SYNOVUS FINANCIAL CORP
Form 10-Q
November 10, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008
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
P.O. Box 120
Columbus, Georgia 31902
(Address of principal executive offices)
(706) 649-2311
(Registrants telephone number, including area code)

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 þ No o

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

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

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

Yes o No þ

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

Class	October 31, 2008
Common Stock, $1.00 Par Value	330,320,130 shares

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

(In thousands, except share data)	**September 30, 2008**	December 31, 2007
ASSETS		
Cash and due from banks	**$ 497,419**	682,583
Interest earning deposits with banks	**2,845**	10,950
Federal funds sold and securities purchased under resale agreements	**269,600**	76,086
Trading account assets	**101,889**	17,803
Mortgage loans held for sale, at fair value	**105,068**	153,437
Impaired loans held for sale	**13,554**	
Investment securities available for sale	**3,831,126**	3,666,974
Loans, net of unearned income	**27,647,983**	26,498,585
Allowance for loan losses	**(463,836)**	(367,613)
Loans, net	**27,184,147**	26,130,972
Premises and equipment, net	**595,646**	547,437
Goodwill	**482,251**	519,138
Other intangible assets, net	**23,579**	28,007
Other assets	**1,232,017**	1,185,065
Total assets	**$ 34,339,141**	33,018,452
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing retail and commercial deposits	**$ 3,479,314**	3,472,423
Interest bearing retail and commercial deposits	**18,194,976**	17,734,851
Total retail and commercial deposits	**21,674,290**	21,207,274
Brokered deposits ($90,370 and $293,842 at fair value as of September 30, 2008 and December 31, 2007)	**6,174,573**	3,752,542
Total deposits	**27,848,863**	24,959,816
Federal funds purchased and securities sold under repurchase agreements	**674,501**	2,319,412
Long-term debt	**2,120,546**	1,890,235
Other liabilities	**286,348**	407,399
Total liabilities	**30,930,258**	29,576,862
Minority interest in consolidated subsidiaries	**30,606**	

Shareholders equity:		
Common stock $1.00 par value. Authorized 600,000,000 shares; issued 335,971,502 in 2008 and 335,529,482 in 2007; outstanding 330,294,672 in 2008 and 329,867,944 in 2007	**335,972**	335,529
Additional paid-in capital	**1,114,130**	1,101,209
Treasury stock, at cost 5,676,830 shares in 2008 and 5,661,538 shares in 2007	**(114,117)**	(113,944)
Accumulated other comprehensive income	**36,253**	31,439
Retained earnings	**2,006,039**	2,087,357
Total shareholders equity	**3,378,277**	3,441,590
Total liabilities and shareholders equity	**$ 34,339,141**	33,018,452

See accompanying notes to consolidated financial statements.

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SYNOVUS FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
(In thousands, except per share data)	**2008**	2007	**2008**	2007
Interest income:				
Loans, including fees	**$ 1,269,010**	1,540,910	**405,142**	522,545
Investment securities available for sale	**137,724**	127,742	**46,682**	44,369
Trading account assets	**1,542**	2,890	**521**	1,014
Mortgage loans held for sale	**5,877**	8,006	**1,880**	3,047
Impaired loans held for sale	**93**			
Federal funds sold and securities purchased under resale agreements	**2,834**	4,062	**960**	1,213
Interest earning deposits with banks	**163**	1,007	**38**	38
Total interest income	**1,417,243**	1,684,617	**455,223**	572,226
Interest expense:				
Deposits	**505,340**	695,891	**162,613**	235,556
Federal funds purchased and securities sold under repurchase agreements	**36,602**	65,746	**7,123**	23,664
Long-term debt	**55,433**	60,717	**17,689**	22,167
Total interest expense	**597,375**	822,354	**187,425**	281,387
Net interest income	**819,868**	862,263	**267,798**	290,839
Provision for losses on loans	**336,016**	99,566	**151,351**	58,770
Net interest income after provision for losses on loans	**483,852**	762,697	**116,447**	232,069
Non-interest income:				
Service charges on deposit accounts	**82,594**	83,157	**28,132**	28,736
Fiduciary and asset management fees	**37,612**	37,652	**12,095**	12,524
Brokerage and investment banking income	**25,591**	23,381	**7,898**	8,123
Mortgage banking income	**18,323**	20,876	**4,476**	5,955
Bankcard fees	**39,788**	35,370	**13,371**	11,923
Net gains on sales of available for sale investment securities		891		186
Other fee income	**30,039**	29,749	**8,773**	9,910
Increase in fair value of private equity investments, net	**17,998**	16,415	**13,052**	11,102
Proceeds from sale of MasterCard shares	**16,186**	2,918		2,918
Proceeds from redemption of Visa shares	**38,542**			
Other operating income	**39,957**	39,620	**11,158**	14,817
Total non-interest income	**346,630**	290,029	**98,955**	106,194

Non-interest expense:				
Salaries and other personnel expense	**346,342**	345,690	**114,535**	115,941
Net occupancy and equipment expense	**93,188**	82,914	**31,852**	28,055
FDIC insurance and other regulatory fees	**18,210**	7,239	**5,960**	2,541
Foreclosed real estate	**64,764**	2,812	**43,205**	1,662
Losses on impaired loans held for sale	**9,944**			
Goodwill impairment	**36,887**		**9,887**	
Professional fees	**20,311**	14,948	**6,916**	4,703
Visa litigation (recovery) expense	**(11,082)**	12,000	**6,347**	12,000
Restructuring charges	**13,299**		**9,048**	
Other operating expenses	**150,559**	139,281	**47,334**	47,523
Total non-interest expense	**742,422**	604,884	**275,084**	212,425
Minority interest in consolidated subsidiaries	**6,347**		**4,650**	
Income (loss) from continuing operations before income taxes	**81,713**	447,842	**(64,332)**	125,838
Income tax expense (benefit)	**28,741**	158,050	**(24,211)**	42,261
Income (loss) from continuing operations	**52,972**	289,792	**(40,121)**	83,577
Income from discontinued operations, net of income taxes and minority Interest		154,654		51,366
Net income (loss)	**$ 52,972**	444,446	**(40,121)**	134,943
Net income (loss) per share:				
Basic				
Income (loss) from continuing operations	**$ 0.16**	0.89	**(0.12)**	0.26
Net income (loss)	**0.16**	1.36	**(0.12)**	0.41
Diluted				
Income (loss) from continuing operations	**$ 0.16**	0.88	**(0.12)**	0.25
Net income (loss)	**0.16**	1.35	**(0.12)**	0.41
Weighted average shares outstanding:				
Basic	**329,195**	326,443	**329,438**	327,215
Diluted	**331,317**	330,001	**329,438**	330,160

See accompanying notes to consolidated financial statements.

SYNOVUS FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
AND COMPREHENSIVE INCOME
(unaudited)

(In thousands, except per share data)	**Shares Issued**	**Common Stock**	**Additional Paid-In Capital**	**Treasury Stock**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Total**
Balance at December 31, 2006	331,214	$ 331,214	1,033,055	(113,944)	(2,129)	2,460,454	3,708,650
Cumulative effect of adoption of FIN No. 48						(230)	(230)
Net Income						444,446	444,446
Other comprehensive income, net of tax:							
Net unrealized gain on cash flow hedges					7,713		7,713
Change in unrealized gains (losses) on investment securities available for sale, net of reclassification adjustment					13,627		13,627
Gain on foreign currency translation					3,960		3,960
Amortization of post-retirement unfunded health benefit					168		168
Other comprehensive income					25,468		25,468
Comprehensive income							469,914
Cash dividends declared $0.62 per share						(201,457)	(201,457)
Issuance of non-vested stock	546	546	(546)				
Share-based compensation expense			15,716				15,716
Stock options exercised	2,273	2,273	39,790				42,063
Share-based tax benefit			10,558				10,558
Ownership change at majority-owned subsidiary			7,026				7,026
Issuance of common stock for acquisition	62	62	2,054				2,116
Balance at September 30, 2007	334,095	$ 334,095	1,107,653	(113,944)	23,339	2,703,213	4,054,356
Balance at December 31, 2007	**335,529**	**$ 335,529**	**1,101,209**	**(113,944)**	**31,439**	**2,087,357**	**3,441,590**
Cumulative effect of adoption of EITF Issue No. 06-4						**(2,248)**	**(2,248)**
						58	**58**

Cumulative effect of adoption of SFAS No. 159							
Net Income						**52,972**	**52,972**
Other comprehensive income, net of tax:							
Net unrealized gain on cash flow hedges					**4,289**		**4,289**
Change in unrealized gain on investment securities available for sale, net of reclassification adjustment					**387**		**387**
Amortization of post-retirement unfunded health benefit					**138**		**138**
Other comprehensive income					**4,814**		**4,814**
Comprehensive income							**57,786**
Cash dividends declared $0.40 per share						**(132,100)**	**(132,100)**
Treasury shares purchased				**(173)**			**(173)**
Issuance of non-vested stock, net	**(26)**	**(26)**	**26**				**--**
Share-based compensation expense			**10,545**				**10,545**
Stock options exercised	**469**	**469**	**2,556**				**3,025**
Share-based tax deficiency			**(206)**				**(206)**
Balance at September 30, 2008	**335,972**	**$ 335,972**	**1,114,130**	**(114,117)**	**36,253**	**2,006,039**	**3,378,277**

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
(In thousands)	**2008**	2007
Operating activities:		
Net income	$ **52,972**	444,446
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on loans	**336,016**	99,566
Depreciation, amortization and accretion, net	**42,471**	145,461
Goodwill impairment	**36,887**	--
Equity in income of equity method investments	**(1,639)**	(6,610)
Deferred tax benefit (expense)	**(19,407)**	(17,152)
Decrease (increase) in interest receivable	**61,684**	(21,869)
Decrease in interest payable	**(23,423)**	(205)
Minority interest in consolidated subsidiaries	**6,347**	38,139
Increase in trading account assets	**(84,086)**	(17,743)
Originations of mortgage loans held for sale	**(858,110)**	(1,161,942)
Proceeds from sales of mortgage loans held for sale	**912,204**	1,171,443
Gain on sale of mortgage loans held for sale	**(7,128)**	(8,389)
Loss on sale of impaired loans held for sale	**11,137**	
Decrease (increase) in other assets	**204,958**	(190,093)
(Decrease) increase in accrued salaries and benefits	**(18,156)**	6,858
Increase (decrease) in other liabilities	**5,621**	(132,831)
Net gains on sales of available for sale investment securities		(891)
Increase in fair value of private equity investments	**(17,998)**	(15,347)
Gain from transfer of mutual funds		(6,885)
Gain on sale of MasterCard shares	**(16,186)**	--
Proceeds from redemption of Visa shares	**(38,542)**	
(Decrease) increase in liability for Visa litigation	**(11,082)**	12,000
Share-based compensation	**10,686**	21,660
Excess tax benefit from share-based payment arrangements	**(756)**	(10,143)
Impairment of developed software		620
Other, net	**7,862**	52,081
Net cash provided by operating activities	**592,332**	402,174
Investing activities:		
Net decrease in interest earning deposits with banks	**8,105**	15,071
Net increase in federal funds sold and securities purchased under resale agreements	**(193,514)**	(12,563)
Proceeds from maturities and principal collections of investment securities available for sale	**864,999**	539,171
Proceeds from sales of investment securities available for sale	**5,449**	22,106
Purchases of investment securities available for sale	**(1,022,663)**	(822,818)
Proceeds from sale of impaired loans held for sale	**20,613**	--

