire transfer, and other deposit-related services, as well as overdraft, non-sufficient funds, account management and other deposit-related fees. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Fiduciary and Asset Management Fees: Fiduciary and asset management fees are primarily comprised of fees earned from the management and administration of trusts and other customer assets. Synovus' performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month-end through a direct charge to customers' accounts. Synovus does not earn performance-based incentives.

Card Fees: Card fees consist primarily of interchange fees from consumer credit and debit cards processed by card association networks, as well as merchant discounts, and other card-related services. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month. Card fees are reported net of certain associated expense items including loyalty program expenses and network expenses.

Brokerage Revenue: Brokerage revenue consists primarily of commissions. Additionally, brokerage revenue includes advisory fees earned from the management of customer assets. Advisory fees for brokerage services are recognized and collected monthly and are based upon the month-end market value of the assets under management at a rate predetermined in the contract. Transactional

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revenues are based on the size and number of transactions executed at the client's direction and are generally recognized on the trade date with payment received on the settlement date.

Insurance Revenue: Insurance revenue primarily consists of commissions received on annuity and life product sales. The commissions are recognized as revenue when the customer executes an insurance policy with the insurance carrier. In some cases, Synovus receives payment of trailing commissions each year when the customer pays its annual premium. For the three and nine months ended September 30, 2018, Synovus recognized an immaterial amount of insurance trailing commissions.

Other Fees: Other fees primarily consist of revenues generated from safe deposit box rental fees and lockbox services. Fees are recognized over time, on a monthly basis, as Synovus' performance obligation for services is satisfied. Payment is received upfront for safe deposit box rentals and in the following month for lockbox services.

Note 13 - Commitments and Contingencies

In the normal course of business, Synovus enters into commitments to extend credit such as loan commitments and letters of credit to meet the financing needs of its customers. Synovus uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The contractual amount of these financial instruments represents Synovus' maximum credit risk should the counterparty draw upon the commitment, and should the counterparty subsequently fail to perform according to the terms of the contract. Since many of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. Additionally, certain commitments (primarily consumer) may generally be canceled by providing notice to the borrower.

The allowance for credit losses associated with unfunded commitments and letters of credit is a component of the unfunded commitments reserve recorded within other liabilities on the consolidated balance sheets. Additionally, unearned fees relating to letters of credit are recorded within other liabilities on the consolidated balance sheets. These amounts are not material to Synovus' consolidated balance sheets.

Unfunded letters of credit and lending commitments at September 30, 2018 and December 31, 2017 are presented below.

(in thousands)	September 30, 2018	December 31, 2017
Letters of credit*	$ 167,969	$ 153,372
Commitments to fund commercial and industrial loans	5,688,192	5,090,827
Commitments to fund commercial real estate, construction, and land development loans	1,763,006	1,567,583
Commitments under home equity lines of credit	1,211,861	1,137,714
Unused credit card lines	766,521	779,254
Other loan commitments	394,428	351,358
Total unfunded lending commitments and letters of credit	$ 9,991,977	$ 9,080,108

* Represent the contractual amount net of risk participations of approximately $70 million and $77 million at September 30, 2018 and December 31, 2017, respectively.

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Merchant Services

In accordance with credit and debit card association rules, Synovus sponsors merchant processing servicers that process credit and debit card transactions on behalf of various merchants. In connection with these services, a liability may arise in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. If the merchant defaults on its obligation to reimburse the cardholder, the cardholder, through its issuing bank, generally has until six months after the date of the transaction to present a chargeback to the merchant processor, which is primarily liable for any losses on covered transactions. However, if the merchant processor fails to meet its obligation to reimburse the cardholder for disputed transactions, then Synovus, as the sponsor, could be held liable for the disputed amount. Synovus seeks to mitigate this risk through its contractual arrangements with the merchant processing servicers and the merchants and by withholding future settlements, by retaining cash reserve accounts or by obtaining other security. For the three and nine months ended September 30, 2018, the sponsored entities processed and settled \$17.69 billion and \$52.04 billion of transactions, respectively. For the three and nine months ended September 30, 2017, the sponsored entities processed and settled \$15.84 billion and \$46.26 billion of transactions, respectively. Synovus began covering and may continue to cover chargebacks related to a merchant processing servicer during the third quarter of 2018 where the merchant processing servicer’s cash reserve account was unavailable to support the chargebacks. Synovus expects to recover these amounts from the servicer under the terms of the contract; however, any inability by Synovus to fully recover these amounts would result in losses to Synovus in future periods.

Legal Proceedings

Synovus and its subsidiaries are subject to various legal proceedings and claims that arise in the ordinary course of its business. Additionally, in the ordinary course of business, Synovus and its subsidiaries are subject to regulatory examinations, information gathering requests, inquiries and investigations. Synovus, like many other financial institutions, has been the target of numerous legal actions and other proceedings asserting claims for damages and related relief for losses. These actions include claims and counterclaims asserted by individual borrowers related to their loans and allegations of violations of state and federal laws and regulations relating to banking practices, including putative class action matters. In addition to actual damages, if Synovus does not prevail in asserted legal actions, credit-related litigation could result in additional write-downs or charge-offs of loans, which could adversely affect Synovus' results of operations during the period in which the write-down or charge-off were to occur.

Synovus carefully examines and considers each legal matter, and, in those situations where Synovus determines that a particular legal matter presents loss contingencies that are both probable and reasonably estimable, Synovus establishes an appropriate reserve. An event is considered to be probable if the future event is likely to occur. While the final outcome of any legal proceeding is inherently uncertain, based on the information currently available, advice of counsel and available insurance coverage, management believes that the amounts accrued with respect to legal matters as of September 30, 2018 are adequate. The actual costs of resolving legal claims may be higher or lower than the amounts accrued.

In addition, where Synovus determines that there is a reasonable possibility of a loss in respect of legal matters, Synovus considers whether it is able to estimate the total reasonably possible loss or range of loss. An event is “reasonably possible” if “the chance of the future event or events occurring is more than remote but less than likely.” An event is “remote” if “the chance of the future event or events occurring is more than slight but less than reasonably possible." In many situations, Synovus may be unable to estimate reasonably possible losses due to the preliminary nature of the legal matters, as well as a variety of other factors and uncertainties. For those legal matters where Synovus is able to estimate a range of reasonably possible losses, management currently estimates the aggregate range from our outstanding litigation is from zero to \$5 million in excess of the amounts accrued, if any, related to those matters. This estimated aggregate range is based upon information currently available to Synovus, and the actual losses could prove to be lower or higher. As there are further developments in these legal matters, Synovus will reassess these matters, and the estimated range of reasonably possible losses may change as a result of this assessment. Based on Synovus' current knowledge and advice of counsel, management presently does not believe that the liabilities arising from these legal matters will have a material adverse effect on Synovus' consolidated financial condition, results of operations or cash flows. However, it is possible that the ultimate resolution of these legal matters could have a material adverse effect on Synovus' results of operations for any particular period.

Synovus intends to vigorously pursue all available defenses to these legal matters, but will also consider other alternatives, including settlement, in situations where there is an opportunity to resolve such legal matters on terms that Synovus considers to be favorable, including in light of the continued expense and distraction of defending such legal matters. Synovus maintains insurance coverage, which may be available to cover legal fees, or potential losses that might be incurred in connection with such legal matters. The above-noted estimated range of reasonably possible losses does not take into consideration insurance coverage which may or may not be available for the respective legal matters.

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Note 14 - Pending Acquisition and Pending Branch Sales

Pending Acquisition of FCB Financial Holdings, Inc.

On July 23, 2018, Synovus entered into the Merger Agreement by and among Synovus, FCB and Azalea Merger Sub Corp. pursuant to which Synovus will acquire FCB in a reverse triangular merger. FCB is headquartered in Weston, Florida with reported assets of $12.19 billion as of June 30, 2018. At the effective time of the Merger, each outstanding share of FCB Class A common stock, par value $0.001 per share, will be converted into the right to receive, without interest, 1.055 shares of Synovus common stock, par value $1.00 per share. The Merger Agreement has been unanimously approved by both companies' Board of Directors. The transaction is subject to customary closing conditions, including approval of Synovus and FCB shareholders and approval of state and federal regulators, and is expected to close by the first quarter of 2019.

