SUNTRUST BANKS INC
Form 10-Q/A
November 12, 2004
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

Quarterly Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarterly Period Ended June 30, 2004

Commission File Number 1-8918

SunTrust Banks, Inc.

(Exact name of registrant as specified in its charter)

Georgia **(State or other jurisdiction of incorporation or organization)**	**58-1575035** **(I.R.S. Employer Identification No.)**
303 Peachtree Street, N.E., Atlanta, Georgia **(Address of principal executive offices)**	**30308** **(Zip Code)**

(404) 588-7711

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act.)

Yes x No ¨

At July 31, 2004, 282,790,266 shares of the Registrant s Common Stock, $1.00 par value, were outstanding.

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PART I - FINANCIAL INFORMATION

The following unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X, and accordingly do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary to comply with Regulation S-X have been included. Operating results for the three and six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the full year 2004.

EXPLANTORY NOTE

SunTrust Banks, Inc. (SunTrust or the Company) is filing this Quarterly Report on Form 10-Q/A (the Form 10-Q/A) for the quarter ended June 30, 2004 to reflect the restatement of its unaudited consolidated financial statements, the notes thereto, and related disclosures for the quarter and year-to-date period ending thereon. The restatement pertains to a misstatement of the Company s Allowance for Loan Losses (the Allowance) during these periods, as a result of errors and internal control deficiencies. The restatement does not affect the Company s audited consolidated financial statements for the year ended December 31, 2003. See Part I, Item 1, including note 12 to the unaudited consolidated financial statements, of this Form 10-Q/A for more detailed information concerning the restatement. Concurrently herewith, the Company is also filing a Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2004, also to reflect the restatement of its unaudited consolidated financial statements, the notes thereto and related disclosures for such quarter. Such restatement also related to errors and internal control deficiencies in the calculation of the Allowance during such period.

This Form 10-Q/A has not been updated except as required to reflect the effects of the restatement. This amendment and restatement includes changes to Part I, Items 1, 2 and 4, and Part II, Item 6. Except as identified in the prior sentence, no other items included in the original Form 10-Q have been amended, and such items remain in effect as of the filing date of the original Form 10-Q. Additionally, this Form 10-Q/A does not purport to provide an update or a discussion of any other developments at the Company subsequent to the original filing.

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Consolidated Statements of Income

(In thousands except per share data) (Unaudited)	Three Months Ended June 30 2004 (As restated)	Three Months Ended June 30 2003	Six Months Ended June 30 2004 (As restated)	Six Months Ended June 30 2003
Interest Income				
Interest and fees on loans	**$ 882,496**	$ 899,817	**$ 1,763,497**	$ 1,812,088
Interest and fees on loans held for sale	**76,846**	108,432	**143,974**	219,448
Interest and dividends on securities available for sale				
Taxable interest	**195,776**	135,153	**391,567**	298,233
Tax-exempt interest	**4,976**	4,668	**9,099**	9,533
Dividends[1]	**17,901**	16,919	**35,038**	35,141
Interest on funds sold and securities purchased under agreements to resell	**4,109**	4,376	**7,441**	8,964
Interest on deposits in other banks	**34**	34	**66**	67
Other interest	**5,936**	4,641	**11,256**	8,687
Total interest income	**1,188,074**	1,174,040	**2,361,938**	2,392,161
Interest Expense				
Interest on deposits	**157,402**	211,012	**318,064**	431,169
Interest on funds purchased and securities sold under agreements to repurchase	**19,949**	29,837	**39,725**	62,298
Interest on other short-term borrowings	**3,602**	1,759	**14,625**	3,876
Interest on long-term debt	**134,692**	131,919	**265,447**	272,835
Total interest expense	**315,645**	374,527	**637,861**	770,178
Net Interest Income	**872,429**	799,513	**1,724,077**	1,621,983
Provision for loan losses	**2,827**	82,662	**56,664**	163,465
Net interest income after provision for loan losses	**869,602**	716,851	**1,667,413**	1,458,518
Noninterest Income				
Service charges on deposit accounts	**168,704**	157,954	**331,922**	315,775
Trust and investment management income	**140,366**	124,215	**276,584**	245,010
Retail investment services	**49,839**	41,991	**95,577**	79,459
Other charges and fees	**94,766**	82,574	**187,513**	160,845
Investment banking income	**54,330**	57,167	**99,143**	90,979
Trading account profits and commissions	**31,034**	29,583	**60,424**	60,376
Card fees	**37,721**	32,376	**69,415**	61,049
Other noninterest income	**54,953**	39,694	**101,294**	57,681
Securities (losses) gains	**(9,048)**	31,238	**(4,121)**	73,277
Total noninterest income	**622,665**	596,792	**1,217,751**	1,144,451
Noninterest Expense				
Employee compensation	**434,902**	386,439	**835,195**	761,446
Employee benefits	**86,020**	96,160	**192,523**	194,878
Net occupancy expense	**61,629**	58,563	**123,488**	116,285

