SYNOVUS FINANCIAL CORP
Form 10-Q
November 09, 2006

Table of Contents

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, 2006
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) 649-2401
(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 or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12B-2 of the Exchange Act.

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer 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, 2006
Common Stock, $1.00 Par Value	324,982,277 shares

Table of Contents

SYNOVUS FINANCIAL CORP.
INDEX

Table of Contents

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

(In thousands, except share data)	**September 30, 2006**	December 31, 2005
ASSETS		
Cash and due from banks	**$ 790,602**	880,886
Interest earning deposits with banks	**17,444**	2,980
Federal funds sold and securities purchased under resale agreements	**308,300**	68,922
Trading account assets	**15,031**	27,322
Mortgage loans held for sale	**158,690**	143,144
Investment securities available for sale	**3,269,889**	2,958,320
Loans, net of unearned income	**24,192,596**	21,392,347
Allowance for loan losses	**(319,973)**	(289,612)
Loans, net	**23,872,623**	21,102,735
Premises and equipment, net	**723,974**	669,425
Contract acquisition costs and computer software, net	**403,702**	431,849
Goodwill, net	**681,720**	458,382
Other intangible assets, net	**50,900**	44,867
Other assets	**1,052,007**	831,840
Total assets	**$ 31,344,882**	27,620,672
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing retail and commercial deposits	**$ 3,659,629**	3,700,750
Interest bearing retail and commercial deposits	**17,103,778**	14,798,845
Total retail and commercial deposits	**20,763,407**	18,499,595
Brokered time deposits	**3,199,157**	2,284,770
Total deposits	**23,962,564**	20,784,365
Federal funds purchased and securities sold under repurchase agreements	**1,582,037**	1,158,669
Long-term debt	**1,363,519**	1,933,638
Other liabilities	**654,742**	597,698
Total liabilities	**27,562,862**	24,474,370

Minority interest in consolidated subsidiaries	**218,073**	196,973
Shareholders equity:		
Common stock $1.00 par value. Authorized 600,000,000 shares; issued 330,473,586 in 2006 and 318,301,275 in 2005; outstanding 324,812,048 in 2006 and 312,639,737 in 2005	**330,474**	318,301
Surplus	**1,009,976**	686,447
Treasury stock 5,661,538 shares in 2006 and 2005	**(113,944)**	(113,944)
Unearned compensation		(3,126)
Accumulated other comprehensive loss	**(7,519)**	(29,536)
Retained earnings	**2,344,960**	2,091,187
Total shareholders equity	**3,563,947**	2,949,329
Total liabilities and shareholders equity	**$ 31,344,882**	27,620,672

See accompanying Notes to Consolidated Financial Statements.

3

Table of Contents

SYNOVUS FINANCIAL CORP.
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
(In thousands, except per share data)	**2006**	2005	**2006**	2005
Interest income:				
Loans, including fees	**$ 1,357,044**	988,474	**493,083**	355,574
Investment securities	**100,144**	79,929	**35,624**	27,194
Trading account assets	**2,104**	185	**720**	185
Mortgage loans held for sale	**6,393**	5,333	**2,119**	2,241
Federal funds sold and securities purchased under resale agreements	**4,949**	2,859	**2,002**	1,160
Interest earning deposits with banks	**202**	113	**81**	58
Total interest income	**1,470,836**	1,076,893	**533,629**	386,412
Interest expense:				
Deposits	**518,491**	281,689	**206,320**	110,772
Federal funds purchased and securities sold under repurchase agreements	**55,942**	22,756	**18,780**	5,252
Long-term debt	**54,162**	63,696	**15,927**	25,563
Total interest expense	**628,594**	368,141	**241,027**	141,587
Net interest income	**842,242**	708,752	**292,602**	244,825
Provision for losses on loans	**56,473**	61,745	**18,390**	19,639
Net interest income after provision for losses on loans	**785,769**	647,007	**274,212**	225,186
Non-interest income:				
Electronic payment processing services	**683,499**	644,070	**231,753**	223,123
Merchant acquiring services	**195,318**	170,009	**65,548**	74,208
Other transaction processing services revenue	**136,401**	137,868	**44,812**	44,030
Service charges on deposit accounts	**85,983**	83,593	**29,860**	28,598
Fiduciary and asset management fees	**35,090**	33,342	**11,868**	11,167
Brokerage and investment banking revenue	**20,009**	17,871	**6,502**	5,801
Mortgage banking income	**22,419**	21,604	**8,440**	8,276
Bankcard fees	**32,921**	27,406	**11,394**	9,713
Securities gains (losses), net	**(2,118)**	598	**(982)**	
Other fee income	**28,667**	23,537	**9,679**	8,217
Other operating income	**28,309**	28,905	**9,878**	12,599
Non-interest income before reimbursable items	**1,266,498**	1,188,803	**428,752**	425,732
Reimbursable items	**267,825**	227,975	**99,187**	79,644
Total non-interest income	**1,534,323**	1,416,778	**527,939**	505,376

Non-interest expense:				
Salaries and other personnel expense	**717,825**	612,120	**256,220**	213,695
Net occupancy and equipment expense	**297,700**	274,245	**100,504**	98,772
Other operating expenses	**314,518**	315,922	**98,994**	113,300
Non-interest expense before reimbursable items	**1,330,043**	1,202,287	**455,718**	425,767
Reimbursable items	**267,825**	227,975	**99,187**	79,644
Total non-interest expense	**1,597,868**	1,430,262	**554,905**	505,411
Minority interest in subsidiaries net income	**31,311**	27,810	**10,406**	9,306
Income before income taxes	**690,913**	605,713	**236,840**	215,845
Income tax expense	**249,543**	226,527	**82,774**	81,853
Net income	**$ 441,370**	379,186	**154,066**	133,992
Net income per share:				
Basic	**$ 1.38**	1.22	**0.48**	0.43
Diluted	**1.37**	1.20	**0.47**	0.43
Weighted average shares outstanding:				
Basic	**320,063**	311,204	**323,657**	311,842
Diluted	**322,860**	314,648	**326,834**	315,336
Dividends declared per share	**$ 0.59**	0.55	**0.20**	0.18

See accompanying Notes to Consolidated Financial Statements.

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

(In thousands, except per share data)	Shares Issued	Common Stock	Surplus	Treasury Stock	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2004	315,636	$ 315,636	628,396	(113,944)	(106)	8,903	1,802,404	2,641,289
Net Income							379,186	379,186
Other comprehensive income, net of tax:								
Net unrealized gain on cash flow hedges						789		789
Change in unrealized gains (losses) on investment securities available for sale, net of reclassification adjustment						(18,125)		(18,125)
Loss on foreign currency translation						(6,230)		(6,230)
Other comprehensive income						(23,566)		(23,566)
Comprehensive income								355,620
Cash dividends declared $0.55 per share							(170,607)	(170,607)
Issuance of non-vested stock	130	130	3,346		(3,476)			
Stock-based compensation expense					989			989
Stock options exercised	2,171	2,171	34,760					36,931
Stock option tax benefit			8,898					8,898
Ownership change at majority-owned subsidiary			1,560					1,560
Issuance of common stock for acquisitions	8	8	218					226
Balance at September 30, 2005	317,945	$ 317,945	677,178	(113,944)	(2,593)	(14,663)	2,010,983	2,874,906
Balance at December 31, 2005	**318,301**	**$ 318,301**	**686,447**	**(113,944)**	**(3,126)**	**(29,536)**	**2,091,187**	**2,949,329**
Net Income							**441,370**	**441,370**
Other comprehensive income, net of tax:								
Net unrealized gain on cash flow hedges						**4,098**		**4,098**
Change in unrealized gains (losses) on investment securities						**9,148**		**9,148**

available for sale, net of reclassification adjustment								
Gain on foreign currency translation						**8,771**		**8,771**
Other comprehensive income						**22,017**		**22,017**
Comprehensive income								**463,387**
Cash dividends declared $0.59 per share							**(187,597)**	**(187,597)**
Reclassification of unearned compensation to surplus upon adoption of SFAS 123(R)			**(3,126)**		**3,126**			
Issuance of non-vested stock	**601**	**601**	**(601)**					
Stock-based compensation expense			**17,320**					**17,320**
Stock options exercised	**2,728**	**2,728**	**48,670**					**51,398**
Stock option tax benefit			**8,156**					**8,156**
Ownership change at majority-owned subsidiary			**5,611**					**5,611**
Issuance of common stock for acquisitions	**8,844**	**8,844**	**247,499**					**256,343**
Balance at September 30, 2006	**330,474**	**$ 330,474**	**1,009,976**	**(113,944)**		**(7,519)**	**2,344,960**	**3,563,947**