FCB operates 50 full service banking centers through its wholly-owned banking subsidiary, Florida Community Bank. Following closing, Florida Community Bank will merge with and into Synovus Bank and operate under the Synovus brand.

Pending Branch Sales

On August 28, 2018, Synovus Bank entered into a purchase and assumption agreement with Jefferson Financial Federal Credit Union pursuant to which Jefferson Financial Federal Credit Union will acquire certain assets, including selected loans, and assume substantially all of the deposits associated with two branches in Mobile, Alabama, and one branch in Daphne, Alabama. The agreement provides for the transfer of approximately $138 million in loans, approximately $107 million in deposits, and other assets associated with the three branches in exchange for a deposit premium of $14.5 million. The transaction is subject to regulatory approval and satisfaction of customary closing conditions and is expected to be completed in the first quarter of 2019.

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ITEM 2. – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this Report, the words "Synovus," "the Company," "we," "us," and "our" refer to Synovus Financial Corp. together with Synovus Bank and Synovus' other wholly-owned subsidiaries, except where the context requires otherwise.

FORWARD-LOOKING STATEMENTS

Certain statements made or incorporated by reference in this Report which are not statements of historical fact including those under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Report, constitute forward-looking statements within the meaning of, and subject to the protections of, Section 27A of the Securities Act, and Section 21E of the Exchange Act. Forward-looking statements include statements with respect to Synovus' beliefs, plans, objectives, goals, targets, expectations, anticipations, assumptions, estimates, intentions and future performance and involve known and unknown risks, many of which are beyond Synovus' control and which may cause Synovus' actual results, performance or achievements or the commercial banking industry or economy generally, to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

All statements other than statements of historical fact are forward-looking statements. You can identify these forward-looking statements through Synovus' use of words such as "believes," "anticipates," "expects," "may," "will," "assume "predicts," "could," "should," "would," "intends," "targets," "estimates," "projects," "plans," "potential" and other similar wor expressions of the future or otherwise regarding the outlook for Synovus' future business and financial performance and/or the performance of the commercial banking industry and economy in general. Forward-looking statements are based on the current beliefs and expectations of Synovus' management and are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by such forward-looking statements. A number of factors could cause actual results to differ materially from those contemplated by the forward-looking statements in this document. Many of these factors are beyond Synovus' ability to control or predict. These factors include, but are not limited to:

(1) the risk that competition in the financial services industry may adversely affect our future earnings and growth;
(2) the risk that we may not realize the expected benefits from our efficiency and growth initiatives, which could negatively impact our future profitability;
(3) the risk that our current and future information technology system enhancements and initiatives may not be successfully implemented, which could negatively impact our operations;
(4) the risk that our enterprise risk management framework may not identify or address risks adequately, which may result in unexpected losses;
(5) the risk that our allowance for loan losses may prove to be inadequate or may be negatively affected by credit risk exposures, and the risk that we may be unable to obtain full payment in respect of any trade or other receivables;
(6) the risk that any future economic downturn could have a material adverse effect on our capital, financial condition, results of operations and future growth;
(7) changes in the interest rate environment, including changes to the federal funds rate, and competition in our primary market area may result in increased funding costs or reduced earning assets yields, thus reducing margins and net interest income;
(8) our ability to attract and retain key employees;
(9) the risk that we may be required to make substantial expenditures to keep pace with regulatory initiatives and the rapid technological changes in the financial services market;
(10) risks related to our reliance on third parties to provide key components of our business infrastructure, including the costs of services and products provided to us by third parties, and risks related to disruptions in service or financial difficulties of a third-party vendor;
(11) risks related to the ability of our operational framework to manage risks associated with our business such as credit risk and operational risk, including third-party vendors and other service providers, which could among other things, result in a breach of operating or security systems as a result of cyber attacks or similar acts;

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(12) our ability to identify and address cyber-security risks such as data security breaches, malware, "denial of service" attacks, "ransomware", "hacking" and identity theft, a failure of which could disrupt our business and result in the disclosure of and/or misuse or misappropriation of confidential or proprietary information, disruption or damage of our systems, increased costs, significant losses, or adverse effects to our reputation;

(13) the impact of recent and proposed changes in governmental policy, laws and regulations, including proposed and recently enacted changes in the regulation of banks and financial institutions, or the interpretation or application thereof and the uncertainty of future implementation and enforcement of these regulations;

(14) the risk that Federal Tax Reform could have an adverse impact on our business or our customers, including with respect to demand and pricing for our loan products;

(15) the risk that we could realize losses if we sell non-performing assets and the proceeds we receive are lower than the carrying value of such assets;

(16) the risk that we may be exposed to potential losses in the event of fraud and/or theft, or in the event that a third-party vendor or obligor fails to pay amounts due to us under that relationship or under any arrangement that we enter into with them;

(17) the risk that we may not be able to identify suitable acquisition targets or strategic partners as part of our growth strategy and even if we are able to identify suitable acquisition counterparties, we may not be able to complete such transactions on favorable terms, if at all, or successfully integrate acquired bank or nonbank operations into our existing operations or realize anticipated benefits from such transactions;

(18) the impact on our financial results, reputation, and business if we are unable to comply with all applicable federal and state regulations or other supervisory actions or directives and any necessary capital initiatives;

(19) the risks that if economic conditions worsen or regulatory capital rules are modified, we may be required to undertake initiatives to improve our capital position;

(20) changes in the cost and availability of funding due to changes in the deposit market and credit market;

(21) restrictions or limitations on access to funds from historical and alternative sources of liquidity could adversely affect our overall liquidity, which could restrict our ability to make payments on our obligations and our ability to support asset growth and sustain our operations and the operations of Synovus Bank;

(22) our ability to receive dividends from our subsidiaries could affect our liquidity, including our ability to pay dividends or take other capital actions;

(23) risks related to regulatory approval to take certain actions, including any dividends on our common stock or Series D Preferred Stock, any repurchases of common stock or any issuance or redemption of any other regulatory capital instruments, as well as any applications in respect of expansionary initiatives;

(24) risks related to recent and proposed changes in the mortgage banking industry, including the risk that we may be required to repurchase mortgage loans sold to third parties and the impact of the “ability to pay” and “qualified mortgage” rules on our loan origination process and foreclosure proceedings;

(25) the costs and effects of litigation, investigations, inquiries or similar matters, or adverse facts and developments related thereto;

(26) risks related to the fluctuation in our stock price;

(27) the effects of any damages to our reputation resulting from developments related to any of the items identified above;

(28) the risk that the required shareholder approvals of the Merger with FCB may not be obtained;

(29) the risk that Synovus or FCB may be unable to obtain all of the regulatory approvals required to complete the Merger;

(30) the risk that the other conditions to closing the Merger with FCB may not be satisfied;

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(31) the risk that the length of time necessary to consummate the Merger with FCB may be longer than anticipated for various reasons;
(32) the risk that the businesses of Synovus and FCB will not be integrated successfully or that the integration may take longer than expected;
(33) the risk that the cost savings, synergies, growth, and other benefits from the Merger with FCB may not be fully realized or may take longer to realize than expected;
(34) the risk that management's time and attention will be diverted to issues associated with the Merger with FCB rather than our ongoing businesses;
(35) the risk that costs associated with the integration of the businesses of Synovus and FCB will be higher than anticipated;
(36) the risk of litigation in connection with the Merger and that could cause the transaction to be more costly than expected or delay its completion;
(37) the risk that events could lead to the termination of the Merger Agreement (or otherwise result in payment of termination fee);
(38) the risk of business disruption following the Merger; and
(39) other factors and other information contained in this Report and in other reports and filings that we make with the SEC under the Exchange Act, including, without limitation, those found in "Part I - Item 1A. Risk Factors" of this Report.