Outside processing and software	**70,619**	61,022	**136,245**	118,076
Equipment expense	**45,740**	44,546	**90,825**	88,016
Marketing and customer development	**31,655**	25,583	**61,874**	50,462
Amortization of intangible assets	**14,590**	15,208	**30,230**	31,925
Other noninterest expense	**183,294**	150,207	**347,817**	294,869
Total noninterest expense	**928,449**	837,728	**1,818,197**	1,655,957
Income before provision for income taxes	**563,818**	475,915	**1,066,967**	947,012
Provision for income taxes	**177,247**	145,556	**318,561**	288,805
Net Income	**$ 386,571**	$ 330,359	**$ 748,406**	$ 658,207
Average common shares - diluted (thousands)	283,116	280,287	283,320	280,806
Average common shares - basic (thousands)	279,840	277,397	279,682	278,011
Net income per average common share - diluted	$ 1.36	$ 1.17	$ 2.64	$ 2.34
Net income per average common share - basic	1.39	1.19	2.68	2.37
[1] *Includes dividends on common stock of The Coca-Cola Company*	**12,066**	10,618	**24,133**	21,237

See notes to consolidated financial statements

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Consolidated Balance Sheets

(Dollars in thousands) (Unaudited)	June 30 2004 (As restated)	December 31 2003
Assets		
Cash and due from banks	**$ 4,068,693**	$ 3,931,653
Interest-bearing deposits in other banks	**17,196**	16,329
Funds sold and securities purchased under agreements to resell	**1,679,403**	1,373,392
Trading assets	**1,807,320**	1,853,137
Securities available for sale[1]	**25,587,978**	25,606,884
Loans held for sale	**5,030,617**	5,552,060
Loans	**82,540,230**	80,732,321
Allowance for loan losses	**(902,243)**	(941,922)
Net loans	**81,637,987**	79,790,399
Premises and equipment	**1,615,562**	1,595,307
Goodwill	**1,164,846**	1,077,638
Other intangible assets	**721,428**	639,619
Customers acceptance liability	**25,849**	63,014
Other assets	**4,819,644**	3,893,721
Total assets	**$ 128,176,523**	$ 125,393,153
Liabilities and Shareholders Equity		
Noninterest-bearing consumer and commercial deposits	**$ 20,610,429**	$ 21,001,324
Interest-bearing consumer and commercial deposits	**53,244,549**	51,923,322
Total consumer and commercial deposits	**73,854,978**	72,924,646
Brokered deposits	**4,050,525**	3,184,084
Foreign deposits	**7,623,200**	5,080,789
Total deposits	**85,528,703**	81,189,519
Funds purchased and securities sold under agreements to repurchase	**8,099,685**	9,505,246
Other short-term borrowings	**1,438,908**	4,175,415
Long-term debt	**17,441,487**	15,313,922
Acceptances outstanding	**25,849**	63,014
Trading liabilities	**1,072,125**	1,048,543
Other liabilities	**4,510,007**	4,366,328
Total liabilities	**118,116,764**	115,661,987
Preferred stock, no par value; 50,000,000 shares authorized; none issued		
Common stock, $1.00 par value	**294,163**	294,163
Additional paid in capital	**1,297,555**	1,288,311
Retained earnings	**7,615,503**	7,149,118
Treasury stock, at cost, and other	**(625,137)**	(664,518)
Accumulated other comprehensive income	**1,477,675**	1,664,092
Total shareholders equity	**10,059,759**	9,731,166

