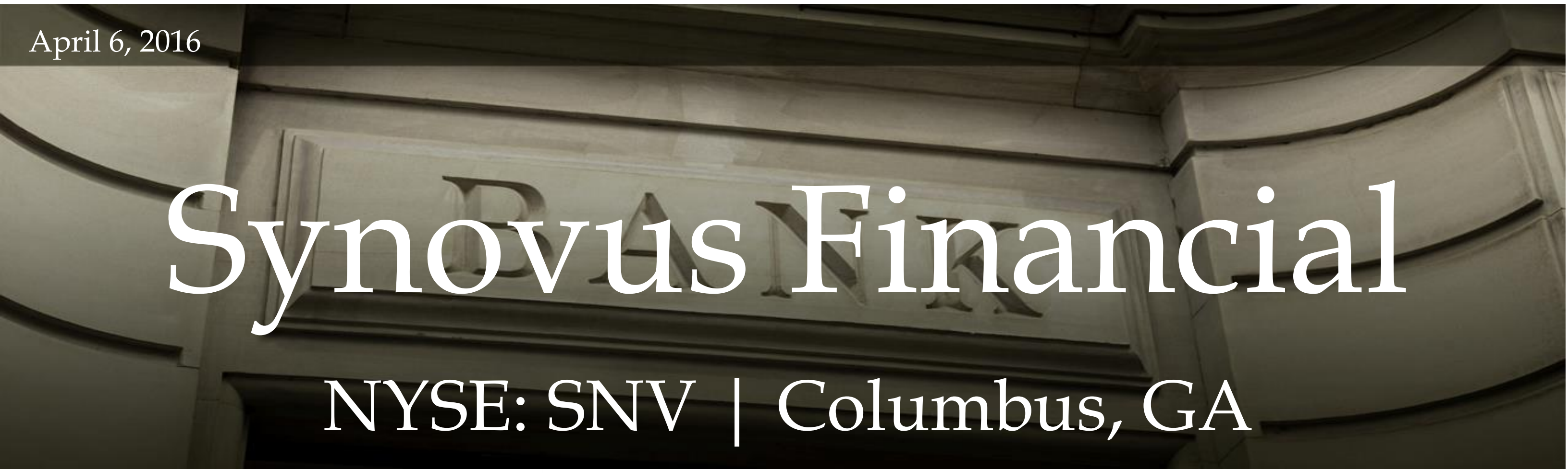
April 6, 2016



Synovus Financial

NYSE: SNV | Columbus, GA

SYNOVUS®

Price:	$29.04	**Tangible Book Value**:	$21.99
52-week price range:	$25.48-$33.80	**Price/TBV**:	1.32x
EPS Estimates:	2015A: $1.62	**Dividend/Yield**:	$0.48/1.65%
	2016E: $1.86	**Market Capitalization**:	$3.64 billion
	2017E: $2.04		
	Q116E: $0.44 (vs. $0.38 in 1Q15)		
	Note: All estimates are based on operating results.		

Nancy A. Bush, CFA
NAB Research, LLC
Distributed by: Banks Street Partners, LLC

- **We have not written about this company in some time…and everything has changed in the interim**
- **Synovus occupies a unique space among the Southeastern banks…**
- **The question investors are asking – How can SNV continue its historical growth path in the current environment?**

Sometimes we get an object lesson in what has changed in banking since the Financial Crisis… When we got out our old Synovus model and dusted it off for updating, all we could say was "Wow." Perhaps it was the fact that the old model was a **sea of red**, or that the quarterly loan loss

provisions were in the **hundreds of millions** of dollars, or that the **balance sheet was about 25% larger** then than it is now—**whatever.** But it has been seldom in our career that we have seen a transformation at a company that was so stunningly illustrated in the numbers (except perhaps at SNV's Southeastern competitor, **Bank of America**) and the more predictable and subdued earnings trends are in concert with the much more conservative guidance that we get from Synovus' CEO Kessel Stelling and his management team on a quarterly basis. It seems to us that this company has resumed its role as one of the growth engines of Georgia banking—but this time around, that growth is more sustainable and comes with a greater measure of caution and due diligence than was the case in the past.