For a discussion of these and other risks that may cause actual results to differ from expectations, refer to "Part I-Item 1A. Risk Factors" and other information contained in Synovus' 2017 Form 10-K and our other periodic filings, including quarterly reports on Form 10-Q and current reports on Form 8-K, that we file from time to time with the SEC. All written or oral forward-looking statements that are made by or are attributable to Synovus are expressly qualified by this cautionary notice. You should not place undue reliance on any forward-looking statements since those statements speak only as of the date on which the statements are made. Synovus undertakes no obligation to update any forward-looking information and statements, whether written or oral, to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of new information or unanticipated events, except as may otherwise be required by law.

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INTRODUCTION AND CORPORATE PROFILE

Synovus Financial Corp. is a financial services company and a registered bank holding company headquartered 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 also provides mortgage services, financial planning, and investment advisory services through its wholly-owned subsidiaries, Synovus Mortgage, Synovus Trust, and Synovus Securities, as well as its GLOBALT and Creative Financial Group divisions.

Synovus Bank is positioned in some of the highest growth markets in the Southeast, with 249 branches in Georgia, Alabama, South Carolina, Florida, and Tennessee.

The following financial review summarizes the significant trends, changes in our business, transactions, and other matters affecting Synovus' results of operations for the three and nine months ended September 30, 2018 and financial condition as of September 30, 2018 and December 31, 2017. This discussion supplements, and should be read in conjunction with, the unaudited interim consolidated financial statements and notes thereto contained elsewhere in this Report and the consolidated financial statements of Synovus, the notes thereto, and management's discussion and analysis contained in Synovus' 2017 Form 10-K.

Management's Discussion and Analysis of Financial Condition and Results of Operations consists of:

Discussion of Results of Operations - Reviews Synovus' financial performance, as well as selected balance sheet items, items from the statements of income, significant transactions, and certain key ratios that illustrate Synovus' performance.

Credit Quality, Capital Resources and Liquidity - Discusses credit quality, market risk, capital resources, and liquidity, as well as performance trends. It also includes a discussion of liquidity policies, how Synovus obtains funding, and related performance.

Additional Disclosures - Discusses additional important matters including critical accounting policies and non-GAAP financial measures used within this Report.

A reading of each section is important to understand fully our financial performance.

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DISCUSSION OF RESULTS OF OPERATIONS

Consolidated Financial Highlights

(dollars in thousands, except per share data)	Three Months Ended September 30, 2018	2017	Change	Nine Months Ended September 30, 2018	2017	Change
Net interest income	$291,619	$262,572	11.1 %	$850,480	$753,597	12.9 %
Provision for loan losses	14,982	39,686	(62.2)	39,548	58,620	(32.5)
Non-interest income	71,668	135,435	(47.1)	212,101	275,974	(23.1)
Adjusted non-interest income[1]	71,234	68,418	4.1	216,056	204,456	5.7
Total revenues	363,287	398,007	(8.7)	1,062,581	1,029,571	3.2
Adjusted total revenues [1]	362,989	331,273	9.6	1,066,908	958,943	11.3
Non-interest expense	220,297	205,646	7.1	619,531	594,780	4.2
Adjusted non-interest expense[1]	201,648	194,102	3.9	602,209	576,150	4.5
Income before income taxes	128,008	152,675	(16.2)	403,502	376,171	7.3
Net income	109,059	98,007	11.3	323,407	245,868	31.5
Net income available to common shareholders	99,330	95,448	4.1	308,559	238,190	29.5
Net income per common share, basic	0.85	0.79	7.3	2.61	1.96	33.6
Net income per common share, diluted	0.84	0.78	7.3	2.60	1.94	33.7
Adjusted net income per common share, diluted[1]	0.95	0.65	46.4	2.73	1.82	49.9
Net interest margin[2]	3.89 %	3.63 %	26 bps	3.84 %	3.52 %	32 bps
Net charge-off ratio[2]	0.24	0.62	(38)	0.20	0.33	(13)
Return on average assets[2]	1.36	1.27	9	1.37	1.07	30
Adjusted return on average assets[1][2]	1.47	1.05	42	1.42	1.01	41
Efficiency ratio	60.62	50.62	nm	58.21	57.70	51
Adjusted efficiency ratio[1]	55.55	58.59	(304)	56.44	60.08	(364)

[1] See “Non-GAAP Financial Measures” in this Report for the applicable reconciliation to the most comparable GAAP measure.

[2] Annualized

(dollars in thousands, except per share data)	September 30, 2018	June 30, 2018	Sequential Quarter Change	September 30, 2017	Year-Over-Year Change
Loans, net of deferred fees and costs	$25,577,116	$25,134,056	$443,060	$24,487,360	$1,089,756
Total average loans	25,322,582	24,946,307	376,275	24,499,923	822,659
Total deposits	26,433,658	26,442,688	(9,030)	26,186,228	247,430
Total average deposits	26,387,312	26,268,074	119,238	25,286,919	1,100,393
Average core deposits [1]	24,614,335	24,345,157	269,178	23,756,030	858,305
Non-performing assets ratio	0.46 %	0.50 %	(4) bps	0.57 %	(11) bps
Non-performing loans ratio	0.42	0.47	(5)	0.40	2
Past due loans over 90 days	0.02	0.01	1	0.02	—
Common equity Tier 1 capital (transitional)	$2,846,416	$2,838,616	$7,800	$2,749,304	$97,112
Tier 1 capital	3,038,768	3,156,805	(118,037)	2,849,580	189,188
Total risk-based capital	3,550,686	3,668,904	(118,218)	3,362,125	188,561
	9.90 %	10.12 %	(22	10.06 %	(16

Common equity Tier 1 capital ratio (transitional)				) bps			) bps
Tier 1 capital ratio	10.57	11.25	(68	)	10.43	14	
Total risk-based capital ratio	12.36	13.08	(72	)	12.30	6	
Total shareholders’ equity to total assets ratio	9.48	9.98	(50	)	9.47	1	
Tangible common equity ratio[1]	8.68	8.77	(9	)	8.88	(20	)
Return on average common equity[2]	13.95	15.39	(144	)	13.24	71	
Adjusted return on average common equity[1][2]	15.69	15.59	10		10.92	477	
Adjusted return on average tangible common equity[1][2]	16.08	15.97	11		11.19	489	

(1) See “Non-GAAP Financial Measures” in this Report for the applicable reconciliation to the most comparable GAAP measure.
(2) Quarter annualized

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Executive Summary

Net income available to common shareholders for the third quarter of 2018 was $99.3 million, or $0.84 per diluted common share, an increase of 4.1% and 7.3%, respectively, compared to the third quarter of 2017. Adjusted net income per common share, diluted(1) was $0.95 for the third quarter of 2018, up 46.4% compared to $0.65 for the third quarter of 2017. Third quarter 2018 adjustments to net income available to common shareholders included merger-related expense of $6.7 million associated with Synovus' pending acquisition of FCB, an $11.7 million increase in the earnout liability related to the Global One acquisition, a $4.0 million one-time, non-cash charge associated with the Series C Preferred Stock redemption, partially offset by $9.9 million in discrete (non-core) tax benefits. The third quarter of 2018 results were positively impacted by strong loan growth, continued expansion of the net interest margin, fee income growth, and a lower effective tax rate. Third quarter of 2017 results included the $75.0 million Cabela's Transaction Fee, partially offset by certain balance sheet restructuring actions totaling $44.5 million. Net income available to common shareholders for the first nine months of 2018 was $308.6 million, or $2.60 per diluted common share, an increase of 29.5% and 33.7%, respectively, compared to the first nine months of 2017. Return on average assets for the third quarter of 2018 was 1.36%, up 9 basis points from the third quarter of 2017 and was 1.37% for the nine months ended September 30, 2018, up 30 basis points from the same period of 2017.