Total liabilities and shareholders equity	**$ 128,176,523**	$ 125,393,153
Common shares outstanding	**282,726,614**	281,923,057
Common shares authorized	**750,000,000**	750,000,000
Treasury shares of common stock	**11,436,143**	12,239,700
[1] *Includes net unrealized gains on securities available for sale*	**$ 2,258,984**	$ 2,614,512

See notes to consolidated financial statements

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Consolidated Statements of Cash Flow

(Dollars in thousands) (Unaudited)	Six months ended June 30 2004 (As restated)	Six months ended June 30 2003
Cash Flows from Operating Activities:		
Net income	**$ 748,406**	$ 658,207
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	**330,141**	479,676
Origination of mortgage servicing rights	**(108,317)**	(211,763)
Provisions for loan losses and foreclosed property	**57,201**	163,781
Amortization of compensation element of restricted stock	**3,889**	2,709
Stock option compensation	**9,371**	4,127
Securities losses (gains)	**4,121**	(73,277)
Net gain on sale of assets	**(3,196)**	(7,892)
Originated loans held for sale, net	**(15,088,185)**	(23,809,704)
Sales of loans held for sale	**15,609,628**	22,520,003
Net increase in other assets	**(354,932)**	(646,380)
Net (decrease) increase in other liabilities	**(7,682)**	1,484,394
Net cash provided by operating activities	**1,200,445**	563,881
Cash Flows from Investing Activities:		
Proceeds from maturities of securities available for sale	**2,644,935**	6,063,195
Proceeds from sales of securities available for sale	**3,239,896**	3,145,453
Purchases of securities available for sale	**(6,688,036)**	(7,902,918)
Loan originations net of principal collected	**(4,759,021)**	(1,892,824)
Proceeds from sale of loans	**200,643**	128,687
Capital expenditures	**(108,532)**	(47,926)
Proceeds from the sale of other assets	**19,093**	15,459
Other investing activities	**1,990**	
Net cash used for acquisitions	**(191,649)**	(34,261)
Net cash used in investing activities	**(5,640,681)**	(525,135)
Cash Flows from Financing Activities:		
Net increase in consumer and commercial deposits	**931,556**	608,532
Net increase (decrease) in foreign and brokered deposits	**3,408,852**	(3,450,959)
Net (decrease) increase in funds purchased and other short-term borrowings	**(1,579,037)**	4,137,194
Proceeds from the issuance of long-term debt	**2,500,157**	9,506
Repayment of long-term debt	**(130,718)**	(256,266)
Proceeds from the exercise of stock options	**21,039**	4,856
Proceeds from stock issuance	**28,389**	26,901
Acquisition of treasury stock	**(14,063)**	(165,988)
Dividends paid	**(282,021)**	(252,501)
Net cash provided by financing activities	**4,884,154**	661,275
Net increase in cash and cash equivalents	**443,918**	700,021
Cash and cash equivalents at beginning of year	**5,321,374**	5,558,295

Cash and cash equivalents at end of period	**$ 5,765,292**	$ 6,258,316
Supplemental Disclosure		
Interest paid	**$ 644,198**	$ 795,983
Income taxes paid	**244,663**	82,599
Income taxes refunded	**272**	1,100
Non-cash impact of the deconsolidation of Three Pillars	**(2,563,031)**	

See notes to Consolidated Financial Statements

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Consolidated Statements of Shareholders Equity