Net increase in loans	**(1,722,490)**	(1,234,050)
Purchases of premises and equipment	**(90,827)**	(118,374)
Proceeds from disposals of premises and equipment	**1,998**	642
Net proceeds from transfer of mutual funds		6,885
Proceeds from sale of MasterCard shares	**16,186**	--
Proceeds from redemption of Visa shares	**38,542**	
Additions to other intangible assets		13,600
Contract acquisition costs		(20,878)
Additions to licensed computer software from vendors		(8,193)
Additions to internally developed computer software		(11,749)
Net cash used by investing activities	**(2,073,602)**	(1,631,150)
Financing activities:		
Net increase in retail demand and savings deposits	**(891,204)**	346,074
Net increase (decrease) in retail certificates of deposit	**1,358,220**	(278,748)
Net increase (decrease) in brokered deposit	**2,422,031**	(36,729)
Net (decrease) increase in federal funds purchased and other securities sold under repurchase agreements	**(1,644,911)**	995,950
Principal repayments on long-term debt	**(196,022)**	(200,423)
Proceeds from issuance of long-term debt	**424,300**	606,468
Treasury shares purchased	**(173)**	
Excess tax benefit from share-based payment arrangements	**756**	10,143
Dividends paid to shareholders	**(179,916)**	(197,598)
Proceeds from issuance of common stock	**3,025**	42,063
Net cash provided by financing activities	**1,296,106**	1,287,200
Effect of exchange rate changes on cash and cash equivalent balances held in foreign currencies		(3,984)
(Decrease) increase in cash and due from banks	**(185,164)**	54,240
Cash and due from banks at beginning of period	**682,583**	889,975
Cash and due from banks at end of period	**$ 497,419**	944,215

See accompanying notes to consolidated financial statements.

SYNOVUS FINANCIAL CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with U.S. generally accepted accounting principles. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods covered by this report have been included. The accompanying unaudited consolidated financial statements should be read in conjunction with the Synovus Financial Corp. (Synovus) consolidated financial statements and related notes appearing in the 2007 Annual Report previously filed on Form 10-K.

In preparing the consolidated financial statements, 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 balance sheets, and the reported amounts of revenues and expenses for the periods presented. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of impaired loans held for sale, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans and the fair value of intangible assets, including goodwill.

A substantial portion of Synovus loans are secured by real estate in five southeastern states (Georgia, Alabama, Florida, South Carolina, and Tennessee). Accordingly, the ultimate collectibility of a substantial portion of Synovus loan portfolio is susceptible to changes in market conditions in these areas. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions and ability of borrowers to repay their loans. In addition, various regulatory agencies, as an integral part of their examination process, periodically review Synovus allowance for loan losses. Such agencies may require Synovus to make changes to the allowance for loan losses based on their judgment about information available to them at the time of their examination.

Determining the fair value of Synovus reporting units requires management to make certain judgments and assumptions related to various items, including discount rates and future estimates of operating results. Management believes that the estimates and assumptions used in the goodwill impairment analysis for its business units are reasonable; however, if actual results and market conditions differ from the assumptions or estimates used, the fair value of each reporting unit could be different in the future.

Certain prior year amounts have been reclassified to conform to the presentation adopted in 2008.

Note 2 Supplemental Cash Flow Information

For the nine months ended September 30, 2008 and 2007, Synovus paid income taxes (net of

refunds received) of $56.9 million and $352.0 million, respectively. The amount for the nine months ended September 30, 2008 is impacted by tax overpayment credits from 2007 that were applied towards the 2008 income tax liability. For the nine months ended September 30, 2008 and 2007, Synovus paid interest of $567.8 million and $808.1 million, respectively.

Non-cash investing activities consisted of loans of approximately $286.5 million and $56.8 million, which were foreclosed and transferred to other real estate during the nine months ended September 30, 2008 and 2007, respectively, impaired loans of approximately $46.8 million which were transferred to impaired loans held for sale during the nine months ended September 30, 2008, and impaired loans held for sale of approximately $1.5 million, which were foreclosed and transferred to other real estate during the nine months ended September 30, 2008.

Note 3 Comprehensive Income

Other comprehensive income (loss) consists of the change in net unrealized gains (losses) on cash flow hedges, the change in net unrealized gains (losses) on investment securities available for sale, gains (losses) on foreign currency translation, and the amortization of the post-retirement unfunded health benefit. Comprehensive income consists of net income plus other comprehensive income (loss).

Comprehensive income (loss) for the nine and three months ended September 30, 2008 and 2007 is presented below:

	Nine Months Ended September 30,		Three Months Ended September 30,	
(in thousands)	**2008**	**2007**	**2008**	**2007**
Net income (loss)	**$ 52,972**	444,446	**(40,121)**	134,943
Other comprehensive income, net of tax:				
Change in net unrealized gains (losses) on cash flow hedges	**4,289**	7,713	**3,813**	10,630
Change in net unrealized gains (losses) on investment securities available for sale, net of reclassification adjustment	**387**	13,627	**2,203**	31,674
Gains on foreign currency translation		3,960		1,796
Amortization of postretirement unfunded health benefit	**138**	168	**46**	168
Other comprehensive income	**4,814**	25,468	**6,062**	44,268
Comprehensive income (loss)	**$ 57,786**	469,914	**(34,059)**	179,211

Note 4 Restructuring Charges

Project Optimus, an initiative focused on operating efficiency gains and enhanced revenue growth, was launched in April 2008. Synovus expects to implement ideas associated with this project over the next twenty-four months, including the elimination of approximately 650 positions over that time period. Synovus expects to incur restructuring charges of approximately $22.0 million in conjunction with the project, including $10.9 million in severance charges and $11.1 million in other project related costs. During the nine months ended September 30, 2008, Synovus recognized a total of $13.3 million in restructuring charges including $2.4 million in severance charges. During the three months ended September 30, 2008, Synovus recognized $9.0 million in restructuring charges including $1.6 million in severance charges. At September 30, 2008, Synovus had an accrued liability of $9.5 million related to restructuring charges.

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Note 5 Standby Letters of Credit

Standby and commercial letters of credit are conditional commitments issued by Synovus to guarantee the performance of a customer to a third party. Certain standby letters of credit are issued to assist customers in obtaining long-term funding through bond issues. Provisions of the bond agreement provide the holders of the bonds the option to be repaid prior to the bond s maturity. In the event the bonds cannot be sold to another investor, the stand-by letter of credit obligates Synovus to provide funding to finance the repurchase of the bonds. During the third quarter of 2008, Synovus funded $52 million under these agreements to finance the repurchase of bonds, all of which remained outstanding as of the end of the third quarter and are included as a component of total loans at September 30, 2008. In addition to these fundings, Synovus repurchased $81 million of these bonds which are reflected in the balance of our trading account assets portfolio at September 30, 2008. Synovus has issued approximately $1.6 billion in letters of credit related to these bond issuances. As of November 9, 2008, approximately $800 million has been funded subsequent to September 30, 2008 related to these bond repurchases. The majority of these fundings occurred prior to October 15, 2008. Since that time, there has been a significant decline in bond put activity.

Note 6 Impaired Loans Held for Sale

Loans or pools of loans are transferred to the impaired loans held for sale portfolio when the intent to hold the loans has changed due to portfolio management or risk mitigation strategies and when there is a plan to sell the loans within a reasonable period of time. The value of the loans or pools of loans is primarily determined by analyzing the underlying collateral of the loan and the external market prices of similar assets. At the time of transfer, if the fair value is less than the cost, the difference attributable to declines in credit quality is recorded as a charge-off against the allowance for loan losses. Decreases in fair value subsequent to the transfer as well as losses from sale of these loans are recognized as a component of non-interest expense. During the nine months ended September 30, 2008, Synovus transferred loans with a cost basis totaling $68.9 million to the impaired loans held for sale portfolio. Synovus recognized charge-offs totaling $22.1 million on these loans, resulting in a new cost basis for loans transferred to the impaired loans held for sale portfolio of $46.8 million. The $22.1 million in charge-offs were estimated based on the estimated sales price of the portfolio through bulk sales. Subsequent to their transfer to the impaired loans held for sale portfolio, Synovus recognized additional write-downs of $6.4 million and recognized a loss of $4.7 million from the sale of impaired loans held for sale. The additional write-downs were based on the estimated sales proceeds from pending liquidation sales. During the three months ended September 30, 2008 Synovus transferred loans with a cost basis of $9.3 million to the impaired loans held for sale portfolio. Synovus recognized charge-offs totaling $1.1 million on these loans, resulting in a new cost basis for these loans of $8.2 million. Also, during the three months ended September 30, 2008, Synovus recognized an additional write-down of $1.0 million on loans in the impaired loans held for sale portfolio.

Note 7 Loans, Net of Unearned Income

Loans, net of unearned income, at September 30, 2008 and December 31, 2007 are presented below:

(in thousands)		**September 30, 2008**	September 30, 2007
Investment properties	$	**5,211,927**	4,529,827
1-4 family properties		**5,362,862**	5,824,227
Land acquisition		**1,560,734**	1,545,933
Total commercial real estate loans		**12,135,523**	11,899,987
Commercial and industrial loans		**11,230,142**	10,647,396
Retail loans		**4,324,222**	3,997,365
Total loans		**27,689,887**	26,544,748
Unearned income		**(41,904)**	(46,163)

Loans, net of unearned income	**$ 27,647,983**	26,498,585

Note 8 Allowance for Loan Losses

Activity in the allowance for loan losses for the nine months ended September 30, 2008 and 2007 is presented below:

	Nine Months Ended September 30,	
(in thousands)	**2008**	**2007**
Balance, beginning of period	**$ 367,613**	314,459
Provision for losses on loans	**336,016**	99,566
Loans charged off, net of recoveries	**(239,793)**	(57,139)
Balance, end of period	**$ 463,836**	356,886

Note 9 Other Real Estate

Other real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is recorded as a charge against the

allowance for loan losses. Gains or losses on sale and any subsequent adjustments to the value are recorded as a component of non-interest expense.