On a sequential quarter basis, net interest income increased $7.0 million, driven by a $380.6 million increase in average loans, net, as well as net margin expansion of 3 basis points to 3.89%. Compared to the same quarter in 2017, net interest income increased $29.0 million, driven by a $821.3 million increase in average loans, net, as well as net margin expansion of 26 basis points. The net interest margin increase compared to the prior quarter and the third quarter of 2017 was primarily driven by federal funds rate increases. The yield on earning assets was 4.58%, an increase of 11 basis points from the second quarter of 2018, and an increase of 47 basis points from the third quarter of 2017. This increase was driven by an increase in loan yields. The effective cost of funds was 0.69% for the third quarter of 2018, up 8 basis points from the second quarter of 2018, and up 21 basis points from the third quarter of 2017. Net interest income for the first nine months of 2018 was $850.5 million, an increase of $96.9 million, or 12.9%, compared to $753.6 million for the same period in 2017. Net interest margin increased 32 basis points to 3.84% over the comparable nine-month periods, primarily driven by federal funds rate increases and our asset-sensitive balance sheet. Since September 30, 2017, there have been four 25 basis points federal funds rate increases. The yield on earning assets was 4.45%, an increase of 46 basis points compared to the nine months ended September 30, 2017, while the effective cost of funds increased 14 basis points to 0.61%. The yield on loans increased 49 basis points to 4.86%, and the yield on investment securities increased 25 basis points to 2.35% over the nine months ended September 30, 2017.

Non-interest income for the third quarter of 2018 was $71.7 million, down $63.8 million, or 47.1%, compared to the third quarter of 2017. On a year-to-date basis, non-interest income was $212.1 million compared to $276.0 million for the first nine months of 2017. Adjusted non-interest income(1), which excludes investment securities losses, net, increase (decrease) in fair value of private equity investments, and the Cabela's Transaction Fee, was up $2.8 million, or 4.1%, for the third quarter of 2018 compared to the third quarter of 2017 and up $11.6 million, or 5.7%, for the first nine months of 2018 compared to 2017.

Non-interest expense for the third quarter of 2018 increased $14.7 million, or 7.1%, compared to the third quarter of 2017, and non-interest expense for the first nine months of 2018 increased $24.8 million, or 4.2% compared to the first nine months of 2017. The efficiency ratio for the first nine months of 2018 was 58.21%, compared to 57.70% for the first nine months of 2017. The adjusted efficiency ratio(1) for the first nine months of 2018 was 56.44%, down 364 basis points from the same period a year ago.

Synovus continued to benefit from a relatively stable credit environment with the non-performing assets ratio improving further to 0.46%, a four basis point improvement from the previous quarter, and an 11 basis point improvement from a year ago. Net charge-offs for the third quarter of 2018 were 24 basis points, annualized, down from 29 basis points in the prior quarter. Year-to-date, net charge-offs are 20 basis points, well within Synovus' guidance of 15-25 basis points.

At September 30, 2018, total loans were $25.58 billion, an increase of $789.7 million, or 4.3% annualized, and $1.09 billion or 4.5%, compared to December 31, 2017 and September 30, 2017, respectively. Year-over-year loan growth was driven by a $776.2 million or 6.6% increase in C&I loans and a $827.6 million or 14.9% increase in consumer loans, with our lending partnerships growing $569.6 million and mortgage loans growing $285.6 million. This growth was partially offset by a $514.5 million or 7.1% decline in CRE loans.

During the third quarter of 2018, total average deposits increased $119.2 million, or 1.8% annualized, compared to the second quarter of 2018, and increased $1.10 billion, or 4.4%, compared to the third quarter of 2017. Average core deposits(1), during the third quarter of 2018, increased $269.2 million, or 4.4% annualized, compared to the prior quarter, and increased $858.3 million, or 3.6%, compared to the third quarter of 2017.

On June 21, 2018, Synovus completed a public offering of $200 million of Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series D. The offering generated net proceeds of $195.1 million, which were largely used to fund the redemption of all of the outstanding shares of Series C Preferred Stock on August 1, 2018 for an aggregate redemption price of $130.0 million.

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Concurrent with the redemption of the Series C Preferred Stock, Synovus recognized a one-time, non-cash redemption charge of $4.0 million.

On January 23, 2018, Synovus announced a share repurchase program of up to $150 million to be completed during 2018. As of September 30, 2018, Synovus had repurchased under this program a total of $134.8 million, or 2.6 million shares of its common stock, at an average price of $51.85 per share. As of September 30, 2018, the remaining authorization under this program was $15.2 million. During October 2018, the program was concluded with the remaining $15.2 million, or 345 thousand shares, repurchased. In total, 2.9 million shares were repurchased during 2018 at an average price of $50.96 per share. Additionally, during the first quarter of 2018, Synovus increased the quarterly common stock dividend by 67% to $0.25 per share effective with the quarterly dividend declared during the first quarter of 2018.

More detail on Synovus' financial results for the three and nine months ended September 30, 2018 can be found in subsequent sections of "Item 2. – Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Report.

2018 Expectations

For the full year 2018 as compared to the full year 2017, management expectations are noted below:

- Period-end loan growth of 4% to 5%
- Average total deposits growth of 4% to 6%
- Net interest income growth of 11% to 13%
- Adjusted non-interest income[1] growth of 4% to 6%
- Total non-interest expense growth of 0% to 3%
- Effective income tax rate of 21% to 22%
- Net charge-off ratio of 15 to 25 bps
- Common share repurchases of up to $150 million (completed as of October 2018)

[1] See Non-GAAP Financial Measures" in this Report for applicable reconciliation to the most comparable GAAP measure.

Changes in Financial Condition

During the nine months ended September 30, 2018, total assets increased $853.3 million from $31.22 billion at December 31, 2017 to $32.08 billion. The principal component of this increase was an increase in loans, net of deferred fees and costs, of $789.7 million. Short-term borrowings and deposits provided the primary funding source for the growth in assets. The net loan to deposit ratio was 96.8% at September 30, 2018 compared to 94.8% at December 31, 2017.

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Loans

The following table compares the composition of the loan portfolio at September 30, 2018, December 31, 2017, and September 30, 2017.

(dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2018 vs. December 31, 2017 % Change[1]	September 30, 2017	September 30, 2018 vs. September 30, 2017 % Change
Commercial, financial and agricultural	$7,281,466	$7,179,487	1.9 %	$6,961,709	4.6 %
Owner-occupied	5,221,828	4,844,163	10.4	4,765,433	9.6
Total commercial and industrial	12,503,294	12,023,650	5.3	11,727,142	6.6
Investment properties	5,665,690	5,670,065	(0.1)	5,925,096	(4.4)%
1-4 family properties	707,196	781,619	(12.7)	794,616	(11.0)
Land and development	339,520	483,604	(39.8)	507,212	(33.1)
Total commercial real estate	6,712,406	6,935,288	(4.3)	7,226,924	(7.1)
Home equity lines	1,465,419	1,514,227	(4.3)	1,528,889	(4.2)
Consumer mortgages	2,843,244	2,633,503	10.6	2,557,680	11.2
Credit cards	245,149	232,676	7.2	225,725	8.6
Other consumer loans	1,831,385	1,473,451	32.5	1,245,278	47.1
Total consumer	6,385,197	5,853,857	12.1	5,557,572	14.9
Total loans	25,600,897	24,812,795	4.2	24,511,638	4.4
Deferred fees and costs, net	(23,781)	(25,331)	(8.2)	(24,278)	(2.0)
Total loans, net of deferred fees and costs	$25,577,116	$24,787,464	4.3 %	$24,487,360	4.5 %

[1] Percentage changes are annualized

At September 30, 2018, total loans were $25.58 billion, an increase of $789.7 million, or 4.3% annualized, and $1.09 billion or 4.5%, compared to December 31, 2017 and September 30, 2017, respectively. Year-over-year loan growth was driven by a $776.2 million or 6.6% increase in C&I loans and a $827.6 million or 14.9% increase in consumer loans, with our lending partnerships growing $569.6 million and mortgage loans growing $285.6 million. This growth was partially offset by a $514.5 million or 7.1% decrease in CRE loans.

Commercial Loans

Total commercial loans (which are comprised of C&I and CRE loans) at September 30, 2018 were $19.22 billion or 75.1% of the total loan portfolio, compared to $18.96 billion, or 76.5%, at December 31, 2017 and $18.95 billion, or 77.4%, at September 30, 2017.