(Dollars and shares in thousands) (Unaudited)	Common Shares Outstanding	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock and Other*	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2003	282,505	$ 294,163	$ 1,276,110	$ 6,322,217	$ (632,464)	$ 1,509,470	$ 8,769,496
Net income				658,207			658,207
Other comprehensive income:							
Change in unrealized gains (losses) on derivatives, net of taxes						21,084	21,084
Change in unrealized gains (losses) on securities, net of taxes						24,167	24,167
Accumulated other comprehensive income related to retirement plans						9,757	9,757
Total comprehensive income							713,215
Cash dividends declared, $0.90 per share				(252,501)			(252,501)
Exercise of stock options and stock compensation expense	150		747		8,236		8,983
Acquisition of treasury stock	(3,003)				(165,988)		(165,988)
Acquisition of Lighthouse Financial Services	1,152		11,745		64,144	(1)	75,888
Restricted stock activity	117		(518)		518		
Amortization of compensation element of restricted stock					2,709		2,709
Issuance of stock for employee benefit plans	472		573		26,328		26,901
Balance, June 30, 2003	281,393	$ 294,163	$ 1,288,657	$ 6,727,923	$ (696,517)	$ 1,564,477	$ 9,178,703
Balance, January 1, 2004	**281,923**	**$ 294,163**	**$ 1,288,311**	**$ 7,149,118**	**$ (664,518)**	**$ 1,664,092**	**$ 9,731,166**
Net income (As restated)				**748,406**			**748,406**
Other comprehensive income:							
Change in unrealized gains (losses) on derivatives, net of taxes						**46,508**	**46,508**
Change in unrealized gains (losses) on securities, net of taxes						**(232,677)**	**(232,677)**
Accumulated other comprehensive income related to retirement plans						**(248)**	**(248)**
Total comprehensive income (As restated)							**561,989**
Cash dividends declared, $1.00 per share				**(282,021)**			**(282,021)**
Exercise of stock options and stock compensation expense	**475**		**4,690**		**25,720**		**30,410**
Acquisition of treasury stock	**(200)**				**(14,063)**		**(14,063)**
Restricted stock activity	**119**		**(831)**		**831**		
Amortization of compensation element of restricted stock					**3,889**		**3,889**
Issuance of stock for employee benefit plans	**410**		**5,385**		**23,004**		**28,389**
Balance, June 30, 2004 (As restated)	**282,727**	**$ 294,163**	**$ 1,297,555**	**$ 7,615,503**	**$ (625,137)**	**$ 1,477,675**	**$ 10,059,759**

* Balance at June 30, 2003 includes $663,666 for treasury stock and $32,851 for compensation element of restricted stock.

Balance at June 30, 2004 includes $597,162 for treasury stock and $27,975 for compensation element of restricted stock.

See notes to consolidated financial statements

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Notes to Consolidated Financial Statements (Unaudited)

Throughout these Notes to Consolidated Financial Statements, all amounts and comparisons reflect the balance and amounts on a restated basis. For information on the restatement, see Note 12, Restatement, to these financial statements.

Note 1 Principles of Consolidation and Accounting Policies

The consolidated financial statements include the accounts of SunTrust Banks, Inc. (SunTrust or Company) and its majority-owned subsidiaries, and those variable interest entities (VIEs) where the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. The Company accounts for investments in companies that it owns a voting interest of 20 percent to 50 percent and for which it may have significant influence over operating and financing decisions using the equity method of accounting. These investments are included in other assets and the Company s proportionate share of income or loss is included in other income.

The consolidated interim financial statements of SunTrust are unaudited. Certain reclassifications have been made to prior year amounts to conform to the current year presentation. These financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2003. There have been no significant changes to the Company s Accounting Policies as disclosed in the Annual Report on Form 10-K for the year ended December 31, 2003.

Note 2 Acquisitions

On May 9, 2004, SunTrust announced a definitive agreement to acquire National Commerce Financial Corporation (NCF), a Memphis-based financial services organization. The proposed merger will enhance the Company s current geographic position, as well as expand the Company s footprint to include new areas within the Southeast, primarily Western Tennessee, North Carolina and South Carolina. The Company will acquire approximately $24 billion in assets and $16 billion in deposits. The consideration will be a combination of cash and stock with the purchase price estimated to be $6.9 billion. NCF shareholders will have the right, subject to proration, to elect to receive cash or SunTrust common stock. The total consideration consists of approximately $1.8 billion in cash and approximately 75.4 million SunTrust shares. The agreement has been approved by both boards of directors and is subject to customary regulatory and shareholder approvals. The merger is expected to close in the fourth quarter of 2004.