The carrying value of other real estate was $215.1 million and $101.5 million at September 30, 2008 and December 31, 2007, respectively. During the nine months ended September 30, 2008, approximately $286.5 million of loans and $1.5 million of impaired loans held for sale were foreclosed and transferred to other real estate. During the nine and three months ended September 30, 2008, Synovus recognized other real estate costs of $64.8 million and $43.2 million, respectively. These costs primarily relate to losses from the liquidation of other real estate through bulk sales and auctions as well as further write-downs due to declines in fair value subsequent to the date of foreclosure, and, to a lesser degree, carrying costs associated with other real estate.

Note 10 Fair Value Accounting Adoption of SFAS Nos. 157 and 159

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under U.S. Generally Accepted Accounting Principles (GAAP), and expands disclosures about fair value measurements. This statement did not introduce any new requirements mandating the use of fair value; rather, it unified the meaning of fair value and added additional fair value disclosures. The provisions of this statement are effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Effective January 1, 2008, Synovus adopted SFAS No. 157 for financial assets and liabilities. As permitted under FASB Staff Position (FSP) No. FAS 157-2, Synovus has elected to defer the application of SFAS No. 157 to non-financial assets and liabilities until January 1, 2009.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No.159 permits entities to make an irrevocable election, at specified election dates, to measure eligible financial instruments and certain other instruments at fair value. As of January 1, 2008, Synovus has elected the fair value option (FVO) for mortgage loans held for sale and certain callable brokered certificates of deposit. Accordingly, a cumulative adjustment of $58 thousand ($91 thousand less $33 thousand of income taxes) was recorded as an increase to retained earnings.

In October 2008, the FASB issued FSP No. FAS 157-d, Determining the Fair Value of a Financial Asset in a Market that is Not Active. FSP No. FAS 157-d is intended to provide additional guidance on how an entity should classify the application of SFAS No. 157 in an inactive market, and illustrates how an entity should determine fair value in an inactive market. The provisions for this statement are effective for the period ended September 30, 2008. The impact to Synovus is minimal, as this FSP provides clarification to existing guidance.

The following is a description of the assets and liabilities for which fair value has been elected, including the specific reasons for electing fair value.

Mortgage Loans Held for Sale

Mortgage loans held for sale (MLHFS) have been previously accounted for on a lower of aggregate cost or fair value basis pursuant to SFAS No. 65, Accounting for Certain Mortgage Banking Activities (SFAS No. 65). For certain mortgage loan types, fair value hedge accounting was utilized by Synovus to hedge a given mortgage loan pool, and the underlying

mortgage loan balances were adjusted for the change in fair value related to the hedged risk (fluctuation in market interest rates) in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended and interpreted (SFAS No. 133). For those certain mortgage loan types, Synovus is still able to achieve an effective economic hedge by being able to mark-to-market the underlying mortgage loan balances through the income statement, but has eliminated the operational time and expense needed to manage a hedge accounting program under SFAS No. 133. Previously under SFAS No. 65, Synovus was exposed, from an accounting perspective, only to the downside risk of market volatilities; however by electing FVO, Synovus may now also recognize the associated gains on the mortgage loan portfolio as favorable changes in the market occur.

Certain Callable Brokered Certificates of Deposit

Synovus has elected FVO for certain callable brokered certificates of deposit (CDs) to ease the operational burdens required to maintain hedge accounting for such instruments under the constructs of SFAS No. 133. Prior to the adoption of SFAS No. 159, Synovus was highly effective in hedging the risk related to changes in fair value, due to fluctuations in market interest rates, by engaging in various interest rate derivatives. However, SFAS No. 133 requires an extensive documentation process for each hedging relationship and an extensive process related to assessing the effectiveness and measuring ineffectiveness related to such hedges. By electing FVO on these previously hedged callable brokered CDs, Synovus is still able to achieve an effective economic hedge by being able to mark-to-market the underlying CDs through the income statement, but has eliminated the operational time and expense needed to manage a hedge accounting program under SFAS No. 133.

The following table summarizes the impact of adopting the fair value option for these financial instruments as of January 1, 2008. Amounts shown represent the carrying value of the affected instruments before and after the changes in accounting resulting from the adoption of SFAS No. 159.

(Dollars in thousands)	**Ending Balance Sheet December 31, 2007**	**Cumulative Effect Adjustment Gain, net**	**Opening Balance Sheet January 1, 2008**
Mortgage loans held for sale	$ 153,437	$ 91	$ 153,528
Certain callable brokered CDs	293,842		293,842
Pre-tax cumulative effect of adoption of the fair value option		91	
Deferred tax liability		(33)	
Cumulative effect of adoption of the fair value option (increase to retained earnings)		$ 58	

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Determination of Fair Value

SFAS No. 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy for disclosure of fair value measurements based on significant inputs used to determine the fair value. The three levels of inputs are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include corporate debt and equity securities, certain derivative contracts, as well as certain U.S. Treasury and U.S. Government-sponsored enterprise debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government-sponsored enterprises and agency mortgage-backed debt securities, obligations of states and municipalities, certain callable brokered certificates of deposit, collateralized mortgage obligations, derivative contracts, and mortgage loans held-for-sale.

Level 3 Unobservable inputs that are supported by little if any market activity for the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category primarily includes Federal Home Loan Bank and Federal Reserve Bank stock, collateral-dependent impaired loans, and certain private equity investments.

Following is a description of the valuation methodologies used for the major categories of financial assets and liabilities measured at fair value.

Trading Account Assets/Liabilities and Investment Securities Available for Sale

Where quoted market prices are available in an active market, securities are valued at the last traded price by obtaining feeds from a number of live data sources including active market makers and inter-dealer brokers. These securities are classified as Level 1 within the valuation hierarchy and include U.S. Treasury securities, obligations of U.S. Government-sponsored enterprises, and corporate debt and equity securities. If quoted market prices are not available, fair values are estimated by using bid prices and quoted prices of pools or tranches of securities with similar characteristics. These types of securities are classified as Level 2 within the valuation hierarchy and consist of collateralized mortgage obligations, mortgage-backed debt securities, debt securities of U.S. Government-sponsored enterprises and agencies, and state and municipal bonds. In both cases, Synovus has evaluated the valuation methodologies of its third party valuation providers to determine whether such valuations are representative of an exit price in Synovus principal markets. In certain cases where there is limited activity or less transparency around inputs to valuation, securities are classified as Level 3 within the valuation hierarchy. These Level 3 items are primarily Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) stock.

Mortgage Loans Held for Sale

Since quoted market prices are not available, fair value is derived from a hypothetical-securitization model used to project the exit price of the loan in securitization. The bid pricing convention is used for loan pricing for similar assets. The valuation model is based upon forward settlement of a pool of loans of identical coupon, maturity, product, and credit attributes. The inputs to the model are continuously updated with available market and historical data. As the loans are sold in the secondary market and predominantly used as collateral for securitizations, the valuation model represents the highest and best use of the loans in Synovus principal market. Mortgage loans held for sale are classified within Level 2 of the valuation hierarchy.

Private Equity Investments

Private equity investments consist primarily of investments in venture capital funds. The valuation of these instruments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. Based on these factors, the ultimate realizable value of private equity investments could differ significantly from the values reflected in the accompanying financial statements. Private equity investments are valued initially based upon transaction price. Thereafter, Synovus uses information provided by the fund managers in the determination of estimated fair value. Valuation factors such as recent or proposed purchase or sale of debt or equity of the issuer, pricing by other dealers in similar securities, size of position held, liquidity of the market and changes in economic conditions affecting the issuer are used in the determination of estimated fair value. These private equity investments are classified as Level 3 within the valuation hierarchy.

Private equity investments may also include investments in publicly traded equity securities, which have restrictions on their sale, generally obtained through an initial public offering. Investments in the restricted publicly traded equity securities are recorded at fair value based on the quoted market value less adjustments for regulatory or contractual sales restrictions. Discounts for restrictions are determined based upon the length of the restriction period and the volatility of the equity security. Investments in restricted publicly traded equity securities are classified as Level 2 within the valuation hierarchy.

Derivative Assets and Liabilities

Equity derivatives are valued using quoted market prices and are classified as Level 1 within the valuation hierarchy. All other derivatives are valued using internally developed models. These derivatives include interest rate swaps, floors, caps, and collars. The sale of To-be-announced (TBA) mortgage-backed securities for current month delivery or in the future and the purchase of option contracts of similar duration are derivatives utilized by Synovus mortgage subsidiary, and are valued by obtaining prices directly from dealers in the form of quotes for identical securities or options using a bid pricing convention with a spread between bid and offer quotations. All of these types of derivatives are classified as Level 2 within the valuation hierarchy. The mortgage subsidiary originates mortgage loans which are classified as derivatives prior to the loan closing when there is a lock commitment outstanding to a borrower to close a loan at a specific interest rate. These derivatives are valued based on the other mortgage derivatives mentioned above except there is fall-out ratios for interest rate lock commitments that have an additional input

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which is considered Level 3. Therefore, this type of derivative instrument is classified as Level 3 within the valuation hierarchy. These amounts, however, are insignificant.

Certain Callable Brokered Certificates of Deposit

The fair value of certain callable brokered certificates of deposit is derived using several inputs in a valuation model that calculates the discounted cash flows based upon a yield curve. Once the yield curve is constructed, it is applied against the standard certificate of deposit terms that may include the principal balance, payment frequency, term to maturity, and interest accrual to arrive at the discounted cash flow based fair value. When valuing the call option, as applicable, implied volatility is obtained for a similarly dated interest rate swaption, and it is also entered in the model. These types of certificates of deposit are classified as Level 2 within the valuation hierarchy.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents all financial instruments measured at fair value on a recurring basis, including financial instruments for which Synovus has elected the fair value option as of September 30, 2008 according to the SFAS No. 157 valuation hierarchy:

(in thousands)	**Level**	**Level 2**	**Level 3**	**Total Assets/Liabilities at Fair Value**
Assets				
Trading account assets	$56,484	45,405		$ 101,889
Mortgage loans held for sale		105,068		105,068
Investment securities available for sale	10,173	3,684,454	136,499(2)	3,831,126
Private equity investments			78,660	78,660
Derivative assets	7,101	115,908		123,009
Liabilities				
Brokered certificates of deposit (1)	$	90,370		$ 90,370
Trading account liabilities		10,204		10,204
Derivative liabilities	7,101	66,143		73,244

(1) Amounts represent the value of certain callable brokered certificates of deposit for which Synovus has elected the fair value option under SFAS No. 159.