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

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

	Nine months Ended September 30,	
(In thousands)	**2006**	2005
Cash flows from operating activities:		
Net income	$ **441,370**	379,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on loans	**56,473**	61,745
Depreciation, amortization and accretion, net	**169,316**	139,454
Increase in interest receivable	**(63,353)**	(22,470)
Increase in interest payable	**52,856**	16,705
Equity in income of joint ventures	**(3,703)**	(5,331)
Minority interest in subsidiaries net income	**31,311**	27,810
Decrease (increase) in trading account assets	**12,291**	(26,069)
Originations of mortgage loans held for sale	**(1,187,535)**	(1,105,608)
Proceeds from sales of mortgage loans held for sale	**1,172,112**	1,055,689
Increase in prepaid and other assets	**(81,856)**	(72,582)
Decrease in other liabilities	**(6,635)**	(50,917)
Impairment of developed software		3,619
Share-based compensation	**19,862**	1,713
(Decrease) increase in accrued salaries and employee benefits	**(23,739)**	5,794
Other, net	**(5,465)**	13,133
Net cash provided by operating activities	**583,305**	395,605
Cash flows from investing activities:		
Net cash paid for acquisitions	**(54,918)**	(56,983)
Net (increase) decrease in interest earning deposits with banks	**(14,464)**	1,643
Net increase in federal funds sold and securities purchased under resale agreements	**(234,596)**	(15,382)
Proceeds from maturities and principal collections of investment securities available for sale	**485,284**	557,533
Proceeds from sales of investment securities available for sale	**148,231**	40,188
Purchases of investment securities available for sale	**(803,546)**	(753,163)
Net increase in loans	**(2,035,079)**	(1,480,579)
Purchases of premises and equipment	**(96,437)**	(78,737)
Proceeds from disposal of premises and equipment	**311**	3,251
Increase in contract acquisition costs	**(39,578)**	(11,756)
Additions to licensed computer software from vendors	**(9,650)**	(10,049)
Additions to internally developed computer software	**(13,699)**	(17,435)
Net cash used by investing activities	**(2,668,141)**	(1,821,469)

Cash flows from financing activities:		
Net increase in demand and savings deposits	**664,968**	860,808
Net increase in certificates of deposit	**1,700,209**	840,934
Net increase (decrease) in federal funds purchased and securities sold under repurchase agreements	**370,629**	(327,475)
Principal repayments on long-term debt	**(658,858)**	(239,079)
Proceeds from issuance of long-term debt	**42,000**	620,249
Excess tax benefit from share-based payment arrangements	**7,530**	
Dividends paid to shareholders	**(181,318)**	(167,313)
Proceeds from issuance of common stock	**51,398**	36,931
Net cash provided by financing activities	**1,996,558**	1,625,055
Effect of exchange rate changes on cash and cash equivalent balances held in foreign currencies	**(2,006)**	(2,388)
(Decrease) increase in cash and due from banks	**(90,284)**	196,803
Cash and due from banks at beginning of period	**880,886**	683,035
Cash and due from banks at end of period	**$ 790,602**	879,838

See accompanying Notes to Consolidated Financial Statements.

6

Table of Contents

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 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 2005 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.

Note 2 Supplemental Cash Flow Information

For the nine months ended September 30, 2006 and 2005, Synovus paid income taxes (net of refunds received) of $314.2 million and $225.2 million, respectively. For the nine months ended September 30, 2006 and 2005, Synovus paid interest of $572.1 million and $347.6 million, respectively.

Non-cash investing activities consisted of loans of approximately $20.5 million and $12.4 million, which were foreclosed and transferred to other real estate during the nine months ended September 30, 2006 and 2005, respectively.

Significant non-cash items for the nine months ended September 30, 2006 related to the acquisition of Riverside Bancshares, Inc. and Banking Corporation of Florida consist of $811.8 million in net loans, $122.3 million in investment securities available for sale, $179.1 million in goodwill, and $813.0 million in deposits.

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, and gains (losses) on foreign currency translation. Comprehensive income consists of net income plus other comprehensive income (loss).

Table of Contents

Comprehensive income for the three months ended September 30, 2006 and 2005 is presented below:

(in thousands)	Three Months Ended September 30, 2006	2005
Comprehensive income:		
Net income	**$ 154,066**	133,992
Other comprehensive income (loss), net of tax:		
Change in net unrealized gains (losses) on cash flow hedges	**7,869**	(80)
Change in net unrealized gains/(losses) on investment securities available for sale, net of reclassification adjustment	**34,431**	(12,184)
Gains (losses) on foreign currency translation	**4,964**	(1,882)
Other comprehensive income (loss)	**47,264**	(14,146)
Comprehensive income	**$ 201,330**	119,846

Note 4 Derivative Instruments

Synovus accounts for its derivative financial instruments under Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. SFAS No. 133 requires recognition of all derivatives as either assets or liabilities on the balance sheet and requires measurement of those instruments at fair value through adjustments to either the hedged items, accumulated other comprehensive income, 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 risks. These derivative instruments consist primarily of interest rate swaps and commitments to sell mortgage loans. The interest rate lock commitments made to prospective mortgage loan customers also represent derivative instruments since it is intended that such loans will be sold.

Interest rate swap transactions generally involve the exchange of fixed-rate and floating-rate interest payment obligations without the exchange of the underlying notional amounts. Entering into interest rate contracts involves not only interest rate risk, but also the risk of counterparties failure to fulfill their legal obligations. Notional amounts often are used to express the volume of these transactions, but the amounts potentially subject to credit risk are much smaller.

A summary of interest rate swap contracts utilized for interest rate risk management at September 30, 2006 is shown in the following table.

		Weighted-Average					
(Dollars in thousands)	Notional Amount	Receive Rate	Pay Rate(*)	Maturity In Months	Unrealized Gains	Unrealized Losses	Net Unrealized Gains
Receive fixed swaps:							
Fair value hedges	$ 1,982,500	4.81%	5.09%	34	$ 25,443	(16,300)	9,143
Cash flow hedges	750,000	7.74%	8.25%	38	5,150	(2,447)	2,703
Total	$ 2,732,500	5.62%	5.96%	35	$ 30,593	(18,747)	11,846

(*)

Variable pay rate based upon contract rates in effect at September 30, 2006.

At September 30, 2006, outstanding commitments to sell mortgage loans amounted to approximately $156.1 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 mortgage loans for

Table of Contents

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, 2006 was an unrealized loss of $1.1 million.