We do not feel that it is necessary to rehash the events that led up to this company's near-death experience in the 2008-2010 time frame—suffice it to say that it was the Southeastern banking experience, writ large. It's hard to believe that the events that led up to the Southeastern banking meltdown occurred less than a decade ago, as it seems at this point to be almost ancient history. But if the national belief at that time was that housing prices would never go down and that residential construction lending was on a growth path forever, then **Southeastern developers and their bankers believed that in spades.** Synovus—with its unique position as a hybrid community/regional bank present in some of the South's hottest urban markets—grew its commercial real estate portfolio (especially the residential construction portfolio) at a pace that was outsized even for the Southeast. Coupled with the bank's relative lack of retail core deposits and a growing reliance on brokered funding, it was (in hindsight, anyway) a recipe for an unpleasant outcome as systemic liquidity dried up in 2008.

The bank is no longer operating under any regulatory agreements, but we think that Synovus management continues to feel the need to go the extra mile from the standpoint of keeping the regulators happy. The ascendance of present CEO Kessel Stelling to the positions of President and COO in February 2010, and his swift ascension to the CEO spot in October of that year, marked the real beginning of the Synovus turnaround, and his ability to work with regulators has been the critical factor in the company's swift recovery from near-disaster. Mr. Stelling and his team still go the extra mile to acknowledge their need to live up to high regulatory expectations, and we have chuckled at times during SNV's recent quarterly conference calls as he has acknowledged the likely presence of regulators in his listening audience (We'd say that the hellish experience of banking regulators in the Southeast during the housing meltdown—especially those at the Atlanta Fed—makes that a pretty good bet). The corrective measures undertaken by Synovus management during their period of rebuilding—most importantly, the collapsing of banking charters and the centralization of credit decision-making in Columbus, combined with an aggressive program of real estate sales—resulted in a much more rapid recovery from its crisis ills than we would ever have believed possible.

While it is hard to say at this juncture that that operations at Synovus are back to "normal"— we're not sure exactly what banking "normal" is these days—we're pretty sure that they're 80%-plus there. The bank's balance sheet is not yet fully healed—we would note the ongoing presence of $224 million of TDRs (troubled debt restructurings) and a 0.96% NPA ratio (higher than most Southeastern peers) at year-end 2015—but there **continues a slow process of credit metric improvement** ongoing, and 4Q15 loan charge-offs were only 6 basis points, continuing a long-declining trend.

But the greatest indicator of SNV's return to normalcy may not be reflected in the numbers—instead, it may be reflected in an important upcoming personnel change. The bank announced a few weeks ago that its long-time CFO, Tommy Prescott, would be retiring from that role early next year and that the hunt was beginning for his successor. Mr. Prescott is the last member of the pre-crisis leadership team still in place, and we find it hard to over-emphasize how big a part his low-key demeanor and his close and cooperative work with regulators played in steering Synovus successfully through its ordeal. We do not think that he would be leaving if there was still a great deal for the company to do in its recovery process, and we see this as a "mission accomplished" retirement for Mr. Prescott. We also think that it is likely that CEO Kessel Stelling will hire someone from a similarly sized or larger financial institution as Synovus' next CFO, as the company continues to ramp up its level of technological and reporting sophistication and gets ready for future growth.