(2) This amount primarily consists of

Federal Home Loan Bank stock and Federal Reserve Bank stock of approximately $117.3 million and $4.3 million, respectively.

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Changes in Fair Value FVO Items

The following table presents the changes in fair value included in the consolidated statement of income for items which the fair value election was made. The table does not reflect the change in fair value attributable to the related economic hedges Synovus used to mitigate interest rate risk associated with the financial instruments. These changes in fair value were recorded as a component of mortgage banking income and other operating income, as appropriate, and substantially offset the change in fair value of the financial instruments referenced below.

	Nine Months Ended September 30, 2008			Three Months Ended September 30, 2008		
(in thousands)	Mortgage Banking Income	Other Operating Income	Total Changes in Fair Value Recorded	Mortgage Banking Income	Other Operating Income	Total Changes in Fair Value Recorded
Mortgage loans held for sale	$(1,109)		$(1,109)	$1,211		$1,211
Certain callable brokered CDs	$	(1,076)	$ 1,076	$	(164)	$ 164

Changes in Level Three Fair Value Measurements

As noted above, Synovus uses significant unobservable inputs (Level 3) to fair-value certain assets and liabilities as of September 30, 2008. The table below includes a roll forward of the balance sheet amount for the nine months ended September 30, 2008 (including the change in fair value), for financial instruments of a material nature that are classified by Synovus within Level 3 of the fair value hierarchy and are measured at fair value on a recurring basis.

(in thousands)	Investment Securities Available for Sale	Private Equity Investments
Beginning balance January 1, 2008	$ 126,715	55,581
Total gains or (losses) (realized/unrealized), net of minority interest:		
Included in earnings		11,340
Included in other comprehensive income	(2,246)	
Purchases, sales, issuances, and settlements, net	12,030	11,739
Transfers in and/or out of Level 3		
Ending balance September 30, 2008	$ 136,499	78,660
The amount of total gains or (losses) for the period included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held at September 30, 2008	$ (2,246)	11,340

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The table below summarizes gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in earnings or changes in net assets for material Level 3 assets and liabilities for the three and nine months ended September 30, 2008.

	Nine Months Ended September 30, 2008		Three Months Ended September 30, 2008	
(in thousands)	Investment Securities Available for Sale	Private Equity Investments	Investment Securities Available for Sale	Private Equity Investments
Total change in earnings, net of minority interest	$	11,340	$	7,759
Change in unrealized losses to assets and liabilities still held at September 30, 2008	$(2,246)		$(2,121)	

Assets Measured at Fair Value on a Non-recurring Basis

Loans under the scope of SFAS No. 114, Accounting by Creditors for Impairment of a Loan (SFAS No. 114), are evaluated for impairment using the present value of the expected future cash flows discounted at the loan s effective interest rate, or as a practical expedient, a loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. The measurement of impaired loans using future cash flows discounted at the loan s effective interest rate rather than the market rate of interest is not a fair value measurement and is therefore excluded from the requirements of SFAS No. 157. Impaired loans measured by applying the practical expedient in SFAS No. 114 are included in the requirements of SFAS No. 157.

Under the practical expedient, Synovus measures the fair value of collateral-dependent impaired loans based on the fair value of the collateral securing these loans. These measurements are classified as Level 3 within the valuation hierarchy. Substantially all impaired loans are secured by real estate. The fair value of this real estate is generally determined based upon appraisals performed by a certified or licensed appraiser using inputs such as absorption rates, capitalization rates, and comparables. Management also considers other factors or recent developments which could result in adjustments to the collateral value estimates indicated in the appraisals such as changes in absorption rates or market conditions from the time of valuation. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

The fair value of collateral-dependent impaired loans (including impaired loans held for sale) totaled $630.8 million at September 30, 2008, compared to $485.7 million at June 30, 2008, and $264.9 million at December 31, 2007.

Note 11 Derivative Instruments

Synovus accounts for its derivative financial instruments as either assets or liabilities on the balance sheet at fair value through adjustments to either the hedged items, accumulated other comprehensive income (loss), or current earnings, as appropriate. 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 consist of interest rate swaps, commitments to sell fixed-rate mortgage loans, and interest rate lock commitments made to

prospective mortgage loan customers. Interest rate lock commitments represent derivative instruments since it is intended that such loans will be sold.

Synovus originates first lien residential mortgage loans for sale into the secondary market and generally does not hold the originated loans for investment purposes. Mortgage loans are sold by Synovus for conversion to securities and the servicing is sold to a third party servicing aggregator, or the mortgage loans are sold as a whole loan to an investor either individually or in bulk.

At September 30, 2008, Synovus had commitments to fund primarily fixed-rate mortgage loans to customers in the amount of $97.4 million. The fair value of these commitments at September 30, 2008 resulted in an unrealized gain of $140 thousand, which was recorded as a component of mortgage banking income in the consolidated statements of income.

At September 30, 2008, outstanding commitments to sell primarily fixed-rate mortgage loans amounted to approximately $172.3 million. Such commitments are entered into to reduce the exposure to market risk arising from potential changes in interest rates, which could affect the fair value of mortgage loans held for sale and outstanding commitments to originate residential mortgage loans for resale.

The commitments to sell mortgage loans are at fixed prices and are scheduled to settle at specified dates that generally do not exceed 90 days. The fair value of outstanding commitments to sell mortgage loans at September 30, 2008 resulted in an unrealized gain of $214 thousand, which was recorded as a component of mortgage banking income in the consolidated statements of income.

Synovus utilizes interest rate swaps to manage interest rate risks, primarily arising from its core banking activities. These interest rate swap transactions generally involve the exchange of fixed and floating rate interest rate payment obligations without the exchange of underlying principal amounts. Entering into interest rate derivatives 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.

The receive fixed interest rate swap contracts at September 30, 2008 are being utilized to hedge $850 million in floating rate loans and $1.36 billion in fixed-rate liabilities. A summary of interest rate swap contracts and their terms at September 30, 2008 is shown below. In accordance with the provisions of SFAS No. 133, the fair value (net unrealized gains and losses) of these contracts has been recorded on the consolidated balance sheets.

		Weighted-Average					**Net**
				Maturity			**Unrealized**
(Dollars in	**Notional**	**Receive**	**Pay**	**In**	**Unrealized**		**Gains**
thousands)	**Amount**	**Rate**	**Rate(*)**	**Months**	**Gains**	**Losses**	**(Losses)**
Receive fixed interest swaps:							
Fair value hedges	$ 1,361,436	3.89%	3.15%	28	$ 15,531	(3,059)	12,472
Cash flow hedges	850,000	7.86%	5.00%	27	38,214		38,214
Total	$ 2,211,436	5.42%	3.86%	28	$ 53,745	(3,059)	50,686

(*) Variable pay rate based upon contract rates in effect at September 30, 2008.

Synovus designates hedges of floating rate loans as cash flow hedges. These swaps hedge against the variability of cash flows from specified pools of floating rate prime based loans. Synovus calculates effectiveness of the hedging relationship quarterly using regression analysis for all cash flow hedges entered into after March 31, 2007. The cumulative dollar offset method is used for all hedges entered into prior to that date. As of September 30, 2008, cumulative ineffectiveness for Synovus portfolio of cash flow hedges represented a gain of approximately $1.8 million. Ineffectiveness from cash flow hedges is recognized in the consolidated statements of income as a component of other operating income.

Synovus expects to reclassify from accumulated other comprehensive income (loss) approximately $17.7 million as net-of-tax income during the next twelve months, as the related payments for interest rate swaps and amortization of deferred gains (losses) are recorded.

Synovus designates hedges of fixed rate liabilities as fair value hedges. These swaps hedge against the change in fair market value of various fixed rate liabilities due to changes in the benchmark interest rate LIBOR. Synovus calculates effectiveness of the fair value hedges quarterly using regression analysis. As of September 30, 2008, cumulative ineffectiveness for Synovus portfolio of fair value hedges represented a gain of approximately $2.1 million. Ineffectiveness from fair value hedges is recognized in the consolidated statements of income as a component of other operating income.

Synovus also enters into derivative financial instruments to meet the financing and interest rate risk management needs of its customers. Upon entering into these instruments to meet customer needs, Synovus enters into offsetting positions in order to minimize the risk to Synovus. These derivative financial instruments are recorded at fair value with any resulting gain or loss recorded in current period earnings. As of September 30, 2008, the notional amount of customer related interest rate derivative financial instruments, including both the customer position and the offsetting position, was $3.63 billion, an increase of $669.3 million compared to December 31, 2007.

Synovus also enters into derivative financial instruments to meet the equity risk management needs of its customers. Upon entering into these instruments to meet customer needs, Synovus enters into offsetting positions in order to minimize the risk to Synovus. These derivative financial instruments are recorded at fair value with any resulting gain or loss recorded in current period earnings. As of September 30, 2008, the notional amount of customer related equity derivative financial instruments, including both the customer position and the offsetting position, was $10.7 million, unchanged from December 31, 2007.

Note 12 Share-Based Compensation

General Description of Share-Based Compensation Plans

Synovus has various long-term incentive plans under which the Compensation Committee of the Board of Directors has the authority to grant share-based compensation to Synovus employees. At September 30, 2008, Synovus had a total of 19,893,980 shares of its authorized but unissued common stock reserved for future grants under the 2007 Omnibus Plan. The general terms of each of these plans are substantially the same, permitting the grant of share-based compensation including stock options, non-vested shares, restricted share units, and stock appreciation rights. These plans generally include vesting periods ranging from three to five years and contractual terms ranging from five to ten years. Stock options are granted at exercise prices which equal

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the fair market value of a share of common stock on the grant date. Synovus historically issues new shares to satisfy share option exercises.

Share-Based Compensation Expense

Synovus share-based compensation costs are recorded as a component of salaries and other personnel expense in the consolidated statements of income. Share-based compensation expense is recognized for plan participants on a straight-line basis over the shorter of the vesting period or the period until reaching retirement eligibility. Share-based compensation expense from continuing operations recognized in income is presented below:

	Nine Months Ended September 30,		Three Months Ended September 30,	
(In thousands)	**2008**	**2007**	**2008**	**2007**
Share-based compensation expense:				
Stock options	$ 2,710	6,311	350	1,227
Non-vested shares	7,976	5,469	2,577	2,006
Total share-based compensation expense	$ 10,686	11,780	2,927	3,233

Stock Option Awards

Synovus granted 3,090,911 options to purchase shares of Synovus common stock to certain key Synovus employees during the nine months ended September 30, 2008, at a weighted-average exercise price of $13.17. No options to purchase shares of Synovus common stock were issued during the three months ended September 30, 2008. At September 30, 2008, there were 31,396,801 options to purchase shares of Synovus common stock outstanding with a weighted-average exercise price of $10.88.