At September 30, 2006, Synovus had commitments to fund fixed-rate mortgage loans to customers in the amount of $111.2 million. The fair value of these commitments at September 30, 2006 was an unrealized gain of $7,000.

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, 2006, the notional amount of customer related interest rate derivative financial instruments was $1.90 billion.

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, 2006, the notional amount of customer related equity derivative financial instruments was $19.8 million.

Note 5 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, 2006, Synovus had a total of 3,575,599 shares of its authorized but unissued common stock reserved for future grants under three long-term incentive plans. 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, and stock appreciation rights. These plans include vesting periods ranging from two to three years and contractual terms ranging from five to ten years. Stock options are granted at exercise prices which equal the fair market value of a share of common stock on the grant-date. Synovus historically issues new shares to satisfy share option exercises.

Stock options granted in 2006 generally become exercisable over a three-year period, with one-third of the total grant amount vesting on each anniversary of the grant-date, and expire ten years from the date of grant. Vesting for stock options granted during 2006 accelerates upon retirement for plan participants who have reached age 62 and who also have no less than fifteen years of service at the date of their election to retire. For stock options granted in 2006, 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.

Stock options granted prior to 2006 generally become exercisable at the end of a two to three-year vesting period and expire ten years from the date of grant. Vesting for stock options granted prior to 2006 accelerates upon retirement for plan participants who have reached age 50 and who also have no less than fifteen years of service at the date of their election to retire. Prior to adoption of SFAS No. 123R, Share-Based Payment, on January 1, 2006, share-based compensation expense was determined in Synovus pro forma disclosure over the nominal

Table of Contents

vesting period without consideration for retirement eligibility. Following adoption of SFAS No. 123R, share-based compensation expense for all new awards is recognized in income over the shorter of the vesting period or the period until reaching retirement eligibility.

Non-vested shares granted in 2006 vest over a three-year period, with one-third of the total grant amount vesting on each anniversary of the grant-date. For non-vested shares granted in 2006, share-based compensation expense is recognized for plan participants on a straight-line basis over the vesting period.

Accounting Policy

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award.

SFAS No. 123R is effective for all awards granted on or after January 1, 2006 and for awards modified, repurchased, or cancelled after that date. SFAS No. 123R requires that compensation cost be recognized on or after the effective date for the unvested portion of outstanding awards, as of the effective date, based on the grant-date fair value of those awards calculated under SFAS No. 123, Accounting for Stock-Based Compensation. Share-based compensation expenses include the impact of expensing the fair value of stock options as well as expenses associated with non-vested share awards. Synovus adopted the provisions of SFAS No. 123R effective January 1, 2006, using the modified prospective transition method.

Prior to 2006, Synovus applied the intrinsic-value based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, including FASB Interpretation (FIN) No. 44, Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB Opinion No. 25. Under this methodology, Synovus adopted the disclosure requirements of SFAS No. 123, and recognized compensation expense only if, on the date of grant, the market price of the underlying stock exceeded the exercise price. For all such awards granted, the market price of the underlying shares on the date of grant was equal to the exercise price.

Table of Contents

The following table illustrates the effect on net income and earnings per share for the nine and three months ended September 30, 2005 as if Synovus had applied the fair value recognition provisions of SFAS No. 123 to share-based employee compensation granted to purchase shares of Synovus stock.

(In thousands, except per share data)	**Nine Months Ended September 30, 2005**	**Three Months Ended September 30, 2005**
Net income as reported	$ 379,186	133,992
Add: Share-based employee compensation expense recognized, net of tax	948	333
Deduct: Total share-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(11,073)	(3,980)
Net income pro forma	$ 369,061	130,345
Earnings per share:		
Basic as reported	$ 1.22	0.43
Basic pro forma	1.19	0.42
Diluted as reported	1.20	0.43
Diluted pro forma	1.17	0.41

Prior to the adoption of SFAS No. 123R, Synovus elected to calculate compensation cost for purposes of pro forma disclosure assuming that all options would vest and reverse any recognized compensation costs for forfeited awards when the awards were actually forfeited. SFAS No. 123R requires that compensation cost be recognized net of estimated forfeitures. The estimate of forfeitures is adjusted as actual forfeitures differ from estimates, resulting in compensation cost only for those awards that actually vest. The effect of the change in estimated forfeitures is recognized as compensation cost in the period of the change in estimate. In estimating the forfeiture rate, Synovus stratified its grantees and used historical experience to determine separate forfeiture rates for the different award grants. Currently, Synovus estimates forfeiture rates for its grantees the range of 0% to 9%.

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 recognized in income is presented below:

	Nine Months Ended September 30,		**Three Months Ended September 30,**	
(in thousands)	**2006**	**2005**	**2006**	**2005**
Share-based compensation expense:				
Stock options	$ 15,836		4,488	
Non-vested shares	3,910	1,713	1,999	599
Total share-based compensation expense	$ 19,746	1,713	6,487	599

Additional compensation expense of $6.8 million and $2.2 million for the nine and three months ended September 30, 2006, respectively, would have been recognized in the preceding table had the policy under SFAS No. 123R with respect to retirement eligibility been applied to awards granted prior to January 1, 2006.

At September 30, 2006, there was total unrecognized compensation cost of approximately $38.2

Table of Contents

million related to the unvested portion of share-based compensation arrangements involving shares of Synovus stock, and approximately $3.8 million related to the unvested portion of share-based compensation arrangements involving shares of TSYS stock.

As stock options for the purchase of Synovus common stock are exercised and non-vested shares vest, Synovus recognizes a tax benefit which is recorded as a component of surplus within shareholders equity. Synovus recognized such tax benefits in the amount of $8.2 million and $8.9 million for the nine months ended September 30, 2006 and 2005, respectively, and $2.9 million and $2.6 million for the three months ended September 30, 2006 and 2005, respectively.

Stock Option Awards

The weighted-average grant-date fair value of stock options granted to key Synovus employees during the nine months ended September 30, 2006 and 2005 was $6.40 and $7.06, respectively. There were no grants of stock options during the three months ended September 30, 2006 or 2005. The fair value of the option grants was determined using the Black-Scholes-Merton option-pricing model with the following weighted-average assumptions:

	Nine Months Ended September 30, 2006	2005
Risk-free interest rate	4.47%	4.14%
Expected stock price volatility	24.87	21.37
Dividend Yield	2.80	2.44
Expected life of options	5.8 years	8.6 years

The expected volatility for stock option awards in 2006 was determined with equal weighting of implied volatility and historical volatility. For awards prior to 2006, it was determined using implied volatility. The expected life for stock options granted during the nine months ended September 30, 2006 was determined using the simplified method, as prescribed by the Securities and Exchange Commission s (SEC s) Staff Accounting Bulletin No. 107. Option awards for plan participants who met the early retirement provisions, as described above, on the grant-date were assigned an expected life of 5 years and all other option awards were assigned an expected life of 6 years.

A summary of stock options outstanding (including performance-accelerated stock options as described below) as of September 30, 2006 and changes during the nine months then ended is presented below:

Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2006	25,546,776	$ 22.66		
Granted	866,466	27.66		
Assumed in connection with acquisitions	877,915	8.93		
Exercised	(2,727,393)	18.81		
Forfeited or expired	(197,602)	28.11		
Outstanding at September 30, 2006	24,366,162	$ 22.73	4.98 Years	$ 161,876,278
Exercisable at September 30, 2006	14,862,859	$ 20.81	4.02 Years	$ 127,188,577

Table of Contents

During the first nine months of 2006, a total of 3,114,843 stock options vested with a weighted-average grant-date fair value of $5.80. The intrinsic value of stock options exercised during the nine months ended September 30, 2006 was $25.1 million. At September 30, 2006, there was approximately $22.6 million of total unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized over a weighted-average remaining period of 1.29 years.