At September 30, 2018 and December 31, 2017, Synovus had 29 and 25, respectively, commercial loan relationships with total commitments of $50 million or more (including amounts funded). The average funded balance of these relationships was approximately $34 million and $35 million at September 30, 2018 and December 31, 2017, respectively.

Commercial and Industrial Loans

The C&I loan portfolio represents the largest category of Synovus' total loan portfolio. The following table shows the composition of the C&I portfolio aggregated by NAICS code. The portfolio is relationship focused and, as a result, Synovus' lenders have in-depth knowledge of the borrowers, most of which have guaranty arrangements. C&I loans are originated through Synovus' local markets and the Corporate Banking Group to commercial customers primarily to finance capital expenditures, including real property, plant and equipment, or as a source of working capital. In accordance with Synovus' lending policy, each loan undergoes a detailed underwriting process which incorporates uniform underwriting standards and oversight in proportion to the size and complexity of the lending relationship. As of September 30, 2018, approximately 93% of Synovus' C&I loans are secured by real estate, business equipment, inventory, and other types of collateral. C&I loans of $12.50 billion, representing 48.9% of the total loan portfolio, grew $479.6 million, or 5.3% annualized, from December 31, 2017 and $776.2 million, or 6.6%, from September 30, 2017. The growth in C&I loans was broad-based, driven by senior housing, premium finance, and small business.

Commercial and Industrial Loans by Industry	September 30, 2018		December 31, 2017	
(dollars in thousands)	Amount	%(1)	Amount	%(1)
Health care and social assistance	$3,022,719	24.2 %	$2,764,907	23.0 %
Manufacturing	983,941	7.9	930,751	7.7
Real estate and rental and leasing	854,598	6.8	851,303	7.1
Retail trade	852,775	6.8	857,348	7.1
Finance and insurance	778,414	6.2	780,279	6.5
Other services	769,741	6.2	761,916	6.3
Professional, scientific, and technical services	764,037	6.1	771,809	6.4
Wholesale trade	689,388	5.5	675,741	5.6
Accommodation and food services	618,603	4.9	562,877	4.7
Real estate other	582,872	4.7	586,707	4.9
Construction	535,408	4.3	500,091	4.2
Transportation and warehousing	472,537	3.8	427,608	3.6
Other industries	469,805	3.8	438,312	3.6
Agriculture, forestry, fishing, and hunting	326,819	2.6	349,181	2.9
Administration, support, waste management, and remediation	278,362	2.2	273,189	2.3
Educational services	265,934	2.1	259,367	2.2
Information	237,341	1.9	232,264	1.9
Total commercial and industrial loans	$12,503,294	100.0%	$12,023,650	100.0%

(1) Loan balance in each category expressed as a percentage of total C&I loans.

At September 30, 2018, $7.28 billion of C&I loans, or 28.5% of the total loan portfolio, represented loans originated for the purpose of financing commercial, financial, and agricultural business activities. The primary source of repayment on these loans is revenue generated from products or services offered by the business or organization. The secondary source of repayment is the collateral, which consists primarily of equipment, inventory, accounts receivable, time deposits, cash surrender value of life insurance, and other business assets.

At September 30, 2018, $5.22 billion of C&I loans, or 20.4% of the total loan portfolio, represented loans originated for the purpose of financing owner-occupied properties. The financing of owner-occupied facilities is considered a C&I loan even though there is improved real estate as collateral. This treatment is a result of the credit decision process, which focuses on cash flow from operations of the business to repay the debt. The secondary source of repayment on these loans is the underlying real estate. These loans are predominately secured by owner-occupied and other real estate, and to a lesser extent, other types of collateral.

Commercial Real Estate Loans

Total CRE loans consist of investment properties loans, 1-4 family properties loans, as well as land and development loans. These loans are subject to the same uniform lending policies referenced above. CRE loans of $6.71 billion, representing 26.2% of the total loan portfolio, decreased $222.9 million, or 4.3% annualized, from December 31, 2017 and decreased $514.5 million, or 7.1%, from September 30, 2017. The $222.9 million decline was driven by a $144.1 million decrease in the non-strategic Land and Development portfolio and a $74.4 million decrease in 1-4 family properties. The decline in CRE has largely been the result of the continued higher velocity of pay-off activity across the portfolio which began to moderate in the third quarter, resulting in sequential quarter growth of $68.2 million or 4.1% annualized.

Investment Properties Loans

Investment properties loans consist of construction and mortgage loans for income-producing properties. Total investment properties loans as of September 30, 2018 were $5.67 billion, or 84.4% of the total CRE portfolio and 22.1% of the total loan portfolio, compared to $5.67 billion, or 81.8% of the total CRE portfolio and 22.9% of the total loan portfolio at December 31, 2017. Synovus' investment properties portfolio is well diversified by property type, geography (primarily within Synovus' primary market areas of Georgia, Alabama, South Carolina, Florida, and Tennessee), and tenants. The investment properties loans are primarily secured by the property being financed by the

loans; however, these loans may also be secured by real estate or other assets beyond the property being financed.
1-4 Family Properties Loans
1-4 family properties loans include construction loans to homebuilders and commercial mortgage loans to real estate investors and are almost always secured by the underlying property being financed by such loans. These properties are primarily located in the markets served by Synovus. Construction loans are generally interest-only loans and typically have maturities of three years

or less, and commercial mortgage loans generally have maturities of three to five years, with amortization periods of up to fifteen to twenty years. At September 30, 2018, 1-4 family properties loans totaled $707.2 million, or 10.5% of the total CRE portfolio and 2.8% of the total loan portfolio, compared to $781.6 million, or 11.3% of the total CRE portfolio and 3.2% of the total loan portfolio at December 31, 2017.

Land and Development Loans

Land and development loans include commercial and residential development as well as land acquisition loans and are secured by land held for future development, typically in excess of one year. These loans have short-term maturities and are typically unamortized. Properties securing these loans are substantially within the Synovus footprint, and loan terms generally include personal guarantees from the principals. Loans in this portfolio are underwritten based on the LTV of the collateral and the capacity of the guarantor(s). Total land and development loans were $339.5 million at September 30, 2018, or 1.3% of the total loan portfolio, a decline of $144.1 million, or 39.8% annualized, from December 31, 2017. Synovus continues to strategically reduce its exposure to these types of loans.

Consumer Loans

The consumer loan portfolio consists of a wide variety of loan products offered through Synovus' banking network as well as third-party lending partnerships, including first and second residential mortgages, home equity lines, credit card loans, home improvement loans, student loans, and other consumer loans. The majority of Synovus' consumer loans are consumer mortgages and home equity lines secured by first and second liens on residential real estate primarily located in the markets served by Synovus.

Consumer loans at September 30, 2018 totaled $6.39 billion, representing 24.9% of the total loan portfolio compared to $5.85 billion, or 23.6% of the total loan portfolio at December 31, 2017, and $5.56 billion, or 22.7% of the total loan portfolio at September 30, 2017. Consumer loans increased $531.3 million, or 12.1% annualized, from December 31, 2017 and $827.6 million, or 14.9%, from September 30, 2017. Consumer mortgages grew $209.7 million or 10.6% annualized, from December 31, 2017, and $285.6 million, or 11.2%, from September 30, 2017 given solid production in the private wealth management and physician categories as well as the continued addition of mortgage loan originators. HELOCs decreased $48.8 million or 4.3%, annualized, from December 31, 2017. Credit card loans totaled $245.1 million at September 30, 2018, including $70.5 million of commercial credit card loans.

Other consumer loans increased $357.9 million, or 32.5% annualized, from December 31, 2017, and $586.1 million, or 47.1%, from September 30, 2017 primarily due to two consumer-based lending partnerships. As of September 30, 2018, these partnerships had combined balances of $1.48 billion, or 5.8% of the total loan portfolio.