Non-Vested Shares and Restricted Share Units

During the nine months ended September 30, 2008, Synovus awarded 125,415 restricted share units and 24,391 non-vested shares of non-transferable Synovus common stock to certain key employees and non-employee directors of Synovus. The weighted-average grant date fair value of both the awarded stock and the stock units for the nine months ended September 30, 2008 was $12.86. During the three months ended September 30, 2008, Synovus awarded 3,106 restricted share units with a grant date fair value of $9.66.

All holders of non-vested shares of Synovus common stock on December 31, 2007 received Total System Services, Inc. (TSYS) non-vested shares based on the distribution ratio applicable to all Synovus shares in connection with the spin-off of TSYS. At September 30, 2008, there were 717,967 non-vested Synovus shares and restricted share units outstanding and 294,883 non-vested shares of TSYS stock outstanding with a combined weighted-average grant date fair value of $24.88.

Synovus pays dividend equivalents in the form of additional restricted stock units on all outstanding restricted stock units. These restricted stock units vest over the same vesting period as the original restricted stock unit grant. During the nine months ended September 30, 2008, Synovus paid dividend equivalents of $44 thousand by granting 4,114 additional restricted stock units to all holders of restricted stock units.

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Note 13 Discontinued Operations

TSYS Spin-off

On December 31, 2007, Synovus completed the tax-free spin-off of its shares of TSYS common stock to Synovus shareholders. The distribution of approximately 80.6% of TSYS outstanding shares owned by Synovus was made to shareholders of record on December 18, 2007 (the record date). Each Synovus shareholder received 0.483921 of a share of TSYS common stock for each share of Synovus common stock held as of the record date. Synovus shareholders received cash in lieu of fractional shares for amounts of less than one share of TSYS common stock. Pursuant to the agreement and plan of distribution, TSYS paid on a pro rata basis to its shareholders, including Synovus, a one-time cash dividend of $600 million or $3.0309 per TSYS share based on the number of TSYS shares outstanding as of the record date. Based on the number of TSYS shares owned by Synovus as of the record date, Synovus received $483.8 million in proceeds from this one-time cash dividend. The dividend was paid on December 31, 2007.

In accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, the historical consolidated results of operations of TSYS, as well as all costs associated with the spin-off of TSYS are now presented as a component of income from discontinued operations. The balance sheet at September 30, 2008 and December 31, 2007 does not include assets and liabilities of TSYS.

Transfer of Mutual Funds

During the three months ended June 30, 2007, Synovus transferred its proprietary mutual funds (Synovus Funds) to a non-affiliated third party. As a result of the transfer, Synovus received gross proceeds of $7.96 million and incurred transaction related costs of $1.07 million, resulting in a pre-tax gain of $6.89 million or $4.20 million, after-tax. The net gain has been reported as a component of discontinued operations on the accompanying consolidated statements of income. Financial results of the business associated with the Synovus Funds for 2007 have not been presented as discontinued operations as such amounts are inconsequential. This business did not have significant assets, liabilities, revenues, or expenses associated with it.

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The following amounts have been segregated from continuing operations and included in income from discontinued operations, net of income taxes and minority interest, in the consolidated statements of income:

(In thousands)	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2007
TSYS revenues	$ 1,369,800	$ 466,646
TSYS income, net of minority interest and before taxes	256,502	86,559
Income tax expense	(101,443)	(30,948)
Income from discontinued operations related to TSYS, net of income taxes	155,059	55,611
Spin-off related expenses incurred by Synovus, net of income tax benefit	(4,605)	(4,245)
Gain on sale of mutual funds, net of income taxes	4,200	
Income from discontinued operations, net of income taxes and minority interest	$ 154,654	$ 51,366

Cash flows of discontinued operations for the nine months ended September 30, 2007 are presented below.

(In thousands)	Nine Months Ended September 30, 2007
Cash provided by operating activities	$ 247,478
Cash used in investing activities	(77,713)
Cash provided by financing activities	37,930
Effect of exchange rates on cash and cash equivalents	(3,984)
Cash provided by discontinued operations	$ 203,711

Note 14 Goodwill and Other Intangible Assets

Under SFAS No. 142 (SFAS No. 142), Goodwill and Other Intangible Assets, goodwill is required to be tested for impairment annually, or more frequently if events or circumstances indicate that there may be impairment. The combination of the income approach utilizing the discounted cash flow (DCF) method, the public company comparables approach, utilizing multiples of tangible book value, and the transaction approach, utilizing readily available market valuation multiples for closed transactions, is used to estimate the fair value of a reporting unit. Impairment is tested at the reporting unit (sub-segment) level involving two steps. Step 1 compares the fair value of the reporting unit to its carrying value. If the fair value is greater than carrying value, there is no indication of impairment. Step 2 is performed when the fair value determined in Step 1 is less than the carrying value. Step 2 involves a process similar to business combination accounting where fair values are assigned to all assets, liabilities, and intangibles.

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The result of Step 2 is the implied fair value of goodwill. If the Step 2 implied fair value of goodwill is less than the recorded goodwill, an impairment charge is recorded for the difference. The total of all reporting unit fair values is compared for reasonableness to Synovus market capitalization plus a control premium.

Goodwill at September 30, 2008 and December 31, 2007 was $482.3 million and $519.1 million, respectively. During the three months ended June 30, 2008, Synovus conducted its annual goodwill impairment evaluation. As a result of this evaluation, Synovus recognized a preliminary non-cash charge for impairment of goodwill on one of its reporting units of $27.0 million (pre-tax and after-tax) during the three months ended June 30, 2008. During the three months ended September 30, 2008, Synovus recognized an additional $9.9 million (pre-tax and after-tax) non-cash charge for impairment of goodwill upon finalization of the Step 2 calculation. The impairment charge was primarily related to a decrease in valuation based on market trading and transaction multiples of tangible book value.

Determining the fair value of Synovus reporting units requires management to make certain judgments and assumptions related to various items, including discount rates and future estimates of operating results. Management believes that the estimates and assumptions used in the goodwill impairment analysis for its business units are reasonable; however, if actual results and market conditions differ from the assumptions or estimates used, the fair value of each reporting unit could be different in the future.

Intangible assets (excluding goodwill) net of accumulated amortization as of September 30, 2008 and December 31, 2007, respectively, are presented in the table below.

(In thousands)	**September 30, 2008**	December 31, 2007
Other intangible assets:		
Purchased trust revenues	**$ 2,152**	2,362
Acquired customer contracts	**1,951**	2,407
Core deposit premiums	**18,948**	22,668
Other	**528**	570
Total carrying value	**$ 23,579**	28,007

Note 15 Income Taxes

Synovus is subject to income taxation in the U.S. and by various state jurisdictions. Synovus U.S. Federal income tax return is filed on a consolidated basis, while state income tax returns are filed on both a consolidated and separate entity basis. Synovus is no longer subject to U.S. Federal income tax examinations for years prior to 2004 and Synovus is no longer subject to income tax examinations from state and local tax authorities for years prior to 2002. Synovus is not currently under a Federal tax examination. However, certain state tax examinations are in progress by the relevant state tax authorities. Although Synovus is unable to determine the ultimate outcome of these examinations, Synovus believes that its liability for uncertain tax positions relating to these jurisdictions for such years is adequate.

In connection with the spin-off of TSYS, Synovus entered into a tax sharing agreement with TSYS, which requires TSYS to indemnify Synovus from potential income tax liabilities that may arise in future examinations as a result of TSYS inclusion in Synovus consolidated tax return filings for calendar years prior to 2008.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows [1]:

(in thousands)	**Nine Months Ended September 30, 2008**	**Three Months Ended September 30, 2008**
Beginning balance	$ 7,074	$ 8,529
Current activity:		
Additions based on tax positions related to current year	611	118
Additions for tax positions of prior years	1,619	320
Reductions for tax positions of prior years	(1,001)	(664)
Settlements	(482)	(482)
Net, current activity	747	(708)
Ending balance	$ 7,821	$ 7,821

(1) Unrecognized state tax benefits are not adjusted for the Federal tax impact.

Synovus recognizes accrued interest and penalties related to unrecognized income tax benefits as a component of income tax expense. Accrued interest and penalties on unrecognized tax benefits totaled $1.1 million and $1.0 million as of December 31, 2007 and September 30, 2008, respectively. The total amount of unrecognized income tax benefits as of December 31, 2007 and September 30, 2008 that, if recognized, would affect the effective tax rate is $5.4 million and $5.7 million (net of the Federal benefit on state tax issues), respectively, which includes interest and penalties of $745 thousand and $624 thousand.

Synovus expects that approximately $442 thousand of uncertain tax positions will be either settled or resolved during the next twelve months.

Note 16 Visa Initial Public Offering and Litigation Expense

Synovus is a member of the Visa USA network. Under Visa USA bylaws, Visa members are obligated to indemnify Visa USA and/or its parent company, Visa, Inc., for potential future settlement of, or judgments resulting from, certain litigation, which Visa refers to as the covered litigation. Synovus indemnification obligation is limited to its membership proportion of Visa USA. On November 7, 2007, Visa announced the settlement of its American Express litigation, and disclosed in its annual report to the U.S. Securities and Exchange Commission (SEC) on Form 10-K for the year ended September 30, 2007 that Visa had accrued a contingent liability for the estimated settlement of its Discover litigation. During the second half of 2007, Synovus recognized a contingent liability in the amount of $36.8 million as an estimate for its membership proportion of the American Express settlement and the potential Discover settlement, as well as its membership proportion of the amount that Synovus estimates will be required for Visa to settle the remaining covered litigation.

Visa, Inc. completed an initial public offering (the Visa IPO) in March 2008. Visa used a portion

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of the proceeds from the IPO to establish a $3.0 billion escrow for settlement of covered litigation and used substantially all of the remaining portion to redeem class B and class C shares held by Visa issuing members. During the three months ended March 31, 2008, Synovus recognized a pre-tax gain of $38.5 million on redemption proceeds received from Visa, Inc. and reduced the $36.8 million litigation accrual recognized in the second half of 2007 by $17.4 million for its pro-rata share of the $3.0 billion escrow funded by Visa, Inc.

On October 14, 2008, Visa announced that it had reached an agreement in principle to settle its litigation with Discover, and on October 27, 2008, Visa disclosed specific terms of the settlement. During the three months ended September 30, 2008, Synovus increased the accrued liability for its membership proportion of the Discover settlement by $6.3 million. At September 30, 2008, Synovus accrual for the aggregate amount of Visa s covered litigation was $25.7 million.

For the nine months ended September 30, 2008, the redemption of shares and changes to the accrued liability for Visa litigation resulted in a gain of $30.3 million, net of tax, or $0.09 per diluted share.