During the nine months ended September 30, 2005, Synovus granted 2,571,053 stock options to key Synovus officers. The exercise price for these grants was equal to the market price on the date of grant. Accordingly, no compensation expense was recorded for stock options granted during the nine months ended September 30, 2005 under the intrinsic-value based method as described above. The intrinsic value of stock options exercised during the nine months ended September 30, 2005 was $24.3 million.

Synovus has granted performance-accelerated stock options to certain key executives. The exercise price per share is equal to the fair market value at the date of grant. The options are exercisable in equal installments when the per share market price of Synovus common stock exceeds $40, $45, and $50. However, all options may be exercised after seven years from the grant-date. The grant-date fair value is being amortized on a straight-line basis over seven years with the portion related to periods prior to 2006 having previously been included in pro forma disclosures and the portion related to periods from January 1, 2006 to the respective vesting dates being recognized in the results of operations. Summary information regarding these performance-accelerated stock options is presented below. There were no performance-accelerated stock options granted during the nine months ended September 30, 2006 or 2005.

Year Options Granted	Number of Stock Options	Exercise Price Per Share	Options Outstanding at Sept. 30, 2006
2000	4,100,000	$17.69 18.06	4,100,000
2001	2,600,000	28.99	2,600,000

Non-Vested Shares

In addition to the stock options described above, non-transferable, non-vested shares of Synovus common stock have been awarded to certain key employees and non-employee directors of Synovus. On July 1, 2006, Synovus granted 441,964 non-vested shares, with a grant date fair value of $26.99, to key employees, and on January 31, 2006, Synovus granted 108,639 non-vested shares, with a grant date fair value of $27.67, to certain key executives. Except for the grant of 63,386 performance-vesting shares described below, the market value of the common stock at the date of issuance is amortized as compensation expense using the straight-line method over the vesting period of the awards.

Table of Contents

A summary of non-vested shares outstanding (excluding the 63,386 performance-vesting shares as described below) as of September 30, 2006 is presented below:

Non-Vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2006	82,583	$ 27.28
Granted	609,133	27.15
Vested	(8,520)	27.62
Forfeited or cancelled	(8,278)	26.97
Outstanding at September 30, 2006	674,918	$ 27.17

At September 30, 2006, there was approximately $15.5 million of total unrecognized compensation cost related to the foregoing non-vested share based compensation arrangements. This cost is expected to be recognized over a weighted-average remaining period of 1.8 years.

During the nine months ended September 30, 2005, Synovus issued 66,083 non-vested shares to key Synovus executives and non-management members of its board of directors, with a weighted-average grant-date fair value of $26.87 per share.

Synovus granted 63,386 non-vested shares to a key executive with a performance-vesting schedule (performance-vesting shares) during the three months ended March 31, 2005. There were no performance-vesting shares granted in 2006 or during the second and third quarters of 2005. These performance-vesting shares have seven one-year performance periods (2005-2011) during each of which the Compensation Committee establishes an earnings per share goal and, if such goal is attained during any performance period, 20% of the performance-vesting shares will vest. Compensation expense for each tranche of this grant is measured based on the quoted market value of Synovus stock as of the date that each period s earnings per share goal is determined and is recorded as a charge to expense on a straight-line basis during each year in which the performance criteria is expected to be met.

The following is a summary of performance-vesting shares outstanding at September 30, 2006:

Performance-Vesting Shares	Shares	Grant-Date Fair Value
Outstanding at January 1, 2006	12,677	$ 26.82
Granted	12,677	27.72
Vested	(12,677)	26.82
Forfeited or cancelled		
Outstanding at September 30, 2006	12,677	$ 27.72

At September 30, 2006, there was approximately $87,000 of total unrecognized compensation cost related to performance-vesting shares based on the quoted market price of Synovus stock at the grant-date. This cost is expected to be recognized over the remainder of 2006.

TSYS Share-Based Compensation

Total System Services, Inc. (TSYS), an 81% owned subsidiary, also grants share-based compensation to certain executives and non-employee directors in the form of options to purchase shares of TSYS common stock (TSYS stock options) or non-vested shares of TSYS common stock (TSYS non-vested shares), which are described below.

Table of Contents

TSYS did not grant any TSYS stock options during the nine months ended September 30, 2006 or 2005. At September 30, 2006, there were 1,091,000 TSYS stock options outstanding with a weighted-average exercise price of $15.63, weighted-average remaining contractual life of 2.6 years, and an aggregate intrinsic value of $10.9 million. Of these 1,091,000 stock options, 1,068,000 were exercisable at September 30, 2006 with a weighted-average exercise price of $15.38, a weighted-average remaining contractual life of 2.5 years, and an aggregate intrinsic value of $10.5 million. At September 30, 2006, there was approximately $66,000 of total unrecognized compensation cost related to TSYS stock options that is expected to be recognized over a weighted-average period of 0.5 years.

During the nine months ended September 30, 2006 and 2005, TSYS issued 150,775 and 95,815 TSYS non-vested shares with a grant-date fair value of $3.0 million and $2.2 million, respectively, to certain key executives and non-employee directors of TSYS. There were no non-vested TSYS shares issued during the three months ended September 30, 2006 and 2005. At September 30, 2006, there was approximately $3.6 million of total unrecognized compensation cost related to TSYS non-vested share based compensation arrangements. This cost is expected to be recognized over a weighted-average period of 2.5 years.

Additionally, during the three months ended March 31, 2005, TSYS granted 126,087 TSYS non-vested shares to two key executives with a performance-vesting schedule (TSYS performance-vesting shares). There were no performance-vesting shares granted in 2006 or during the second and third quarters of 2005. These performance-vesting shares have seven one-year performance periods (2005-2011) during each of which the Compensation Committee of TSYS Board of Directors establishes an earnings per share goal and, if such goal is attained during any performance period, 20% of the performance-vesting shares will vest. Compensation expense for each tranche of this grant is measured based on the quoted market value of TSYS stock as of the date that each period s earnings per share goal is determined and is recorded as a charge to expense on a straight-line basis during each year in which the performance criteria is expected to be met. At September 30, 2006, there were 25,217 non-vested TSYS performance-vesting shares outstanding, with a weighted-average grant-date fair value of $20.00 per share. At September 30, 2006, there was approximately $126,000 of total unrecognized compensation cost related to TSYS performance-vesting shares. This cost is expected to be recognized over the remainder of 2006.

Note 6 Business Combinations

Effective on April 1, 2006, Synovus acquired all of the issued and outstanding common shares of Banking Corporation of Florida, the parent company of First Florida Bank (First Florida), headquartered in Naples, Florida. The acquisition was accounted for using the purchase method of accounting, and accordingly, the results of operations of First Florida have been included in Synovus consolidated financial statements beginning April 1, 2006.

The aggregate purchase price was $84.9 million, consisting of 2,938,791 shares of Synovus common stock valued at $80.1 million, stock options valued at $4.7 million and $23,900 in direct acquisition costs. Synovus has not yet completed the allocation of the purchase price of this acquisition to the respective assets acquired, including identifiable intangible assets, and liabilities assumed.

Table of Contents

The preliminary purchase price allocation is presented below:

(In thousands)	At April 1, 2006
Cash and due from banks	$ 2,619
Federal funds sold	4,782
Investments	5,655
Loans, net	341,825
Premises and equipment	2,317
Goodwill	54,854
Core deposits premium	1,172
Other intangible assets	582
Other assets	3,653
Total assets acquired	417,459
Deposits (a)	321,282
Long-Term Debt	10,268
Other liabilities	1,079
Total liabilities assumed	332,629
Net assets acquired	$ 84,830

(a) Includes time deposits in the amount of $232.4 million.