All of which brings us to an important topic—that of acquiring (or of being acquired)…

Synovus presently has healthy capital levels—and we don't think that they're going to squander precious capital on an ill-advised deal. With a tangible common equity (TCE) ratio of 9.90% and a leverage ratio of 9.43% at year-end 2015, this company is well capitalized by almost any standard. They continue to refine their balance sheet—we regard the addition of $250 million in subordinated debt in 4Q15 as a "TLAC-like" move—and are not sitting on their capital hoard, but rather putting it to good use for shareholders. After repurchasing $37 million in stock in 4Q15, the company ramped that level up to $105 million in repurchases in the first two months of 2016 and are obviously being opportunistic in their repurchase activity. **But in the present vortex of Southeastern bank deals, they have been noticeably absent. Will that fact change?**

We think so—but not immediately. We believe that the recent history of Synovus will dictate an ultra-conservative approach to deal-doing and may dictate that Synovus management wait for the ideal transaction in terms of size and balance sheet composition. We spoke with them recently on this topic, and they emphasized that they are "not pursuing scale at any cost" and think that "patience has been good to them" in terms of acquisitions—all of which would seem to indicate that there is not a material deal near at hand.

The presence of outsized levels of CRE on a target's balance sheet would be a deal killer for them, for instance. In addition, the company does not wish to go outside its existing footprint, but they also concede that the one state so far notably absent from that footprint—North Carolina—will be of special interest in the future (However, such a deal in a new market would preclude large cost saves and would thus present a pricing issue).

The biggest constraint for Synovus seems to be that of size—they want their first major foray into the deal market to be large enough to make an impact on the balance sheet but not so large as to present a technological integration challenge. This seems to us to dictate that such a deal would be in the **$1 billion-$5 billion asset size**, and would be of a community bank with a well-established and extensive deposit gathering system to aid in the funding of the Synovus lending machine.

What about MOEs—or the possibility of being acquired? If our recent experience with Southeastern banking is any indicator, we can only say—**anything is possible.** A number of Southeastern community banks will soon breach the magic $10 billion-in-assets mark, at which they cease to be classified as community banks, and at which regulatory scrutiny begins to ramp up incrementally (i.e., the DFAST regimen kicks in). Given the already hyper-competitive nature of Southeastern regional banking, we think it is likely that several of these companies may do no-or-low premium MOEs, and we think it very likely that Synovus would be one of the go-to companies for a large mega-community bank**. As for SNV being an acquisition target, we think that the company's rapid recovery from its meltdown years means that this possibility has lessened dramatically**, as the bank would represent a very large and expensive bite for even some of the region's largest banks.

But we do think that Synovus management desperately needs to think about adding fee-based businesses. If there's any one place that we see a hole in the Synovus strategy, it's in the development and growth of fee-generating activities. With roughly 24% of revenues in any given quarter coming from fee-generating activities, Synovus' level of fee income is more in line with the community banking industry than with its larger Southeastern peers. The bank has had a mixed record especially with the development of its wealth management business over the years—we can recall several different strategies in our time of covering the company—but management seems now to have settled on a high net worth approach targeting their commercial and small business clientele. All of this makes sense, but they need WAY more of these revenues in the very near future.

While we well understand the price and value issues that come with buying whole asset management firms, we hope that Synovus management will take the opportunity to pick up the teams of managers that are leaving the larger firms and wire houses en masse in search of better opportunities at smaller firms and will use these trends to ramp up this critical business materially (We would point to the positive results of competitor South State in starting with a fiduciary trust company to which it has bolted on businesses and asset managers to build a sizable asset management company). We believe that Synovus would benefit not only from higher earnings but also from an enhanced stock valuation as a result of greater diversification into these higher-value revenue streams.

In the meantime, there are earnings to worry about…

Or more precisely, not to worry about. The one thing that struck us in modeling earnings for the new Synovus was how slow and steady its earnings progression has been off the bottom, and how determined management in Columbus is to keep it that way. The company is showing decent but not unsustainable or outsized earnings trends—stable net interest margins (in the 3.15%-3.20% range, with some move upward as rates rise), mid-single digits annualized loan growth, and low-single digits expense growth. All of these trends, coupled with the company's ongoing share repurchase program, will combine to give a very decent low-mid teens earnings growth rate over the near term.