Note 17 Recently Adopted Accounting Pronouncements

In September 2006, the FASB s Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4). EITF 06-4 requires an employer to recognize a liability for future benefits based on the substantive agreement with the employee. EITF 06-4 requires a company to use the guidance prescribed in SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions and Accounting Principles Board Opinion No. 12, Omnibus Opinion, when entering into an endorsement split-dollar life insurance agreement and recognizing the liability. EITF 06-4 was effective for fiscal periods beginning after December 15, 2007. Synovus adopted the provisions of EITF 06-4 effective January 1, 2008 and recognized approximately $2.2 million as a cumulative effect adjustment to retained earnings.

In November 2006, the EITF reached a consensus on EITF Issue No. 06-10, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements (EITF 06-10). Under EITF 06-10, an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement. The recognition of an asset should be based on the nature and substance of the collateral, as well as the terms of the arrangement such as (1) future cash flows to which the employer is entitled and (2) employee s obligation (and ability) to repay the employer. EITF 06-10 was effective for fiscal periods beginning after December 15, 2007. Synovus adopted the provisions of EITF 06-10 effective January 1, 2008. There was no impact to Synovus upon adoption of EITF 06-10.

In November 2006, the EITF reached a consensus on EITF Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). Employees may receive dividend payments (or the equivalent of) on vested and non-vested share-based payment awards. Under EITF 06-11, the Task Force concluded that a realized income tax benefit from dividends (or dividend equivalents) that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital. Once the award is settled, the Company should determine whether the cumulative tax

deduction exceeded the cumulative compensation cost recognized on the income statement. If the total tax benefit exceeds the tax effect of the cumulative compensation cost, the excess would be an increase to additional paid-in capital. EITF 06-11 was effective for fiscal periods beginning after September 15, 2007. The impact of adoption of EITF 06-11 was not material to Synovus financial position, results of operations or cash flows.

In November 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings, (SAB 109). SAB 109 supercedes SAB 105, Application of Accounting Principles to Loan Commitments. SAB 109, consistent with SFAS No. 156, Accounting for Servicing of Financial Assets, and SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, requires that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. A separate and distinct servicing asset or liability is not recognized for accounting purposes until the servicing rights have been contractually separated from the underlying loan by sale or securitization of the loan with servicing retained. The provisions of this bulletin were effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The impact of adoption of SAB 109 was an increase in mortgage revenues of approximately $1.2 million for the three months ended March 31, 2008.

In December 2007, the SEC issued SAB No. 110, Share-Based Payment, (SAB 110) SAB 110 allows eligible public companies to continue to use a simplified method for estimating the expected term of stock options if their own historical exercise data no longer provides a reasonable basis. Under SAB No. 107, Share-Based Payment, the simplified method was scheduled to expire for all grants made after December 31, 2007. The provisions of this bulletin were effective on January 1, 2008. Due to the spin-off of TSYS on December 31, 2007 and recent changes to the terms of stock option agreements, Synovus elected to continue using the simplified method for determining the expected term component for all share options granted during 2008.

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

Forward-Looking Statements

Certain statements made or incorporated by reference in this document 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 document, constitute forward-looking statements within the meaning of, and subject to the protections of, Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (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 the actual results, performance or achievements of Synovus 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, a should, predicts, could, should, would, intends, targets, estimates, projects, plans, potential an and 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) competitive pressures arising from aggressive competition from other financial service providers; (2) further deteriorations in credit quality, particularly in residential construction and development loans, may continue to result in increased non-performing assets and credit losses, which could adversely impact us; (3) declining values of residential and commercial real estate may result in further write-downs of assets, which may increase our credit losses and negatively affect our financial results; (4) our ability to manage fluctuations in the value of our assets and liabilities to maintain sufficient capital and liquidity to support our operations; (5) the concentration of our nonperforming assets in certain geographic regions and with affiliated borrower groups; (6) inadequacy of our allowance for loan loss reserve, or the risk that the allowance may be negatively affected by credit risk exposures; (7) changes in the interest rate environment which may increase funding costs or reduce earning assets yields, thus reducing margins; (8) changes in accounting standards, particularly those related to determination of allowance for loan losses and fair value of assets; (9) slower than anticipated rates of growth in non-interest income; (10) changes in the cost and availability of funding due to changes in the deposit market and credit market, or the way in which Synovus is perceived in such markets, including a reduction in our debt ratings; (11) inability to satisfy all conditions required to participate in the U.S. Treasury s capital participation program, including obtaining the required shareholder vote to amend our articles of incorporation and bylaws, or to otherwise access the capital markets on terms that are satisfactory; (12) the strength of the U.S. economy in general and the strength of the local economies and financial markets in which operations are conducted

may be different than expected; (13) the effects of and changes in trade, monetary and fiscal policies, and laws, including interest rate policies of the Federal Reserve Board; (14) inflation, interest rate, market and monetary fluctuations; (15) restrictions or limitations on access to funds from subsidiaries, thereby restricting our ability to make payments on our obligations or dividend payments; (16) the availability and cost of capital and liquidity; (17) the effect of the Emergency Economic Stabilization Act and other 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, including restrictions, limitations and/or penalties arising from banking, securities and insurance laws, regulations and examinations; (18) if the Treasury does not approve Synovus application to participate in the Capital Purchase Program, Synovus access to capital markets could be adversely impacted and could become more costly; (19) the costs and effects of litigation, investigations or similar matters, or adverse facts and developments related thereto, including, without limitation, the pending litigation with CompuCredit Corporation relating to CB&T s Affinity Agreement with CompuCredit; (20) the volatility of our stock price; and (21) the actual results achieved by our implementation of Project Optimus, and the risk that we may not achieve the anticipated cost savings and revenue increases from this initiative; (22) other factors and other information contained in this document and in other reports and filings that Synovus makes with the SEC under the Exchange Act.

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 statement to reflect events or circumstances after the date on which the statement is made to reflect the occurrence of new information or unanticipated events, except as may otherwise be required by law.

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Executive Summary

The following financial review provides a discussion of Synovus financial condition, changes in financial condition, and results of operations.

Industry Overview

The first nine months of 2008 have been marked by challenging financial and credit markets, building on issues that began in the sub-prime mortgage market in the second half of 2007 and which led to declines in real estate and home values. Consumer confidence declined as rising costs fueled by unprecedented prices for crude oil have paralleled the downturns in housing and mortgage related financial services. The supply of housing has surged as new and existing home sales declined sharply and foreclosures reached record levels. These events have manifested in significant volatility in equity and capital markets over the past few months.

The Federal Reserve Bank (Federal Reserve) responded, lowering the federal funds rate by 200 basis points in the first quarter, 25 basis points in the second quarter and another 100 basis points in October 2008.

In addition, various agencies of the United States government proposed a number of initiatives to stabilize the global economy and financial markets. On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (EESA). The legislation was the result of a proposal by the U.S. Department of Treasury (Treasury) in response to the financial crises affecting the banking system and financial markets and threats to investment banks and other financial institutions. Pursuant to the EESA, the Treasury will have the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. On October 14, 2008, the Treasury announced a program under the EESA pursuant to which it would make senior preferred stock investments in participating financial institutions (TARP Capital Purchase Program). On October 14, 2008, the Federal Deposit Insurance Corporation announced the development of a guarantee program under the systemic risk exception to the Federal Deposit Act pursuant to which the FDIC would offer a guarantee of certain financial institution indebtedness in exchange for an insurance premium to be paid to the FDIC by issuing financial institutions. There can be no assurance as to the actual impact of the EESA, the FDIC programs or any other governmental program will have on the financial markets.

The economic environment for the financial services industry as a whole has been affected in a variety of ways, as evidenced by heightened levels of credit losses, declining value of real property as collateral for loans, record levels of non-performing assets, charge-offs and foreclosures. These factors have negatively influenced earning asset yields, while the market for deposits has become intensely competitive. As a result, financial institutions have experienced pressure on credit costs, loan yields, deposit and other borrowing costs, liquidity, and capital.

About Our Business

Synovus is a financial services holding company, based in Columbus, Georgia, with approximately $34 billion in assets. Synovus provides integrated financial services including

banking, financial management, insurance, mortgage, and leasing services through 32 wholly-owned subsidiary banks and other Synovus offices in Georgia, Alabama, South Carolina, Tennessee, and Florida. At September 30, 2008, our banks ranged in size from $211.1 million to $5.32 billion in total assets.

Subsequent Events Impacting Results of Operations

On October 23, 2008, Synovus reported results of operations for the three and nine months ended September 30, 2008. In the press release announcing these financial results, Synovus also disclosed two matters still under evaluation which could have an impact on the results of operations for the periods presented completion of the Step 2 testing for Synovus annual goodwill impairment evaluation and the impact on Synovus of Visa Inc. s announced settlement of its litigation with Discover. Subsequent to the issuance of the press release, Synovus completed its evaluation of these matters and determined that the results of operations previously reported should be revised. Accordingly, Synovus recognized an additional $9.9 million (pre-tax and after-tax) non-cash charge for impairment of goodwill during the three months ended September 30, 2008. Synovus also increased the accrued liability for its membership proportion of the Discover settlement by $6.3 million. These adjustments resulted in a decrease in net income for the nine months ended September 30, 2008 and an increase in the net loss for the three months ended September 30, 2008 of $13.2 million, and resulted in a change in earnings per share of $0.04 for the nine and three months ended September 30, 2008, as compared to the results originally reported on October 23, 2008. These items are discussed in detail below and in Notes 14 and 16 to the unaudited consolidated financial statements in this report.

Our Key Financial Performance Indicators

In terms of how we measure success in our business, the following are our key financial performance indicators:

- Loan Growth
- Core Deposit Growth
- Net Interest Margin
- Credit Quality
- Fee Income Growth
- Expense Management
- Capital Strength
- Liquidity

Financial Performance Summary

- Net income (loss): ($40.1) million, down 148.0%, and $53.0 million, down 81.7%, for the three and nine months ended September 30, 2008, respectively, as compared to income from continuing operations for the prior year periods.
- Goodwill impairment: $36.9 million, or $0.11 per diluted share, for the nine months ended September 30, 2008. Goodwill impairment is a non-cash charge and has no impact on Synovus tangible capital levels, regulatory capital ratios or on liquidity since goodwill is already excluded from these measures.
- Earnings (loss) per share: ($0.12) for the three months ended September 30, 2008 and diluted earnings per share (EPS) of $0.16 for the nine months ended September 30, 2008, down 129.8% and 88.1%, respectively, from EPS from continuing operations for the same periods a year ago.

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Net interest margin: 3.42% and 3.57% for the three and nine months ended September 30, 2008, respectively, as compared to 3.97% and 4.01%, respectively, for the same periods in 2007.