Effective on March 25, 2006, Synovus acquired all of the issued and outstanding common shares of Riverside Bancshares, Inc., the parent company of Riverside Bank (Riverside), headquartered in Marietta, Georgia. Concurrent with the acquisition, Riverside was merged into a subsidiary of Synovus, Bank of North Georgia. The acquisition was accounted for using the purchase method of accounting, and accordingly, the results of operations of Riverside Bancshares have been included in Synovus consolidated financial statements beginning March 25, 2006.

The aggregate purchase price was $170.1 million, consisting of 5,883,427 shares of Synovus common stock valued at $159.8 million, stock options valued at $11.4 million, and $181,500 in direct acquisition costs. Synovus has not yet completed the allocation of the purchase price of this acquisition to the respective assets acquired, including identifiable intangible assets, and liabilities assumed.

Table of Contents

The preliminary purchase price allocation is presented below:

(In thousands)		At March 25, 2006
Cash and due from banks	$	13,041
Investments		116,604
Loans, net		469,983
Premises and equipment		11,973
Goodwill		124,217
Core deposits premium		6,861
Other assets		22,345
Total assets acquired		765,024
Deposits (a)		491,739
Federal funds purchased		2,069
Securities sold under repurchase agreements		50,670
Long-Term Debt		37,683
Other liabilities		11,787
Total liabilities assumed		593,948
Net assets acquired	$	171,076

(a) Includes time deposits in the amount of $175.9 million.

On November 1, 2005, TSYS purchased an initial 34.04% equity interest in China UnionPay Data Co., Ltd. (CUP Data) for approximately $37.0 million. On August 1, 2006, TSYS paid aggregate consideration of approximately $15.6 million to increase its ownership interest to 44.56% of CUP Data.

On July 11, 2006, TSYS completed the acquisition of Card Tech, Ltd., a privately owned London-based payments firm, and related companies. TSYS rebranded the group of companies as TSYS Card Tech. TSYS paid aggregate consideration of approximately $59.3 million, including direct acquisition costs. TSYS is in the process of allocating the purchase price to the respective assets acquired, and has preliminarily allocated approximately $37.2 million to goodwill, approximately $15.5 million to other identifiable intangible assets and the remaining amounts to other identifiable assets and liabilities acquired.

On March 1, 2005, TSYS completed the acquisition of Vital Processing Services, L.L.C. (Vital), by purchasing the 50-percent equity stake formerly held by Visa U.S.A. for $95.8 million, including $794,000 of direct acquisition costs. In April, 2006, Vital was rebranded as TSYS Acquiring Solutions, L.L.C. (TSYS Acquiring). TSYS recorded the acquisition of the 50% interest as a purchase business combination, requiring that TSYS allocate the purchase price to the assets acquired and liabilities assumed based on their relative fair values. TSYS finalized the purchase price allocation during the first quarter of 2006 and has allocated $30.2 million to goodwill, $12.0 million to intangible assets and the remaining amount to the assets and liabilities acquired. TSYS Acquiring s results of operations have been included in the consolidated financial results beginning March 1, 2005.

Table of Contents

The final purchase price allocation is presented below:

(In thousands)		At March 1, 2005
Cash and cash equivalents	$	19,399
Contract acquisition costs and computer software, net		31,656
Intangible assets		12,000
Goodwill		30,210
Other assets		34,407
Total assets acquired		127,672
Total liabilities assumed		31,829
Minority interest		49
Net assets acquired	$	95,794

Pro forma information related to the impact of these acquisitions on Synovus consolidated financial statements, assuming such acquisitions had occurred at the beginning of the periods reported, is not presented as such impact is not significant.

Note 7 Operating Segments

Synovus has two reportable segments: Financial Services and Transaction Processing Services, which is comprised of TSYS. The Financial Services segment provides financial services including banking, financial management, insurance, mortgage and leasing services through 40 subsidiary banks and other Synovus offices in Georgia, Alabama, South Carolina, Florida, and Tennessee. TSYS provides electronic payment processing and other related services to card-issuing institutions in the United States, and internationally. The significant accounting policies of the segments are described in the summary of significant accounting policies in the 2005 annual report previously filed on Form 10-K. All inter-segment services provided are charged at the same rates as those charged to unaffiliated customers. Such services are included in the results of operations of the respective segments and are eliminated to arrive at consolidated totals.

Table of Contents

Segment information as of and for the nine months ended September 30, 2006 and 2005, respectively, is presented in the following table:

(*In thousands*)		Financial Services	TSYS (a)	Eliminations	Consolidated
Interest income	**2006**	**$ 1,470,836**	**5,442**	**(5,442)(b)**	**$ 1,470,836**
	2005	1,076,930	2,520	(2,557)(b)	1,076,893
Interest expense	**2006**	**633,918**	**118**	**(5,442)(b)**	**628,594**
	2005	370,538	160	(2,557)(b)	368,141
Net interest income	**2006**	**836,918**	**5,324**		**842,242**
	2005	706,392	2,360		708,752
Provision for losses on loans	**2006**	**56,473**			**56,473**
	2005	61,745			61,745
Net interest income after provision	**2006**	**780,445**	**5,324**		**785,769**
for losses on loans	2005	644,647	2,360		647,007
Total non-interest income	**2006**	**261,836**	**1,290,393**	**(17,906)(c)**	**1,534,323**
	2005	242,435	1,189,662	(15,319)(c)	1,416,778
Total non-interest expense	**2006**	**561,103**	**1,054,671**	**(17,906)(c)**	**1,597,868**
	2005	476,740	968,841	(15,319)(c)	1,430,262
Income before income taxes	**2006**	**481,178**	**241,046**	**(31,311)(d)**	**690,913**
	2005	410,342	223,181	(27,810)(d)	605,713
Income tax expense	**2006**	**171,051**	**78,492**		**249,543**
	2005	148,341	78,186		226,527
Net income	**2006**	**310,127**	**162,554**	**(31,311)(d)**	**441,370**
	2005	262,001	144,995	(27,810)(d)	379,186
Total assets	**2006**	**30,026,531**	**1,499,810**	**(181,459)(e)**	**31,344,882**
	2005	25,867,241	1,357,291	(149,442)(e)	27,075,090

(a) Includes equity in income of joint ventures which is included in non-interest income.

(b) Interest on TSYS cash

deposits with the Financial Services segment.

(c) Principally, electronic payment processing and other services provided by TSYS to the Financial Services segment.

(d) Minority interest in TSYS and GP Network Corporation (a TSYS subsidiary).

(e) Primarily TSYS cash deposits with the Financial Services segment.