Our only earnings question—for Synovus and for its regional peers—centers around the issue of credit quality. And this is a particularly acute question for Synovus, given its recent history—how low

should the loan loss reserve (now at 1.13% of loans) be allowed to decline before they undertake a period of reserve replenishment to allow for and prepare for better loan growth? While the industry presents this issue in very formulaic terms, our belief is that there will arrive a point (perhaps an aggregate industry reserve level under 1%) at which regulators will become concerned about the credit quality optics and will then mandate a regimen of reserve building (FASB's aversion notwithstanding), especially for the Southeastern banks.
We would note that the 0.96% level of NPAs on SNV's balance sheet presently likely represents a "sticky" level of nonperformers for the company and that they will be unlikely to want to see the loan loss allowance fall much below 1% of loans as a result. Therefore we have modeled in rising loan loss provisions in 2015 and 2016—and we will hope to be pleasantly surprised on the upside.

This stock has been a pretty good performer over the last few years...

But it does not seem to us to be overly expensive presently. One of the challenges with both Synovus the company and with Synovus the stock is that this bank does not fit neatly into any banking category. It's too big to be a community bank and too small to be regarded as a large regional, and thus there is a conundrum when trying to develop valuation comparisons. We can only say that the stock's performance— up 5% on a year-over-year basis and down 10.7% in the miserable bank stock performance year thus far—looks very good relative to the major banks but only middling when compared to the much hotter Southeastern community banking group. We think that Synovus has been the stock of choice for larger institutional investors over the last few years who wanted to invest in community banking in the Southeast but who could not find stocks that fit their liquidity requirements, and that Synovus became the liquid proxy for Southeastern community banking trends.

But there's something about that 1.32x TBV number that doesn't look quite right. While the stock looks very well-valued on a P/E basis, selling at 15.6x and 14.2x our 2016 and 2017 estimates respectively, its valuation based on tangible book looks low relative to its slower-growing peers, and we can only surmise that these two valuation metrics (P/E and TBV) will come more into line over the next few years as the company continues its earnings recovery, begins to participate more fully in regional banking consolidation, and adds to the higher-value businesses that we discussed earlier. We would note the present solidity of the balance sheet and expect that this condition will continue and that capital returns will continue to increase as well. **In any case, given our long history with this company, we'll settle for boring when it comes to Synovus, and we're hoping for more of the same.**

Table 1
Synovus Financial Corp.
Earnings Estimates
($ Millions, Except Per Share Data)