Consumer loans, including those through our lending partnerships, are subject to uniform lending policies and consist primarily of loans with strong borrower credit scores. Synovus makes consumer lending decisions based upon a number of key credit risk determinants including FICO scores as well as loan-to-value and debt-to-income ratios. Risk levels 1-6 (descending) are assigned to consumer loans based upon a risk score matrix. At least annually, the consumer loan portfolio data is sent to a consumer credit reporting agency for a refresh of customers' credit scores so that management can evaluate ongoing consistency or negative migration in the quality of the portfolio, which impacts the allowance for loan losses. The most recent credit score refresh was completed as of June 30, 2018. Revolving lines of credit were reviewed for any material change in financial circumstances, and when appropriate, the line of credit may be suspended for further advances. FICO scores within the residential real estate portfolio have generally remained stable over the last several years.

As of the most recent FICO score refresh on June 30, 2018, weighted-average FICO scores within the residential real estate portfolio were 774 for both HELOCs and consumer mortgages. HELOC utilization rates (total amount outstanding as a percentage of total available lines) were 53.1% and 55.6% at September 30, 2018 and December 31, 2017, respectively. Additionally, we maintained loan-to-value ratios based upon prudent guidelines to ensure consistency with Synovus' overall risk philosophy. At September 30, 2018, 35% of home equity line balances were secured by a first lien, and 65% were secured by a second lien. Apart from credit card loans and unsecured loans, Synovus does not originate loans with LTV ratios greater than 100% at origination except for infrequent situations provided that certain underwriting requirements are met. Additionally, at origination, loan maturities are determined based on the borrower's ability to repay (cash flow or earning power that represents the primary source of repayment) and the collateralization of the loan, including the economic life of the asset being pledged. Collateral securing these loans provides a secondary source of repayment in that the collateral may be liquidated. Synovus determines the need for collateral on a case-by-case basis. Factors considered include the purpose of the loan, current and prospective credit-worthiness of the customer, terms of the loan, and economic conditions.

Higher-risk consumer loans as defined by the FDIC are consumer loans (excluding consumer loans defined as nontraditional mortgage loans) where, as of the origination date or, if the loan has been refinanced, as of the refinance date, the probability of default within two years is greater than 20%, as determined using a defined historical stress period. These loans are not a part of Synovus' consumer lending strategy, and Synovus does not currently develop or offer specific sub-prime, alt-A, no documentation or stated income residential real estate loan products. Synovus estimates that, as of September 30, 2018, it had $79.4 million of

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higher-risk consumer loans (1.2% of the consumer portfolio and 0.3% of the total loan portfolio) compared to $87.0 million as of September 30, 2017. Included in these amounts as of September 30, 2018 and 2017 are approximately $9 million and $11 million, respectively, of accruing TDRs.

Deposits

Deposits provide the most significant funding source for interest earning assets. The following table shows the relative composition of average deposits for the time periods indicated.

Composition of Average Deposits

(dollars in thousands)	September 30, 2018	%[1]		June 30, 2018	%[1]		December 31, 2017	%[1]		September 30, 2017	%[1]	
Non-interest bearing demand deposits	$7,672,006	29.1	%	$7,539,451	28.7	%	$7,621,147	29.0	%	$7,305,508	28.9	%
Interest-bearing demand deposits	4,701,204	17.8		5,001,825	19.0		4,976,239	18.9		4,868,372	19.2	
Money market accounts, excluding brokered deposits	7,936,621	30.1		7,791,107	29.7		7,514,992	28.6		7,528,036	29.8	
Savings deposits	824,935	3.1		829,800	3.2		804,853	3.0		803,185	3.2	
Time deposits, excluding brokered deposits	3,479,569	13.2		3,182,974	12.1		3,170,445	12.1		3,250,929	12.8	
Brokered deposits	1,772,977	6.7		1,922,917	7.3		2,198,333	8.4		1,530,889	6.1	
Total average deposits	$26,387,312	100.0	%	$26,268,074	100.0	%	$26,286,009	100.0	%	$25,286,919	100.0	%
Average core deposits [2]	$24,614,335	93.3	%	$24,345,157	92.7	%	$24,087,676	91.6	%	$23,756,030	93.9	%
Time deposits greater than $100,000	$3,688,282	14.0	%	$3,681,025	14.0	%	$3,655,952	13.9	%	$3,050,770	12.1	%
Brokered time deposits	$1,414,700	5.4	%	$1,659,941	6.3	%	$1,651,920	6.3	%	$983,423	3.9	%

[1] Deposits balance in each category expressed as percentage of total deposits.

[2] See “Non-GAAP Financial Measures” in this Report for the applicable reconciliation to the most comparable GAAP measure.

During the third quarter of 2018, total average deposits increased $119.2 million, or 1.8% annualized, compared to the second quarter of 2018, and increased $1.10 billion, or 4.4%, compared to the third quarter of 2017. Average core deposits, during the third quarter of 2018, increased $269.2 million, or 4.4% annualized, compared to the prior quarter, and increased $858.3 million, or 3.6%, compared to the third quarter of 2017. Average brokered deposits decreased $149.9 million compared to the prior quarter as Synovus reduced its overall level of brokered deposits due to the growth in core deposits during the third quarter. During the first quarter of 2018, Synovus obtained FDIC approval to report deposits related to our sweep money market product, offered by Synovus Securities, as a component of core deposits. This product was reported as a brokered deposit through February of 2018. The third quarter 2018 average balance in these accounts was $316.7 million, compared to an average balance of $310.0 million in the second quarter of 2018. See “Non-GAAP Financial Measures” in this Report for the applicable reconciliation to the most comparable GAAP measure.

Average non-interest bearing demand deposits as a percentage of total average deposits increased during the third quarter of 2018 and were 29.1%, 28.7%, and 28.9% for the three months ended September 30, 2018, June 30, 2018, and September 30, 2017, respectively.

Non-interest Income

Non-interest income for the third quarter of 2018 was $71.7 million, down $63.8 million, or 47.1%, compared to the third quarter of 2017. On a year-to-date basis, non-interest income was $212.1 million compared to $276.0 million for the first nine months of 2017. The third quarter of 2017 included the $75.0 million Cabela's Transaction Fee, partially offset by $8.0 million in investment securities losses. Adjusted non-interest income, which excludes investment securities losses, net, increase (decrease) in fair value of private equity investments, and the Cabela's Transaction Fee, was up $2.8 million, or 4.1%, for the third quarter of 2018 compared to the third quarter of 2017 and up $11.6 million, or 5.7%, for the first nine months of 2018 compared to 2017. Synovus experienced growth in multiple categories during the first nine months of 2018 compared to the same time period in 2017 including an increase of $9.4 million or 15.0%, in combined fiduciary and asset management fees, brokerage, and insurance revenues. See "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures" of this Report for applicable reconciliation to GAAP measure.

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The following table shows the principal components of non-interest income.

Non-interest income	Three Months Ended September 30,			Nine Months Ended September 30,		
(in thousands)	2018	2017	% Change	2018	2017	% Change
Service charges on deposit accounts	$20,582	$20,678	(0.5)%	$60,521	$61,048	(0.9)%
Fiduciary and asset management fees	13,462	12,615	6.7	40,881	37,290	9.6
Card fees	10,608	9,729	9.0	31,640	29,614	6.8
Brokerage revenue	9,329	7,511	24.2	26,924	21,947	22.7
Mortgage banking income	5,290	5,603	(5.6)	15,177	17,151	(11.5)
Income from bank-owned life insurance	3,771	3,232	16.7	11,720	9,560	22.6
Cabela's Transaction Fee	—	75,000	nm	—	75,000	nm
Investment securities losses, net	—	(7,956)	nm	(1,296)	(289)	nm
Other fee income	4,510	5,094	(11.5)	14,387	16,127	(10.8)
Other non-interest income	4,116	3,929	4.8	12,147	8,526	42.5
Total non-interest income	$71,668	$135,435	(47.1)%	$212,101	$275,974	(23.1)%

Three and Nine Month Periods Ending September 30, 2018 compared to September 30, 2017:

Service charges on deposit accounts for the three and nine months ended September 30, 2018 were down $96 thousand and $527 thousand, respectively. Service charges on deposit accounts consist of NSF fees, account analysis fees, and all other service charges. NSF fees were down slightly, and offset by slight increases in account analysis fees for the three and nine months ended September 30, 2018. All other service charges on deposit accounts, which consist primarily of monthly fees on retail demand deposit and saving accounts, for the three and nine months ended September 30, 2018 were essentially flat compared to the same periods in 2017.