Table of Contents

Segment information as of and for the three months ended September 30, 2006 and 2005, respectively, is presented in the following table:

(*In thousands*)		Financial Services	TSYS (a)	Eliminations	Consolidated
Interest income	**2006**	**$ 533,630**	**1,887**	**(1,888)(b)**	**$ 533,629**
	2005	386,412	1,033	(1,033)(b)	386,412
Interest expense	**2006**	**242,875**	**40**	**(1,888)(b)**	**241,027**
	2005	142,582	38	(1,033)(b)	141,587
Net interest income	**2006**	**290,755**	**1,847**		**292,602**
	2005	243,830	995		244,825
Provision for losses on loans	**2006**	**18,390**			**18,390**
	2005	19,639			19,639
Net interest income after provision	**2006**	**272,365**	**1,847**		**274,212**
for losses on loans	2005	224,191	995		225,186
Total non-interest income	**2006**	**89,319**	**444,774**	**(6,154)(c)**	**527,939**
	2005	87,220	423,583	(5,427)(c)	505,376
Total non-interest expense	**2006**	**191,307**	**369,752**	**(6,154)(c)**	**554,905**
	2005	161,154	349,684	(5,427)(c)	505,411
Income before income taxes	**2006**	**170,377**	**76,869**	**(10,406)(d)**	**236,840**
	2005	150,257	74,894	(9,306)(d)	215,845
Income tax expense	**2006**	**60,395**	**22,379**		**82,774**
	2005	55,078	26,775		81,853
Net income	**2006**	**109,982**	**54,490**	**(10,406)(d)**	**154,066**
	2005	95,179	48,119	(9,306)(d)	133,992
Total assets	**2006**	**30,026,531**	**1,499,810**	**(181,459)(e)**	**31,344,882**
	2005	25,867,241	1,357,291	(149,442)(e)	27,075,090

(a) Includes equity in income of joint ventures which is included in non-interest income.

(b) Interest on TSYS cash

deposits with the Financial Services segment.

(c) Principally, electronic payment processing and other services provided by TSYS to the Financial Services segment.

(d) Minority interest in TSYS and GP Network Corporation (a TSYS subsidiary).

(e) Primarily TSYS cash deposits with the Financial Services segment.

Table of Contents

Segment information for the changes in the carrying amount of goodwill for the nine months ended September 30, 2006 is shown in the following table:

(In thousands)	Financial Services	TSYS	Total
Balance as of December 31, 2005	$ 345,517	112,865	458,382
Goodwill acquired during period	179,656(1)(2)	37,205(3)	216,861
Impairment losses			
Other		6,477(4)(5)	6,477
Balance as of September 30, 2006	**$ 525,173**	**156,547**	**681,720**

(1) Synovus acquired all of the issued and outstanding shares of GLOBALT, Inc. on May 31, 2002. The terms of the merger agreement provide for contingent consideration based on a percentage of a multiple of earnings before interest, income taxes, depreciation and other adjustments, as defined in the agreement (EBTDA), for each of the three years ending December 31, 2004, 2005 and 2006. The contingent consideration is payable by February 15th of each year subsequent to

the respective calendar year for which the EBTDA calculation is made. The fair value of the contingent consideration is recorded as an addition to goodwill. On February 15, 2005, Synovus recorded additional contingent consideration of $226,000, which was based on 4% of a multiple of GLOBALT s EBTDA for the year ended December 31, 2004. On February 15, 2006, Synovus recorded additional contingent consideration of $585,000, which was based on 7% of a multiple of GLOBALT s EBTDA for the year ended December 31, 2005.

(2) Goodwill acquired during the nine months ended September 30, 2006 includes $124.2 million resulting from the Riverside acquisition on

March 25, 2006, and $54.9 million resulting from the First Florida acquisition on April 1, 2006. See Note 6 for additional information regarding these acquisitions.

(3) Goodwill acquired during the nine months ended September 30, 2006 includes $37.2 million resulting from TSYS' acquisition of TSYS CardTech. See Note 6 for additional information regarding this acquisition.

(4) During the second quarter of 2006, the TSYS Board of Directors announced a plan to repurchase up to 2 million shares of TSYS common stock over the next two years. Goodwill of $13.0 million recorded during the three months ended September 30, 2006 is

associated with 1.1 million shares of TSYS common stock repurchased by TSYS during the same period.

(5) On March 1, 2005, TSYS completed the acquisition of TSYS Acquiring. During the first quarter of 2006, TSYS recorded a final adjustment to the purchase price allocation, which resulted in a $6.5 million decrease in goodwill. See Note 6 for additional information regarding this acquisition.

Table of Contents

Intangible assets (excluding goodwill) net of accumulated amortization as of September 30, 2006 and December 31, 2005, respectively, are presented in the table below.

(In thousands)		**September 30, 2006**	December 31, 2005
Purchased trust revenues	$	**2,713**	2,924
Core deposit premiums		**28,247**	23,550
Employment contracts / non-competition agreements		**225**	460
Acquired customer contracts		**2,951**	3,913
Intangibles associated with the acquisition of minority interest in TSYS		**6,537**	2,087
Customer relationships		**10,125**	11,700
Other		**102**	233
Total carrying value	$	**50,900**	44,867

Note 8 Dividends per Share

Dividends declared per share for the three months ended September 30, 2006 were $0.1950, up 6.8% from $0.1825 for the same period in 2005. For the nine months ended September 30, 2006, dividends declared per share were $0.5850, an increase of 6.8% from $0.5475 for the same period in 2005.

Note 9 Guarantees and Indemnifications

TSYS has entered into processing and licensing agreements with clients that include intellectual property indemnification clauses. TSYS generally agrees to indemnify its clients, subject to certain exceptions, against legal claims that TSYS services or systems infringe on certain third party patents, copyrights or other proprietary rights. In the event of such a claim, TSYS is generally obligated to hold the client harmless and pay for related losses, liabilities, costs and expenses, including, without limitation, court costs and reasonable attorney s fees. TSYS has not made any indemnification payments in relation to these indemnification clauses.

Synovus has not recorded a liability for guarantees or indemnities in the accompanying consolidated balance sheets since the maximum amount of potential future payments under such guarantees and indemnities is not determinable.

Note 10 Other

Certain amounts have been reclassified to conform to the presentation adopted in 2006.

Table of Contents

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

Executive Summary

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

About Our Business

Synovus is a diversified financial services holding company, based in Columbus, Georgia, with more than $31 billion in assets. Synovus operates two business segments: the Financial Services and the Transaction Processing Services segments. The Financial Services segment provides integrated financial services including banking, financial management, insurance, mortgage and leasing services through 40 subsidiary banks and other Synovus offices in five southeastern states. At September 30, 2006, our subsidiary banks ranged in size from $58.7 million to $5.7 billion in total assets. The Transaction Processing Services segment provides electronic payment processing services through our 81% owned subsidiary Total System Services, Inc. (TSYS), one of the world s largest companies for outsourced payment services. Our ownership in TSYS gives us a unique business mix; for the first nine months of 2006, 54% of our consolidated revenues and 30% of our net income came from TSYS.

Our Key Financial Performance Indicators

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

Financial Services

Loan Growth	Credit Quality
Deposit Growth	Fee Income Growth
Net Interest Margin	Expense Management

TSYS

Revenue Growth	Expense Management

2006 Financial Performance Highlights

Consolidated

Net income of $154.1 million, up 15.0%, and $441.4 million, up 16.4% for the three and nine months ended September 30, 2006 as compared to the same periods in 2005.

Diluted earnings per share of $0.47 for the three months ended September 30, 2006 and $1.37 for the nine months ended September 30, 2006, up 10.9% and 13.5%, respectively, over the same periods a year ago.

The 2006 financial results include the impact of incremental (as compared to 2005) share-based compensation related to expensing the fair value of stock options and non-vested shares. This incremental expense resulted from the adoption of Statement of Financial Accounting Standards No. 123R Share-Based Payment, effective January 1, 2006 as well as an increased utilization of non-vested shares as an alternative to stock options. The incremental share-based compensation expense represented 3.5 cents per diluted share for the nine months ended September 30, 2006.

Effective April 1, 2006, Synovus completed the acquisition of Banking Corporation of Florida (First Florida). The acquisition resulted in the addition of $341.8 million in net loans and $321.3 million in total deposits.

Effective March 25, 2006, Synovus completed the acquisition of Riverside Bancshares, Inc. (Riverside). The acquisition resulted in the addition of $470.0 million in net loans and $491.7 million in total deposits.