	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016E	2015A	2016E	2017E	Percent Change 16E/15A	17E/16E
Net Interest Income	**$207.8**	**$203.6**	**$204.0**	**$208.1**	**$212.9**	**$215.2**	**$828.6**	**$870.4**	**$910.0**	**5**	**5**
Tax Equivalent Adjustment	0.4	0.3	0.3	0.3	0.3	0.3	1.3	1.2	1.2	(8)	0
Loan Loss Provision	8.2	4.4	6.6	3.0	5.0	6.0	19.0	24.0	28.0	26	17
Subtotal	**199.3**	**198.9**	**197.0**	**204.8**	**207.6**	**208.9**	**808.3**	**845.2**	**880.8**	**5**	**4**
Noninterest Income											
Service Charges on Deposit Accounts	20.3	19.1	19.8	20.7	20.5	21.0	80.1	82.0	85.0	2	4
Fiduciary and Asset Management Fees	11.7	11.6	11.8	11.3	11.2	11.0	45.9	45.0	48.0	(2)	7
Brokerage & Inv. Banking Revenue	6.9	7.3	6.8	6.9	6.9	6.5	27.9	30.0	32.0	8	7
Mortgage Banking Income	4.9	6.5	7.5	6.0	4.1	6.0	24.1	28.0	30.0	16	7
Credit Card Fees	8.5	8.1	8.5	8.3	8.3	8.0	33.2	35.0	36.0	6	3
Securities Gains/(Losses)	0.0	0.7	2.0	0.0	0.1	0.0	2.8	0.0	0.0	NM	NM
Other Fee Income	4.6	5.2	4.6	5.5	5.8	6.0	21.2	22.0	24.0	4	9
Other Noninterest Income	7.6	7.4	7.8	8.3	9.3	8.0	32.8	35.0	35.0	7	0
Total Noninterest Income	**64.6**	**65.9**	**68.8**	**67.1**	**66.2**	**66.5**	**267.9**	**277.0**	**290.0**	**3**	**5**
Noninterest Expense											
Employment Expenses	92.0	96.5	94.6	94.3	95.5	98.0	380.9	390.0	400.0	2	3
Occupancy & Equipment Exp.	26.4	26.2	26.5	26.9	27.8	28.0	107.5	110.0	112.0	2	2
Third Party Processing Exp.	10.4	10.3	10.7	10.9	11.0	10.5	42.9	44.0	45.0	3	2
Regulatory & Prof. Fees	16.1	12.6	13.2	13.0	15.0	13.0	53.7	55.0	56.0	2	2
Foreclosed Real Estate	8.1	9.5	4.4	4.5	4.5	4.5	22.8	15.0	10.0	(34)	(33)
Advertising Expense	6.5	3.4	2.9	5.5	3.7	4.0	15.5	15.0	18.0	(3)	20
Other Expenses	25.3	20.4	25.6	22.8	25.5	24.0	94.4	100.0	102.0	6	2
Total Noninterest Exp.	**184.9**	**178.9**	**177.8**	**177.9**	**183.0**	**182.0**	**717.7**	**729.0**	**743.0**	**2**	**2**
Pretax Income	**79.0**	**85.8**	**88.0**	**93.9**	**90.7**	**93.4**	**358.5**	**393.2**	**427.8**	**10**	**9**
Income Taxes/(Benefit)	25.8	31.8	32.2	36.5	32.3	33.0	132.9	137.0	148.0	3	8
Net Income	**53.2**	**54.0**	**55.8**	**57.4**	**58.4**	**60.4**	**225.6**	**256.2**	**279.8**	**14**	**9**
Preferred Dividends	2.6	2.6	2.6	2.1	2.6	3.0	9.7	12.0	13.0	23	8
Net Income Available to Common	**50.7**	**51.4**	**53.2**	**55.4**	**55.8**	**57.4**	**215.8**	**244.2**	**266.8**	**13**	**9**
Average Diluted Shares	137.8	135.7	133.6	132.3	131.2	131.0	133.2	131.0	131.0	(2)	0
Net Income per Dil. Share	**0.37**	**0.38**	**0.40**	**0.42**	**0.43**	**0.44**	**1.62**	**1.86**	**2.04**	**15**	**9**
Dividends per Share	0.10	0.10	0.10	0.10	0.12	0.12	0.42	0.50	0.58	19	16
Tax Rate	32.61	37.11	36.62	38.86	35.66	35.33	37.08	34.84	34.60	(6)	(1)
Adjusted Tax Rate	32.93	37.37	36.86	39.06	35.88	35.54	37.31	35.04	34.78	(6)	(1)
Net Interest Margin	**3.34%**	**3.28%**	**3.15%**	**3.14%**	**3.18%**	**3.20%**	**3.19%**	**3.20%**	**3.25%**	**0**	**2**
Average Earning Assets	24,664	25,135	25,968	26,287	26,558	26,900	25,987	27,200	28,000	5	3
Overhead Ratio %	67.9%	66.4%	65.2%	64.7%	65.6%	64.6%	65.5%	63.5%	61.9%	(3)	(3)
Tangible Book Value	**$21.23**	**$21.50**	**$21.59**	**$21.94**	**$21.99**	**$22.31**	**$21.99**	**$23.35**	**$24.81**	**6**	**6**
Revenues	272.4	269.5	272.8	275.2	279.1	281.7	1,096.5	1,147.4	1,200.0		
Fees as % of Total Revenue	**23.7**	**24.4**	**25.2**	**24.4**	**23.7**	**23.6**	**24.4**	**24.1**	**24.2**		