Loan growth: 7.3% increase from September 30, 2007, 5.8% annualized increase from December 31, 2007, and 2.9% annualized sequential quarter growth.

Credit quality:

Non-performing assets ratio of 3.58%, compared to 3.00% at June 30, 2008 and 1.67% at December 31, 2007 (11 basis points of the sequential quarter increase was related to the Atlanta market).

Provision expense of $151.4 million and $336.0 million for the three and nine months ended September 30, 2008, respectively, as compared to $58.8 million and $99.6 million for the same periods in 2007. (Provision expense for the three and nine months ended September 30, 2008 includes $40.0 million resulting from a reassessment of Synovus largest lending relationships, representing approximately 14% of the total loan portfolio).

Past dues over 90 days and still accruing interest as a percentage of total loans of 0.18%, compared to 0.14% at June 30, 2008 and 0.13% at December 31, 2007.

Total past dues over 30 days and still accruing interest as a percentage of total loans of 1.46% compared to 1.33% at June 30, 2008 and 1.02% at December 31, 2007.

Net charge-off ratio of 1.53% and 1.18% for the three and nine months ended September 30, 2008, respectively, compared to 0.51% and 0.30% for the same periods in the prior year.

Core deposits (total deposits less brokered deposits): up 1.7% compared to September 30, 2007, and 4.3% annualized sequential quarter growth.

Non-interest income: down 6.8% for the three months ended September 30, 2008 and up 19.5% for the nine months ended September 30, 2008 compared to the corresponding periods in the prior year (up 0.6% for the nine months ended September 30, 2008 excluding the gain from redemption of Visa shares and sale of MasterCard shares).

Non-interest expense: up 29.5% for the three months ended September 30, 2008 and 22.7% for the nine months ended September 30, 2008 compared to the corresponding periods in the prior year (up 18.6% for the nine months ended September 30, 2008 excluding the goodwill impairment charge, restructuring charges and Visa litigation expense (recovery), net).

Shareholders equity: $3.38 billion at September 30, 2008, or 9.84% of assets. The Tier I Capital Ratio was 8.81%, the Total Risk-Based Capital Ratio was 12.20%, and the Tangible Common Equity to Tangible Assets Ratio was 8.49%.

Synovus recognized restructuring charges of $9.0 million and $13.3 million for the three and nine months ended September 30, 2008 in connection with its implementation of Project Optimus.

During the three months ended September 30, 2008, Synovus recognized an additional $6.3 million litigation expense in conjunction with Visa s settlement of litigation with Discover.

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Critical Accounting Policies

The accounting and financial reporting policies of Synovus conform to U.S. generally accepted accounting principles and to general practices within the banking industry. Synovus has identified certain of its accounting policies as critical accounting policies. In determining which accounting policies are critical in nature, Synovus has identified the policies that require significant judgment or involve complex estimates. The application of these policies has a significant impact on Synovus financial statements. Synovus financial results could differ significantly if different judgments or estimates are applied in the application of these policies.

Allowance for Loan Losses

Notes 1 and 6 to the consolidated financial statements in Synovus 2007 annual report contain a discussion of the allowance for loan losses. The allowance for loan losses at September 30, 2008 was $463.8 million.

The allowance for loan losses is determined based on an analysis which assesses the probable loss within the loan portfolio. The allowance for loan losses consists of two components: the allocated and unallocated allowances. Both components of the allowance are available to cover inherent losses in the portfolio. Significant judgments or estimates made in the determination of the allowance for loan losses consist of the risk ratings for loans in the commercial loan portfolio, the valuation of the collateral for loans that are classified as collateral-dependent impaired loans, and the loss factors.

Commercial Loans Risk Ratings and Expected Loss Factors

Commercial loans are assigned a risk rating on a nine point scale. For commercial loans that are not considered impaired, the allocated allowance for loan losses is determined based upon the expected loss percentage factors that correspond to each risk rating.

The risk ratings are based on the borrowers credit risk profile, considering factors such as debt service history and capacity, inherent risk in the credit (e.g., based on industry type and source of repayment), and collateral position. Ratings 6 through 9 are modeled after the bank regulatory classifications of special mention, substandard, doubtful, and loss. Expected loss percentage factors are based on the probable loss including qualitative factors. The probable loss considers the probability of default, the loss given default, and certain qualitative factors as determined by loan category and risk rating. The probability of default and loss given default are based on industry data. Industry data will continue to be used until sufficient internal data becomes available. The qualitative factors consider credit concentrations, recent levels and trends in delinquencies and nonaccrual loans, and growth in the loan portfolio. The occurrence of certain events could result in changes to the expected loss factors. Accordingly, these expected loss factors are reviewed periodically and modified as necessary.

Each loan is assigned a risk rating during the approval process. This process begins with a rating recommendation from the loan officer responsible for originating the loan. The rating recommendation is subject to approvals from other members of management and/or loan committees depending on the size and type of credit. Ratings are re-evaluated on a quarterly basis. Additionally, an independent holding company credit review function evaluates each bank s risk rating process at least every twelve to eighteen months.

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Impaired Loans

Management considers a loan to be impaired when the ultimate collectibility of all amounts due according to the contractual terms of the loan agreement are in doubt. A majority of our impaired loans are collateral-dependent. The net carrying amount of collateral-dependent impaired loans is equal to the lower of the loans principal balance or the fair value of the collateral (less estimated costs to sell) not only at the date at which impairment is initially recognized, but also at each subsequent reporting period. Accordingly, our policy requires that we update the fair value of the collateral securing collateral-dependent impaired loans each calendar quarter. Impaired loans, not including impaired loans held for sale, had a net carrying value of $617.2 million at September 30, 2008. Most of these loans are secured by real estate, with the majority classified as collateral-dependent loans. The fair value of the real estate securing these loans is generally determined based upon appraisals performed by a certified or licensed appraiser. Management also considers other factors or recent developments which could result in adjustments to the collateral value estimates indicated in the appraisals.

Estimated losses on collateral-dependent impaired loans are typically charged-off. At September 30, 2008, $540.7 million, or 70.2%, of non-performing loans consisted of collateral-dependent impaired loans for which there is no allowance for loan losses as the estimated losses have been charged-off. These loans are recorded at the lower of cost or estimated fair value of the underlying collateral net of selling costs. However, if a collateral-dependent loan is placed on impaired status at or near the end of a calendar quarter, management records an allowance for loan losses based on the loan s risk rating while an updated appraisal is being obtained. At September 30, 2008, Synovus had $76.6 million in collateral-dependent impaired loans with a recorded allocated allowance for loan losses of $13.3 million, or 17.4% of the principal balance. The estimated losses on these loans will be recorded as a charge-off during the fourth quarter of 2008 after the receipt of a current appraisal or fair value estimate based on current market conditions, including absorption rates. Management does not expect a material difference between the current allocated allowance on these loans and the actual charge-off.

Retail Loans Expected Loss Factors

The allocated allowance for loan losses for retail loans is generally determined by segregating the retail loan portfolio into pools of homogeneous loan categories. Expected loss factors applied to these pools are based on the probable loss including qualitative factors. The probable loss considers the probability of default, the loss given default, and certain qualitative factors as determined by loan category and risk rating. Through December 31, 2007, the probability of default loss factors were based on industry data. Beginning January 1, 2008, the probability of default loss factors are based on internal default experience because this was the first reporting period when sufficient internal default data became available. Synovus believes that this data provides a more accurate estimate of probability of default considering the lower inherent risk of the retail portfolio and lower than expected charge-offs. This change resulted in a reduction in the allocated allowance for loan losses for the retail portfolio of approximately $19 million during the three months ended March 31, 2008. The loss given default factors continue to be based on industry data because sufficient internal data is not yet available. The qualitative factors consider credit concentrations, recent levels and trends in delinquencies and nonaccrual loans, and growth in the loan portfolio. The occurrence of certain events could result in changes to the loss factors. Accordingly, these loss factors are reviewed periodically and modified as necessary.

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Unallocated Component

The unallocated component of the allowance for loan losses is considered necessary to provide for certain environmental and economic factors that affect the probable loss inherent in the entire loan portfolio. Unallocated loss factors included in the determination of the unallocated allowance are economic factors, changes in the experience, ability, and depth of lending management and staff, and changes in lending policies and procedures, including underwriting standards. Certain macro- economic factors and changes in business conditions and developments could have a material impact on the collectibility of the overall portfolio. As an example, a rapidly rising interest rate environment could have a material impact on certain borrowers ability to pay. The unallocated component is meant to cover such risks.

Income Taxes

Note 17 to the consolidated financial statements in Synovus 2007 Annual Report contains a discussion of income taxes. The calculation of Synovus income tax provision is complex and requires the use of estimates and judgments in its determination. As part of Synovus overall business strategy, management must consider tax laws and regulations that apply to the specific facts and circumstances under consideration. This analysis includes the amount and timing of the realization of income tax liabilities or benefits. Management closely monitors tax developments on both the state and federal level in order to evaluate the effect they may have on Synovus overall tax position. Synovus had a net accrual of $5.7 million for unrecognized tax benefits. At September 30, 2008, Synovus concluded that it did not need a valuation allowance for its deferred income tax assets.

Asset Impairment

Goodwill

Under SFAS No. 142, Goodwill and Other Intangible Assets, (SFAS No. 142) goodwill is required to be tested for impairment annually, or more frequently if events or circumstances indicate that there may be impairment. The combination of the income approach utilizing the discounted cash flow (DCF) method, the public company comparables approach, utilizing multiples of tangible book value, and the transaction approach, utilizing readily available market valuation multiples for closed transactions, is used to estimate the fair value of a reporting unit. Impairment is tested at the reporting unit (sub-segment) level involving two steps. Step 1 compares the fair value of the reporting unit to its carrying value. If the fair value is greater than carrying value, there is no indication of impairment. Step 2 is performed when the fair value determined in Step 1 is less than the carrying value. Step 2 involves a process similar to business combination accounting where fair values are assigned to all assets, liabilities, and intangibles. The result of Step 2 is the implied fair value of goodwill. If the Step 2 implied fair value of goodwill is less than the recorded goodwill, an impairment charge is recorded for the difference. The total of all reporting unit fair values is compared for reasonableness to Synovus market capitalization plus a control premium.

Goodwill at September 30, 2008 and December 31, 2007 was $482.3 million and $519.1 million, respectively. During the three months ended June 30, 2008, Synovus conducted its annual goodwill impairment evaluation. As a result of this evaluation, Synovus recognized a preliminary non-cash charge for impairment of goodwill on one of its reporting units of $27.0 million (pre-tax and after-tax) during the three months ended June 30, 2008 and recognized an

additional $9.9 million (pre-tax and after-tax) non-cash charge for impairment of goodwill during the three months ended September 30, 2008 upon finalization of the Step 2 calculation. The impairment charge was primarily related to a decrease in valuation based on market trading and transaction multiples of tangible book value.