Fiduciary and asset management fees are derived from providing estate administration, personal trust, corporate trust, corporate bond, investment management, and financial planning services. Fiduciary and asset management fees increased $847 thousand, or 6.7%, and $3.6 million, or 9.6%, for the three and nine months ended September 30, 2018, respectively. The increase was driven by growth in assets under management. Total assets under management (including brokerage assets under management) increased by 15.5% year-over-year to approximately $15.0 billion, due to overall market conditions, increased productivity, as well as the addition of new talent.

Card fees for the three and nine months ended September 30, 2018, increased $879 thousand or 9.0% and $2.0 million or 6.8%, respectively. Card fees consist primarily of credit card interchange fees, debit card interchange fees, and merchant discounts. Card fees are reported net of certain associated expense items including customer loyalty program expenses and network expenses. The increase in 2018 from 2017 was driven by growth in transaction volume for both credit and debit card transactions as well as growth in revenue from sponsored merchant processing service providers.

Brokerage revenue was $9.3 million and $26.9 million for the three and nine months ended September 30, 2018, respectively, up $1.8 million, or 24.2%, and up $5.0 million, or 22.7%, for the three and nine months ended September 30, 2018, respectively. Brokerage revenue consists primarily of brokerage commissions, as well as advisory fees earned from the management of customer assets. The increase in 2018 from 2017 was largely driven by growth in brokerage assets under management due primarily to new talent additions.

Mortgage banking income decreased $313 thousand, or 5.6%, and $2.0 million, or 11.5%, for the three and nine months ended September 30, 2018, respectively, reflecting softer production volume in a rising interest rate environment.

Income from bank-owned life insurance increased $539 thousand, or 16.7%, and $2.2 million, or 22.6%, for the three and nine months ended September 30, 2018, respectively, due to additional investments in bank-owned life insurance policies during 2017, increases in the cash surrender value of these policies, and death benefits.

On September 25, 2017, Synovus Bank completed the Cabela's Transaction and received the Cabela's Transaction Fee.

Investment securities losses, net, for the nine months ended September 30, 2018 included a loss of $1.3 million from a strategic sale to improve portfolio performance. Investment securities losses, net, were $8.0 million and $289 thousand, for the three and nine months ended September 30, 2017, respectively. During the third quarter of 2017, as part of its balance sheet restructuring actions, Synovus repositioned the available for sale securities portfolio and recorded a net loss of $8.0 million. The first quarter of 2017 included a $3.4 million gain on the sale of an equity position and a $4.3 million gain from the repositioning of the investment securities portfolio.

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Other fee income includes fees for letters of credit and unused lines of credit, safe deposit box fees, access fees for automated teller machine use, customer swap dealer fees, and other service charges. Other fee income decreased $584 thousand, or 11.5%, and $1.7 million, or 10.8%, for the three and nine months ended September 30, 2018, respectively, due primarily to higher customer swap dealer fees and a large syndication arranger fee in 2017.

The main components of other non-interest income are income from insurance commissions, gains from sales of GGL/SBA loans, changes in fair value of private equity investments, and other miscellaneous items. Other non-interest income was up $187 thousand, or 4.8%, and $3.6 million, or 42.5%, for the three and nine months ended September 30, 2018, respectively, due primarily to higher insurance commissions and miscellaneous items.

Non-interest Expense

Non-interest expense for the third quarter of 2018 increased $14.7 million, or 7.1%, compared to the third quarter of 2017, and non-interest expense for the first nine months of 2018 increased $24.8 million, or 4.2% compared to the first nine months of 2017. The third quarter of 2018 included an $11.7 million expense to record an increase in the fair value of the earnout liability associated with the Global One acquisition and $6.7 million in FCB merger-related charges. The efficiency ratio for the first nine months of 2018 was 58.21%, compared to 57.70% for the first nine months of 2017. The adjusted efficiency ratio for the first nine months of 2018 was 56.44%, down 364 basis points from the same period a year ago. Synovus remains disciplined in managing its expense base, while continuing to make appropriate investments that drive sustainable growth, enhanced customer experience, and back-office efficiency. See "Part II - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Financial Measures" of this Report for applicable reconciliation to GAAP measures.

The following table summarizes the components of non-interest expense.

Non-interest Expense

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in thousands)	2018	2017	% Change	2018	2017	% Change
Salaries and other personnel expense	$114,341	$109,675	4.3 %	$339,924	$322,079	5.5 %
Net occupancy and equipment expense	32,088	30,573	5.0	96,222	89,837	7.1
Third-party processing expense	14,810	13,659	8.4	43,822	39,882	9.9
FDIC insurance and other regulatory fees	6,430	7,078	(9.2)	19,765	20,723	(4.6)
Professional fees	6,298	7,141	(11.8)	18,087	20,048	(9.8)
Advertising expense	3,735	3,610	3.5	14,046	14,868	(5.5)
Foreclosed real estate expense, net	360	7,265	(95.0)	1,110	10,847	(89.8)
Earnout liability adjustments	11,652	2,059	nm	11,652	3,766	nm
Merger-related expense	6,684	23	nm	6,684	110	nm
Restructuring charges, net	21	519	nm	(191)	7,043	nm
Other operating expenses	23,878	24,044	(0.7)	68,410	65,577	4.3
Total non-interest expense	$220,297	$205,646	7.1 %	$619,531	$594,780	4.2 %

Three and Nine Month Periods Ending September 30, 2018 compared to September 30, 2017:

Salaries and other personnel expenses increased $4.7 million, or 4.3%, and $17.8 million, or 5.5%, for the three and nine months ended September 30, 2018, respectively, primarily due to talent additions, higher incentive compensation expense, and annual merit increases, offset somewhat by decreases in employee health insurance expense and temporary help expense.

Net occupancy and equipment expense increased $1.5 million, or 5.0%, and $6.4 million, or 7.1%, during the three and nine months ended September 30, 2018, respectively, driven primarily by costs associated with additional investments in technology as well as higher rent expense.

Third-party processing expense includes all third-party core operating system and processing charges as well as third-party servicing charges. Third-party processing expense increased $1.2 million, or 8.4%, and $3.9 million, or

9.9%, during the three and nine months ended September 30, 2018, respectively, primarily due to an increase of $983 thousand and $3.5 million for the three and nine months ended September 30, 2018, respectively, from servicing expense associated with loan growth from Synovus' two consumer-based lending partnerships.

FDIC insurance and other regulatory fees declined $648 thousand, or 9.2%, and $957 thousand, or 4.6%, for the three and nine months ended September 30, 2018, respectively, driven by lower assessment rates, somewhat offset by growth in average balances.

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Professional fees declined $843 thousand, or 11.8%, and $2.0 million, or 9.8%, for the three and nine months ended September 30, 2018, respectively, due primarily to lower consulting fees.
Advertising expense increased slightly for the three months ended September 30, 2018 and was lower by $821 thousand, or 5.5%, for the nine months ended September 30, 2018. Advertising spend during 2018 has continued with Synovus' brand awareness activities related to our transition to a single-brand during 2018.
Foreclosed real estate expense during the third quarter of 2017 included balance sheet restructuring actions with $7.1 million recorded for discounts to fair value for ORE accelerated dispositions.
Earnout liability fair value adjustments associated with the Global One acquisition increased due to higher earnings estimates over the contractual earnout period.
Merger-related expense of $6.7 million recorded during the three months ended September 30, 2018 was associated with the pending acquisition of FCB. See "Note 14 - Pending Acquisition and Pending Branch Sales" in this Report for more information on the pending acquisition of FCB.
Restructuring charges of $7.0 million were recorded during the nine months ended September 30, 2017 consisting primarily of severance charges for termination benefits incurred in conjunction with a voluntary early retirement program offered during the first quarter of 2017.