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Tax Equivalent Adjustment	0.4	0.3	0.3	0.3	0.3	0.3	1.3	1.2	1.2	(8)	0
Loan Loss Provision	8.2	4.4	6.6	3.0	5.0	6.0	19.0	24.0	28.0	26	17
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Noninterest Income											
Service Charges on Deposit Accounts	20.3	19.1	19.8	20.7	20.5	21.0	80.1	82.0	85.0	2	4
Fiduciary and Asset Management Fees	11.7	11.6	11.8	11.3	11.2	11.0	45.9	45.0	48.0	(2)	7
Brokerage & Inv. Banking Revenue	6.9	7.3	6.8	6.9	6.9	6.5	27.9	30.0	32.0	8	7
Mortgage Banking Income	4.9	6.5	7.5	6.0	4.1	6.0	24.1	28.0	30.0	16	7
Credit Card Fees	8.5	8.1	8.5	8.3	8.3	8.0	33.2	35.0	36.0	6	3
Securities Gains/(Losses)	0.0	0.7	2.0	0.0	0.1	0.0	2.8	0.0	0.0	NM	NM
Other Fee Income	4.6	5.2	4.6	5.5	5.8	6.0	21.2	22.0	24.0	4	9
Other Noninterest Income	7.6	7.4	7.8	8.3	9.3	8.0	32.8	35.0	35.0	7	0
Total Noninterest Income	**64.6**	**65.9**	**68.8**	**67.1**	**66.2**	**66.5**	**267.9**	**277.0**	**290.0**	**3**	**5**
Noninterest Expense											
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Occupancy & Equipment Exp.	26.4	26.2	26.5	26.9	27.8	28.0	107.5	110.0	112.0	2	2
Third Party Processing Exp.	10.4	10.3	10.7	10.9	11.0	10.5	42.9	44.0	45.0	3	2
Regulatory & Prof. Fees	16.1	12.6	13.2	13.0	15.0	13.0	53.7	55.0	56.0	2	2
Foreclosed Real Estate	8.1	9.5	4.4	4.5	4.5	4.5	22.8	15.0	10.0	(34)	(33)
Advertising Expense	6.5	3.4	2.9	5.5	3.7	4.0	15.5	15.0	18.0	(3)	20
Other Expenses	25.3	20.4	25.6	22.8	25.5	24.0	94.4	100.0	102.0	6	2
Total Noninterest Exp.	**184.9**	**178.9**	**177.8**	**177.9**	**183.0**	**182.0**	**717.7**	**729.0**	**743.0**	**2**	**2**
Pretax Income	**79.0**	**85.8**	**88.0**	**93.9**	**90.7**	**93.4**	**358.5**	**393.2**	**427.8**	**10**	**9**
Income Taxes/(Benefit)	25.8	31.8	32.2	36.5	32.3	33.0	132.9	137.0	148.0	3	8
Net Income	**53.2**	**54.0**	**55.8**	**57.4**	**58.4**	**60.4**	**225.6**	**256.2**	**279.8**	**14**	**9**
Preferred Dividends	2.6	2.6	2.6	2.1	2.6	3.0	9.7	12.0	13.0	23	8
Net Income Available to Common	**50.7**	**51.4**	**53.2**	**55.4**	**55.8**	**57.4**	**215.8**	**244.2**	**266.8**	**13**	**9**
Average Diluted Shares	137.8	135.7	133.6	132.3	131.2	131.0	133.2	131.0	131.0	(2)	0
Net Income per Dil. Share	**0.37**	**0.38**	**0.40**	**0.42**	**0.43**	**0.44**	**1.62**	**1.86**	**2.04**	**15**	**9**
Dividends per Share	0.10	0.10	0.10	0.10	0.12	0.12	0.42	0.50	0.58	19	16
Tax Rate	32.61	37.11	36.62	38.86	35.66	35.33	37.08	34.84	34.60	(6)	(1)
Adjusted Tax Rate	32.93	37.37	36.86	39.06	35.88	35.54	37.31	35.04	34.78	(6)	(1)
Net Interest Margin	**3.34%**	**3.28%**	**3.15%**	**3.14%**	**3.18%**	**3.20%**	**3.19%**	**3.20%**	**3.25%**	**0**	**2**
Average Earning Assets	24,664	25,135	25,968	26,287	26,558	26,900	25,987	27,200	28,000	5	3
Overhead Ratio %	67.9%	66.4%	65.2%	64.7%	65.6%	64.6%	65.5%	63.5%	61.9%	(3)	(3)
Tangible Book Value	**$21.23**	**$21.50**	**$21.59**	**$21.94**	**$21.99**	**$22.31**	**$21.99**	**$23.35**	**$24.81**	**6**	**6**
Revenues	272.4	269.5	272.8	275.2	279.1	281.7	1,096.5	1,147.4	1,200.0		
Fees as % of Total Revenue	**23.7**	**24.4**	**25.2**	**24.4**	**23.7**	**23.6**	**24.4**	**24.1**	**24.2**		