The results for the nine months ended September 30, 2006 include a reduction of income tax expense of $3.7 million in connection with the completion of a tax examination for the tax years 2000 through 2003.

During the three months ended September 30, 2006, TSYS recorded a net reduction of previously established income tax liabilities of approximately $4.1 million. This reduction resulted primarily from TSYS change from its European foreign branch office structure to a statutory structure. The impact, net of minority interest, on Synovus net income was approximately $3.3 million.

Financial Services

Net income growth: 15.6% and 18.4% for the three and nine months ended September 30, 2006, respectively, over the corresponding periods in the prior year.

Net interest margin: 4.30% and 4.34 % for the three and nine months ended September 30, 2006, respectively, as compared to 4.18% and 4.15% for the same periods in 2005.

Loan growth: 15.7% increase from September 30, 2005 (11.8% excluding the impact of the First Florida and the Riverside acquisitions).

Credit quality measures remained strong:

- Non-performing assets ratio of 0.52%, compared to 0.46% at December 31, 2005 and 0.49% at September 30, 2005.

- Past dues over 90 days and still accruing interest as a percentage of total loans of 0.07%, compared to 0.07% at December 31, 2005 and 0.08 % at September 30, 2005.

- Total past dues and still accruing interest as a percentage of total loans of 0.58% compared to 0.44% at December 31, 2005 and 0.49% at September 30, 2005.

- Net charge-off ratio of 0.20% for the three months ended September 30, 2006 compared to 0.26% for the three months ended September 30, 2005, and 0.21% compared to 0.29% for the first nine months of 2006 and 2005, respectively.

Deposit growth: 18.2% increase from a year ago (16.9% growth excluding brokered time deposits and 12.8% growth excluding brokered time deposits and the impact of the First Florida and Riverside acquisitions)

Fee income: up 2.4% for the three months ended September 30, 2006 and 8.0% for first nine months of 2006 compared to the corresponding periods in the prior year.

Non-interest expenses up by 18.7% for the three months ended September 30, 2006 and 17.7% for the first nine months of 2006 over the corresponding periods in the prior

Table of Contents

year (13.1% and 13.2% increases excluding the impact of share-based compensation and the Riverside and First Florida acquisitions).

TSYS

Revenue growth before reimbursable items: 6.4% and 0.1% for the nine and three months ended September 30, 2006 over the corresponding periods in the prior year.

Expense growth before reimbursable items: 6.4% and 0.1% for the nine and three months ended September 30, 2006 over the corresponding periods in the prior year.

Net income growth: 11.9% and 13.0% for the nine and three months ended September 30, 2006, respectively, over the corresponding periods in the prior year.

Other highlights at TSYS include:

TSYS recently converted over 42 million Capital One accounts onto its TS2 platform. In a related transaction, Capital One became the first client on the new TSYS Loyalty Platform.

TSYS announced its first processing relationship in Japan with Toyota Finance Corporation. TSYS now supports a new co-branded Visa offered by Toyota Finance and Cordial Securities.

Effective August 1, 2006, TSYS increased its equity interest in China UnionPay Data Services Co., Ltd. to 44.56%.

TSYS expanded its global footprint with the acquisition of London-based Card Tech, Ltd., and related companies, in July of 2006. TSYS rebranded the group of companies as TSYS Card Tech.

TSYS reached a long-term agreement with Wachovia Corporation, the No. 4 bank-holding company in the U.S., to provide core processing and other related services in support of their re-entry into the consumer credit card line of business.

TSYS announced that its Board of Directors approved a share repurchase plan to purchase up to 2 million shares of TSYS common stock over the next 2 years.

TSYS entered the healthcare payments market by signing a long-term agreement with Exante Bank, a wholly-owned subsidiary of UnitedHealth Group, Inc., to provide a broad range of payment processing and related services.

TSYS deconverted the Sears consumer MasterCard and private-label accounts in June 2006, as well as deconverted the Bank of America consumer card portfolio in October 2006.

2006 Earnings Outlook

Synovus expects its earnings per share growth for 2006 to be approximately 15%, based in part upon the following assumptions:

Stable short-term interest rates for the remainder of 2006.

A favorable credit environment.

TSYS earnings growth in the 26% to 28% range.

Incremental (as compared to 2005) share-based compensation expense of approximately 5 cents per diluted share.

Table of Contents

Critical Accounting Policies

The accounting and financial reporting policies of Synovus conform to accounting principles generally accepted in the United States of America and to general practices within the banking and electronic payment processing industries. 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.

Synovus critical accounting policies are described in the Financial Review section of Synovus 2005 annual report on Form 10-K. There have been no material changes to Synovus critical accounting policies, estimates, and assumptions, or the judgments affecting the application of these estimates and assumptions in 2006.

Business Combinations

Refer to Note 6 of the Notes to Unaudited Consolidated Financial Statements for a discussion of business combinations.

Balance Sheet

Effective on April 1, 2006 Synovus completed the acquisition of Banking Corporation of Florida, the parent company of First Florida Bank, headquartered in Naples, Florida. Effective on March 25, 2006, Synovus completed the acquisition of Riverside Bancshares, Inc., the parent company of Riverside Bank, headquartered in Marietta, Georgia. The comparison of Synovus consolidated balance sheet at September 30, 2006 to December 31, 2005 is impacted by the First Florida and the Riverside acquisitions. The more significant of the changes were the net loans addition of $811.8 million, the investment securities addition of $122.3 million, the goodwill addition of $179.1 million, and the deposits addition of $813.0 million.

During the first nine months of 2006, total assets increased $3.72 billion, and excluding the impact of the aforementioned acquisitions, total assets increased $2.54 billion. The more significant increases consisted of loans, net of unearned income, up $2.80 billion, federal funds sold and securities purchased under resale agreements up $239.4 million, investment securities available for sale up $311.6 million, and goodwill up $223.3 million.

Providing the necessary funding for the balance sheet growth during the first nine months of 2006, the core deposit base (excluding brokered time deposits) grew $2.26 billion, brokered time deposits grew $914.4 million, federal funds purchased and securities sold under repurchase agreements increased $423.4 million, and shareholders equity increased $597.1 million. These increases were partially offset by a $614.6 million decrease in long-term debt.

Trading Account Assets

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 the consolidated balance sheets at fair value, with unrealized gains and losses included in other operating income on the consolidated statements of income.

Table of Contents

Loans

Compared to September 30, 2005, total loans grew by $3.29 billion, or 15.7%, and excluding the impact of acquisitions, total loans grew by $2.48 billion, or 11.8%. On a sequential quarter basis, total loans outstanding grew by $530.6 million or 8.90% annualized.

The tables on pages 30 and 31 illustrate the composition of the loan portfolio (classified by loan purpose) as of September 30, 2006. The commercial real estate portfolio totals $15.03 billion, which represents 62.1% of the total loan portfolio. Loans for the purpose of financing investment properties total $4.11 billion, which is only 17.0% of the total loan portfolio, or less than one-third of the total commercial real estate portfolio. The investment properties loan category includes $768.1 million in loans in the Atlanta market. This amount represents 3.2% of the total loan portfolio, or 5.1% of the total commercial real estate portfolio. The primary source of repayment on investment property loans is the income from the underlying property (e.g., hotels, office buildings, shopping centers, and apartment units rental income), with the collateral as the secondary source of repayment. Additionally, in almost all cases, these loans are made on a recourse basis, which provides another source of repayment. Among other factors, the underwriting of these loans is evaluated by determining the impact of higher interest rates, as well as lower occupancy rates, on the borrower s ability to service debt.