An extended period of future significant deterioration in credit and financial markets could result in additional impairment of Synovus goodwill.

Long-Lived Assets and Other Intangibles

Synovus reviews long-lived assets, such as property and equipment and other intangibles subject to amortization, including core deposit premiums and customer relationships, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the actual cash flows are not consistent with Synovus estimates, an impairment charge may result.

Investment Securities Available for Sale

Synovus assesses its available-for-sale investment security portfolio on a quarterly basis to determine whether investments in an unrealized loss position have been impacted by events or economic circumstances which may indicate that an unrealized loss is other-than-temporary. Synovus considers many factors, including the severity and duration of the impairment; Synovus intent and ability to hold the security for a period of time sufficient for a recovery in value; recent events specific to the issuer or industry; and external credit ratings and recent downgrades. Securities for which an unrealized loss is determined to be other-than-temporary are written down to fair value, establishing a new cost basis, with the write-down recognized in the consolidated statement of income.

Other Real Estate

Other real estate, consisting of properties obtained through foreclosure or in satisfaction of loans, is reported at the lower of cost or fair value, determined on the basis of current appraisals, comparable sales, and other estimates of value obtained principally from independent sources, adjusted for estimated selling costs. At the time of foreclosure, any excess of the loan balance over the fair value of the real estate held as collateral is recorded as a charge against the allowance for loan losses. Gains or losses on sale and any subsequent adjustments to the value are recorded as a component of non-interest expense.

Significant judgments and estimates are required in determining the fair value of other real estate, including, among other considerations, evaluation of market activity, comparable sales, absorption rates, and for commercial properties, market capitalization rates.

Discontinued Operations

Refer to Note 13 to the consolidated financial statements (unaudited) as of and for the three and nine months ended September 30, 2008 for a discussion of discontinued operations.

Restructuring Charges

Project Optimus, launched in April 2008, is a team member-driven effort to create an enhanced banking experience for our customers and a more efficient organization that delivers greater value for Synovus shareholders. As a result of this process, Synovus plans to implement ideas over the next twenty four months which are expected to increase annual pre-tax earnings by approximately $75 million consisting primarily of $50 million in efficiency gains and approximately $25 million in earnings from new revenue growth initiatives. Revenue growth is expected primarily through new sales initiatives, improved product offerings and customer acquisition programs. While cost savings are expected to be generated primarily through increased process efficiencies and streamlining of support functions. As a result of these efforts, Synovus expects to eliminate approximately 650 positions over the next 24 months.

Additionally, Synovus expects to incur restructuring charges of approximately $22.0 million in conjunction with the project, including approximately $10.9 million in severance charges. During the three months ended September 30, 2008, Synovus recognized $9.0 million in restructuring charges including $1.6 million in severance charges, and during the nine months ended September 30, 2008, Synovus recognized a total of $13.3 million in restructuring charges including $2.4 million in severance charges. Synovus estimates it will incur approximately $3.0 million in restructuring charges during the fourth quarter of 2008, consisting primarily of severance charges.

Visa, Inc. Initial Public Offering and Litigation Expense

Visa, Inc. completed an initial public offering (the Visa IPO) in March 2008. Visa used a portion of the proceeds from the Visa IPO to establish a $3.0 billion escrow for settlement of covered litigation and used substantially all of the remaining portion to redeem class B and class C shares held by Visa issuing members. On October 14, 2008, Visa announced that it had reached a settlement in principle in litigation brought against Visa in 2004 by Discover Financial Services

(Discover). During the three months ended March 31, 2008, Synovus recognized a pre-tax gain of $38.5 million on redemption proceeds received from Visa, Inc. and reduced the $36.8 million litigation accrual recognized in the second half of 2007 by $17.4 million for its pro-rata share of the $3.0 billion escrow established by Visa, Inc. During the three months ended September 30, 2008, Synovus recognized an additional $6.3 million accrued liability in conjunction with Visa s settlement of the Discover litigation. For the nine months ended September 30, 2008, the redemption of shares and changes to the accrued liability for Visa litigation resulted in a net after-tax gain of $30.3 million, or $0.09 per diluted share.

At September 30, 2008, Synovus accrual for the aggregate amount of Visa s covered litigation was $25.7 million. While management believes that this accrual is adequate to cover our membership proportion of Visa s covered litigation based on current information, additional adjustments may be required if the aggregate amount of future settlements differs materially from Synovus estimate.

Visa has notified its members that it plans to fund its litigation escrow with an additional $1.1 billion during the three months ended December 31, 2008. This will be accomplished through the repurchase by Visa of a portion of its Class B shares held by Visa members. Upon Visa's deposit of the planned amount of repurchase proceeds to the litigation escrow, Synovus expects to reduce its accrued liability by approximately $6.3 million in the fourth quarter of 2008.

Balance Sheet

During the first nine months of 2008, total assets increased $1.32 billion. The more significant increases consisted of loans, net of unearned income, up $1.15 billion, Federal funds sold and securities purchased under resale agreements, up $193.5 million, and investment securities available for sale, up $164.2 million.

The balance sheet growth during the first nine months of 2008 was funded through increases in brokered deposits of $2.42 billion, core deposits of $467.0 million, and Federal Home Loan Bank advances (a component of long-term debt) of $228.4 million, which were offset by a decrease in Federal funds purchased of $1.64 billion.

Adoption of SFAS Nos. 157 and 159

SFAS No. 157 establishes a framework for measuring fair value in accordance with U.S. GAAP, clarifies the definition of fair value within that framework, and expands disclosures about the use of fair value measurements. SFAS No. 159 permits entities to make an irrevocable election, at specified election dates, to measure eligible financial instruments and certain other items at fair value. Fair value is used on a recurring basis for certain assets and liabilities in which fair value is the primary basis of accounting. Fair value is used on a non-recurring basis for collateral-dependent impaired loans. Examples of recurring use of fair value include trading account assets, mortgage loans held for sale, investment securities available for sale, private equity investments, derivative instruments, and trading account liabilities. The extent to which fair value is used on a recurring basis was expanded upon the adoption of SFAS No. 159 during the first quarter, effective on January 1, 2008. At September 30, 2008, approximately $4.84 billion, or 14.1%, of total assets were recorded at fair value, which includes items measured on a recurring and non-recurring basis.

Fair value is the price that could be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value determination in accordance with SFAS No. 157 requires that a number of significant judgments be made. The standard also establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Synovus has an established and well-documented process for determining fair values and fair value hierarchy classifications. Fair value is based upon quoted market prices, where available (Level 1). Where prices for identical assets and liabilities are not available, SFAS No. 157 requires that similar

assets and liabilities are identified (Level 2). If observable market prices are unavailable or impracticable to obtain, or similar assets cannot be identified, then fair value is estimated using internally-developed valuation modeling techniques such as discounted cash flow analyses that primarily use as inputs market-based or independently sourced market parameters (Level 3). These modeling techniques incorporate assessments regarding assumptions that market participants would use in pricing the asset or the liability. The assessments with respect to assumptions that market participants would make are inherently difficult to determine and use of different assumptions could result in material changes to these fair value measurements.
The following table summarizes the assets accounted for at fair value on a recurring basis by level within the valuation hierarchy at September 30, 2008.

	September 30, 2008					
(dollars in millions)	**Trading account assets**	**Mortgage loans held for sale**	**Investment securities available for sale**	**Private equity investments**	**Derivative assets**	**Total**
Level 1	55%				6	%
Level 2	45	100	96		94	95
Level 3			4	100		5
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Total assets held at fair value on the balance sheet	$101.9	$105.1	$3,831.1	$ 78.7	$123.0	$4,239.8
Level 3 assets as a percentage of total assets measured at fair value						5.07%

The following table summarizes the liabilities accounted for at fair value on a recurring basis by level within the valuation hierarchy at September 30, 2008.

	September 30, 2008			
(dollars in millions)	**Brokered certificates of deposit**	**Trading account liabilities**	**Derivative liabilities**	**Total**
Level 1	%		10	4%
Level 2	100	100	90	96
Level 3				
Total	**100%**	**100%**	**100%**	**100%**
Total liabilities held at fair value on the balance sheet	$90.4	$ 10.2	$73.2	$173.8
Level 3 liabilities as a percentage of total liabilities				%

measured at fair value
In estimating the fair values for investment securities and most derivative financial instruments, independent, third-party market prices are the best evidence of exit price and, where available, Synovus bases estimates on such prices. If such third-party market prices are not available on the exact securities that Synovus owns, fair values are based on the market prices of similar instruments, third-party broker quotes, or are estimated using industry-standard or proprietary models whose inputs may be unobservable. When market observable data is not available, the valuation of financial instruments becomes more subjective and involves substantial judgment. The need to use unobservable inputs generally results from the lack of market liquidity for certain types of loans and securities, which results in diminished observability of both actual trades and assumptions that would otherwise be available to value these instruments. When fair

values are estimated based on internal models, relevant market indices that correlate to the underlying collateral are considered, along with assumptions such as interest rates, prepayment speeds, default rates, and discount rates.
The valuation for mortgage loans held for sale (MLHFS) is based upon forward settlement of a pool of loans of identical coupon, maturity, product, and credit attributes. The model is continuously updated with available market and historical data. The valuation methodology of nonpublic private equity investments requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity, and the long-term nature of such assets. Private equity investments are valued initially based upon transaction price. Thereafter, Synovus uses information provided by the fund managers in the initial determination of estimated fair value. Valuation factors such as recent or proposed purchase or sale of debt or equity of the issuer, pricing by other dealers in similar securities, size of position held, liquidity of the market and changes in economic conditions affecting the issuer are used in the final determination of estimated fair value.
Valuation methodologies are reviewed each quarter to ensure that fair value estimates are appropriate. Any changes to the valuation methodologies are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more or less transparent, Synovus continues to refine its valuation methodologies. For a detailed discussion of valuation methodologies, refer to Note 10 to the consolidated financial statements (unaudited) as of and for the three and nine months ended September 30, 2008.

Trading Account Assets

Synovus assists certain commercial customers in obtaining long-term funding through municipal and corporate bond issues and in certain situations provides re-marketing services for those bonds. During September Synovus made the decision to purchase approximately $55.8 million in corporate bonds and $25.1 million in municipal bonds that were sold back prior to their maturity and could immediately be remarketed, all of which were included in $101.9 million of trading account assets portfolio as of September 30, 2008. Subsequently, Synovus has tendered these bonds back to the respective trustees. The remainder of the trading account assets portfolio is substantially comprised of mortgage-backed securities which are bought and held principally for sale and delivery to correspondent and retail customers of Synovus. Trading account assets are reported on