Table 2

Synovus Financial Corp.

Average Balance Sheet Summary and Analysis

($ Millions)

	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	% Change vs. Last Quarter	% Change vs. Last Year
Earning Assets							
Taxable Investment Securities	3,028	2,999	3,166	3,381	3,481	3	15
Non-Taxable Investment Securities	5	5	5	5	4	(3)	(13)
Trading Assets	13	14	7	7	8	11	(37)
Funds Sold & Time Deposits	899	1,123	1,590	1,381	1,082	(22)	20
Commercial Loans	16,956	17,177	17,297	17,523	17,885	2	5
Consumer Loans	3,895	3,929	3,986	4,106	4,233	3	9
Mortgage Loans HFS	61	65	90	69	51	(27)	(17)
Loan Loss Reserve	(269)	(257)	(254)	(256)	(252)		
Total Loans and Leases	**20,644**	**20,913**	**21,120**	**21,442**	**21,916**	**2**	**6**
FHLB Stock & Federal Reserve Stock	76	81	76	72	67	**(7)**	**(12)**
Total Earning Assets	**24,664**	**25,135**	**25,963**	**26,287**	**26,558**	**1**	**8**
Effective Yield	**3.78%**	**3.73%**	**3.61%**	**3.60%**	**3.63%**	**1**	**(4)**
Interest-Bearing Liabilities							
Interest-Bearing Demand Deposits	3,781	3,800	3,919	3,956	4,117	4	9
Money Market Accounts	6,010	6,211	6,467	6,894	7,063	2	18
Savings Accounts*	639	639	675	686	693	1	8
Time Dep.< $100,000	1,316	1,316	1,351	1,339	1,308	(2)	(1)
Brokered Dep./Time Dep. >$100K	3,480	3,521	3,617	3,444	3,218	(7)	(8)
Total Interest-Bearing Deposits	**15,226**	**15,487**	**16,030**	**16,318**	**16,398**	**0**	**8**
Fed Funds Purchased & Other ST Debt	187	223	233	208	159	(24)	(15)
Long-Term Debt	2,085	2,207	2,174	2,073	2,008	(3)	(4)
Total Interest-Bearing Liabilities	**17,498**	**17,917**	**18,436**	**18,599**	**18,565**	**(0)**	**6**
Noninterest-Bearing Deposits	6,110	6,109	6,436	6,542	6,846	5	12
Effective Cost of Funds	**0.44%**	**0.45%**	**0.46%**	**0.46%**	**0.45%**	**(2)**	**2**
Net Interest Margin	**3.34%**	**3.28%**	**3.15%**	**3.14%**	**3.18%**		

Note: Synovus reports average earning assets net of loan loss allowance.

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