Other operating expenses were down slightly for the three months ended September 30, 2018 and up $2.8 million, or 4.3%, for the nine months ended September 30, 2018 driven by a valuation adjustment to the Visa derivative of $2.3 million in second quarter 2018 and additional fixed asset impairment charges of $1.0 million, somewhat offset by additional contingency recoveries of $1.2 million.

Income Tax Expense

Income tax expense was $18.9 million and $80.1 million for the three and nine months ended September 30, 2018, respectively, representing an effective tax rate of 14.8% and 19.8% for the respective periods. Income tax expense was $54.7 million and $130.3 million for the three and nine months ended September 30, 2017, respectively, representing an effective tax rate of 35.8% and 34.6% for the respective periods. The lower effective tax rates for the three and nine months ended September 30, 2018 were primarily due to a reduction in the federal statutory rate from 35% to 21% resulting from Tax Reform, certain provision to return adjustments and the finalization of the provisional amounts recorded for the year ended December 31, 2017 related to Tax Reform.

During the third quarter of 2018, Synovus recognized a discrete tax benefit of $12.7 million, which included a $3.9 million tax benefit for the refinement of provisional amounts previously reported under SAB 118, a $5.5 million return to provision benefit associated with the preparation of the 2017 tax return and a $3.3 million benefit associated with insignificant adjustments to tax returns from several prior years. In addition, the effective income tax rate for the nine months ended September 30, 2018 included a net discrete income tax benefit of $2.8 million resulting from tax benefits associated with the exercise and vesting of employee equity awards.

The effective tax rate is affected by many factors including, but not limited to, the level of pre-tax income, bank-owned life insurance, tax-exempt interest and nondeductible expenses. In addition, the effective tax rate is affected by items that may occur in any given period but are not consistent from period-to-period, such as tax benefits related to share-based compensation, jurisdiction statutory tax rate changes, valuation allowance changes and changes to unrecognized tax benefits. Accordingly, the comparability of the effective tax rate between periods may be impacted.

CREDIT QUALITY, CAPITAL RESOURCES AND LIQUIDITY

Credit Quality

Synovus continuously monitors the quality of its loan portfolio by industry, property type, geography, as well as credit quality metrics and maintains an allowance for loan losses that management believes is sufficient to absorb probable losses inherent in its loan portfolio. Credit quality metrics have remained favorable during the first nine months of 2018.

Two major hurricanes over the last six weeks have caused devastation to areas within the Synovus footprint, with Hurricane Florence impacting much of the Carolinas and Hurricane Michael impacting the eastern Florida panhandle and much of Southwest Georgia. Following each storm, Synovus deployed its bankers to check on customers in the affected areas, to assess any impact, and to develop a plan. With Hurricane Florence, there was no material impact to Synovus' loan portfolio, and very few customers have requested payment relief at this time. With Hurricane Michael, we are still in the process of compiling and analyzing information. We do know that Synovus' total exposure in the FEMA-designated areas of impact in Florida and Georgia is approximately $500 million, which is only about 2% of total loans. Thus far, we believe that the losses experienced by our customers are fully-covered by insurance, leading us to believe that Synovus will not experience a material impact to its loan portfolio from Hurricane Michael.

The table below includes selected credit quality metrics.

Credit Quality Metrics

(dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2017
Non-performing loans	$108,425	$115,561	$97,838
Impaired loans held for sale[1]	12	11,278	30,197
Other real estate	8,542	3,758	10,551
Non-performing assets	$116,979	$130,597	$138,586
Non-performing loans as a % of total loans	0.42 %	0.47 %	0.40 %
Non-performing assets as a % of total loans, other loans held for sale, and ORE	0.46	0.53	0.57
Loans 90 days past due and still accruing	$4,856	$4,414	$5,685
As a % of total loans	0.02 %	0.02 %	0.02 %
Total past due loans and still accruing	$78,324	$52,031	$84,853
As a % of total loans	0.31 %	0.21 %	0.35 %
Net charge-offs, quarter	$15,257	$8,979	$38,098
Net charge-offs/average loans, quarter	0.24 %	0.15 %	0.62 %
Net charge-offs, year-to-date	$37,366	69,675	60,695
Net charge-offs/average loans, year-to-date	0.20 %	0.29 %	0.33 %
Provision for loan losses, quarter	$14,982	$8,564	$39,686
Provision for loan losses, year-to-date	39,548	67,185	58,620
Allowance for loan losses	251,450	249,268	249,683
Allowance for loan losses as a % of total loans	0.98 %	1.01 %	1.02 %

[1] Represent only impaired loans that have been specifically identified to be sold. Impaired loans held for sale are carried at the lower of cost or fair value, less costs to sell, based primarily on estimated sales proceeds net of selling costs.

Non-performing Assets

Total NPAs were $117.0 million at September 30, 2018, a $13.6 million, or 10.4%, decrease from $130.6 million at December 31, 2017 and a $21.6 million, or 15.6%, decrease from $138.6 million at September 30, 2017. The year-over-year decrease in non-performing assets was driven by the continued resolution of problem assets. Total non-performing assets as a percentage of total loans, other loans held for sale, and other real estate were 0.46% at September 30, 2018 compared to 0.53% at December 31, 2017 and 0.57% at September 30, 2017.

Troubled Debt Restructurings

Accruing TDRs were $114.7 million at September 30, 2018, compared to $151.3 million at December 31, 2017 and $166.9 million at September 30, 2017. Accruing TDRs decreased $36.5 million, or 24.1%, from December 31, 2017 and $52.1 million, or, 31.3% from a year ago primarily due to a continued decline in TDR inflows, more loans qualifying for removal of TDR designation upon subsequent renewal, refinance, or modification, and pay-offs.

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At September 30, 2018, the allowance for loan losses allocated to these accruing TDRs was $6.9 million compared to $8.7 million at December 31, 2017 and $8.5 million at September 30, 2017. Accruing TDRs are considered performing because they are performing in accordance with the restructured terms. At both September 30, 2018 and December 31, 2017, 99% of accruing TDRs were current. In addition, subsequent defaults on accruing TDRs (defaults defined as the earlier of the TDR being placed on non-accrual status or reaching 90 days past due with respect to principal and/or interest payments within twelve months of the TDR designation) have remained at low levels. There were eight defaults for the nine months ended September 30, 2018 and four defaults for the nine months ended September 30, 2017.

Accruing TDRs by Risk Grade	September 30, 2018		December 31, 2017		September 30, 2017	
(dollars in thousands)	Amount	%	Amount	%	Amount	%
Pass	$44,226	38.5 %	$57,136	37.8 %	$65,018	39.0 %
Special Mention	20,091	17.5	15,879	10.5	17,759	10.6
Substandard accruing	50,423	44.0	78,256	51.7	84,141	50.4
Total accruing TDRs	$114,740	100.0%	$151,271	100.0%	$166,918	100.0%

Non-accruing TDRs were $28.9 million at September 30, 2018 compared to $11.8 million at December 31, 2017. Non-accruing TDRs generally may be returned to accrual status if there has been a period of performance, consisting usually of at least a six month sustained period of repayment performance in accordance with the terms of the agreement.

Net Charge-offs

Net charge-offs for the nine months ended September 30, 2018 were $37.4 million, or 0.20% as a percentage of average loans annualized, compared to $60.7 million, or 0.33%, as a percentage of average loans annualized for the nine months ended September 30, 2017. The decrease from 2017 is primarily due to $34.2 million in net charge-offs recorded for loans transferred to held for sale in conjunction with balance sheet restructuring actions in the third quarter of 2017.

Provision for Loan Losses and Allowance for Loan Losses

For the nine months ended September 30, 2018, the provision for loan losses was $39.5 million, a decrease of $19.1 million, or 32.5%, compared to the nine months ended September 30, 2017. The decrease in provision expense for the comparable nine-month periods is primarily due to $27.7 million in provision expense incurred in connection with the aforementioned transfers to held for sale completed during the third quarter of 2017.