Commercial loans for the purpose of financing 1-4 family properties represent $5.39 billion or 22.3% of the total loan portfolio, and 35.9% of the total commercial real estate portfolio. The 1-4 family properties category includes $1.56 billion in loans in the Atlanta market, which is 6.5% of the total loan portfolio, or 29.0% of the 1-4 family properties category.

Included in total commercial real estate loans are $4.27 billion in commercial and industrial related real estate loans. These loans are categorized as owner-occupied and other property loans in the tables shown on pages 30 and 31. These loans represent 17.7% of the total loan portfolio, or 28.5% of the total commercial real estate portfolio. The primary source of repayment on these loans is revenue generated from products or services offered by the business or organization (e.g., accounting; legal and medical services; retailers; manufacturers and wholesalers). These loans typically carry the personal guarantees of the principals of the business.

Commercial and industrial (C&I) loans represent $5.66 billion or 23.4% of the total loan portfolio at September 30, 2006. The primary source of repayment on these loans is revenue generated from products or services offered by the business or organization (e.g., accounting; legal and medical services; retailers; manufacturers and wholesalers). These loans typically carry the personal guarantees of the principals of the business. These loans are diversified by geography, industry, and loan type. While Synovus has not experienced strong growth in C&I loans in recent years, Synovus has implemented a C&I growth strategy that is beginning to be reflected in the current year results. C&I loans (excluding the impact of acquisitions) have grown by $314.0 million, or 8.0% annualized, since December 31, 2005 compared to annual growth of 3.3% in 2005.

Consumer loans at September 30, 2006 total $3.56 billion, representing 14.7% of the total loan portfolio. Overall, consumer loans have experienced moderate growth on both sequential quarter and year over year basis, led principally by growth in consumer mortgages and home equity lines. Credit card balances are up slightly over the prior year following the normal seasonal decline in the first quarter of 2006.

Table of Contents

Credit Quality

Credit quality measures remained strong. The non-performing assets ratio was 0.52% at September 30, 2006 compared to 0.46% at December 31, 2005 and 0.49% at September 30, 2005. Total non-performing assets were $126.3 million at September 30, 2006, up $27.6 million from December 31, 2005. This increase included a commercial and industrial loan of approximately $7.6 million that was placed on non-accrual status during the second quarter of 2006, approximately $4.1 million in non-performing assets that were added as a result of 2006 acquisitions, and a 1-4 family residential real estate property of approximately $4.2 million that was foreclosed during the third quarter of 2006. The quality of our commercial real estate portfolio remains strong with a non-performing loan ratio of only 0.28% of total commercial real estate loans at September 30, 2006. This compares to an overall non-performing loan ratio for the total loan portfolio of 0.39%. The net charge-off ratio for the nine months ended September 30, 2006 was 0.21% compared to 0.29% for the same period of 2005. We expect that the net charge-off ratio for the year will be under 0.30%.

Past due levels remained very favorable, with total loans past due (and still accruing interest) at 0.58% of loans. Loans 90 days past due and still accruing interest at September 30, 2006 were $18.0 million, or 0.07% of total loans, compared to 0.07% at December 31, 2005 and 0.08% at September 30, 2005. These loans are in the process of collection, and management believes that sufficient collateral value securing these loans exists to cover contractual interest and principal payments on the loans. Management further believes the resolution of these delinquencies will not cause a material increase in non-performing assets.

The allowance for loan losses is $319.9 million, or 1.32% of net loans, at September 30, 2006 compared to $289.6 million, or 1.35% of net loans, at December 31, 2005. The allowance to non-performing loans coverage was 337.7% at September 30, 2006, compared to 352.4% at December 31, 2005.

The provision for losses on loans was $18.4 million for the three months ended September 30, 2006 compared to $18.5 million for the three months ended June 30, 2006 and $19.6 million for the three months ended September 30, 2005. For the nine months ended September 30, 2006, the provision for loan losses was $56.4 million compared to $61.7 million for the same period in 2005. For the nine months ended September 30, 2006, total provision expense covered net charge-offs by 1.57 times compared to 1.41 times for the same period a year ago.

Table of Contents

(*Dollars in thousands*)		**September 30, 2006**		December 31, 2005
Non-performing loans	**$**	**94,766**	$	82,175
Other real estate		**31,549**		16,500
Non-performing assets	**$**	**126,315**	$	98,675
Loans 90 days past due and still accruing	**$**	**18,002**	$	16,023
As a % of loans		**0.07%**		0.07%
Allowance for loan losses	**$**	**319,973**	$	289,612
Allowance for loan losses as a % of loans		**1.32%**		1.35%
As a % of loans and other real estate:				
Non-performing loans		**0.39%**		0.38%
Other real estate		**0.13**		0.08
Non-performing assets		**0.52%**		0.46%
Allowance to non-performing loans		**337.65%**		352.43%

Management continuously monitors non-performing and past due loans, to prevent further deterioration regarding the condition of these loans. Management believes non-performing loans and loans past due over 90 days and still accruing include all material loans where known information about possible credit problems of borrowers causes management to have serious doubts as to the collectibility of amounts due according to the contractual terms of the loan agreement.

Table of Contents

The following table shows the composition of the loan portfolio and non-performing loans (classified by loan purpose) as of September 30, 2006.

(Dollars in thousands) **Loan Type**	**Total Loans**	**% of Total Loans Outstanding**	**Total Non-performing Loans**	**% of Total Non-performing Loans**
Commercial Real Estate				
Multi-Family	$ 513,644	2.1%	$ 281	0.3%
Hotels	636,530	2.6	433	0.4
Office Buildings	867,770	3.6	3,473	3.7
Shopping Centers	714,958	3.0	1,136	1.2
Commercial Development	975,089	4.0	1,411	1.5
Other Investment Property	403,587	1.7	73	0.1
Total Investment Properties	4,111,578	17.0	6,807	7.2
1-4 Family Construction	2,224,684	9.2	2,916	3.1
1-4 Family Perm /Mini-Perm	1,198,388	5.0	6,319	6.7
Residential Development	1,969,320	8.1	1,351	1.4
Total 1-4 Family Properties	5,392,392	22.3	10,586	11.2
Land Acquisition	1,245,727	5.1	6,834	7.2
Total Investment-Related Real Estate	10,749,697	44.4	24,227	25.6
Owner-Occupied	3,031,530	12.6	10,325	10.9
Other Property	1,244,432	5.1	7,171	7.5
Total Commercial Real Estate	15,025,659	62.1	41,723	44.0
Commercial & Industrial	5,661,746	23.4	43,543	45.9
Home Equity Lines	1,272,804	5.2	2,364	2.5
Consumer Mortgages	1,512,091	6.3	4,390	4.7
Credit Cards	266,205	1.1		
Other Consumer Loans	506,491	2.1	2,746	2.9
Total Consumer	3,557,591	14.7	9,500	10.1
Unearned Income	(52,400)	(0.2)		

Total	$ 24,192,596	100.0%	$ 94,766	100.0%

The following table compares the composition of the loan portfolio at September 30, 2006, December 31, 2005 and September 30, 2005.

	Total Loans			Total Loans	
(Dollars in thousands) **Loan Type**	**Sept. 30, 2006**	**Dec. 31, 2005**	**Sept. 30, 2006 vs Dec. 31, 2005 % change (1)(2)**	**Sept. 30, 2005**	**Sept. 30, 2006 vs Sept. 30, 2005 % change (2)**
Commercial Real Estate					
Multi-Family	$ 513,644	$ 527,710	(3.6)%	$ 527,826	(2.7)%
Hotels	636,530	680,301	(8.6)	779,736	(18.4)
Office Buildings	867,770	747,493&nbs			