On May 28, 2004, SunTrust completed the acquisition of Seix Investment Advisors. The Company acquired approximately $17 billion in assets under management. The Company paid $190 million in cash, with the possibility of additional payments to be made in 2007 and 2009, contingent on performance. The additional payments are currently estimated to total approximately $90 million. The acquisition did not have a material impact on SunTrust s financial position or results of operations.

Note 3 Accounting Developments

Accounting Policies Adopted

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 46, Consolidation of Variable Interest Entities. FIN 46 is an Interpretation of Accounting Research Bulletin (ARB) No. 51 and addresses consolidation by business enterprises of variable interest entities (VIEs). The Interpretation is based on the concept that an enterprise controlling another entity through interests other than voting interests should consolidate the controlled entity. Business enterprises are required under the provisions of the Interpretation to identify VIEs, based on specified characteristics, and then determine whether they should be consolidated. An enterprise that holds a majority of the variable interests is considered the primary beneficiary and would consolidate the VIE. In addition to the primary beneficiary, an enterprise that holds a significant variable interest in a VIE is required to make certain interim and annual

Notes to Consolidated Financial Statements (Unaudited)

disclosures. As of July 1, 2003, the Company adopted the Interpretation and the disclosures related to certain of the Company s variable interests in VIEs.

On December 24, 2003, the FASB issued a revision of FIN 46 (FIN 46(R)), which replaces the Interpretation issued in January 2003. The revised Interpretation clarifies some of the provisions of FIN 46 and provides additional exemptions for certain entities. Under the provisions of FIN 46(R), SunTrust was permitted to continue the application of FIN 46 until the reporting period ended March 31, 2004, at which time the Company adopted the provisions of FIN 46(R). The adoption of FIN 46(R) did not have a material impact on the Company s financial position or results of operations. The required disclosures related to the Company s variable interests in VIEs are included in Note 10 to the Consolidated Financial Statements.

In the normal course of business, the Company enters into derivatives, consisting primarily of MBS forward sale contracts, to offset the change in value of its IRLCs related to residential mortgage loans that are intended to be held for sale. Pull-through estimates (the degree to which IRLCs are expected to result in closed residential mortgage loans) are used to determine appropriate levels of MBS forward sale contracts. This risk management technique is employed by the Company to offset changes in value of IRLCs related to residential mortgage loans that are intended to be held for sale.

In March 2004, the Securities Exchange Commission (SEC) Staff issued Staff Accounting Bulletin (SAB) No. 105, Application of Accounting Principles to Loan Commitments, which addresses the accounting treatment for loan commitments accounted for as derivative instruments. Interest rate lock commitments (IRLCs) represent commitments to extend credit at specified interest rates. The Company accounts for IRLCs associated with mortgages to be held for sale as freestanding derivative financial instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities and, with the implementation of SAB No. 105, Emerging Issues Task Force (EITF) Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading purposes and Contracts Involved in Energy Trading and Risk Management Activities. The SAB references SFAS No. 149 as the primary guidance for IRLC recognition, where IRLCs are classified as derivative financial instruments. Additionally, EITF Issue No. 02-3 provides guidance that the absence of an active exchange or market for derivative financial instruments renders its recorded inception value as zero, with subsequent fair values recorded as assets or liabilities. The estimated fair value of IRLCs is derived from current mortgage-backed security (MBS) prices and no fair value is recorded at inception with subsequent changes in value recorded in earnings. The Company s issuance of IRLCs relates to residential mortgage loans that are originated or acquired and are primarily intended to be held for sale. Originated IRLCs that are intended for investment fall under SFAS No. 149 paragraph 7(e) and are not treated as derivative financial instruments.

SAB No. 105 permits recognition of servicing assets only when the servicing asset has been contractually separated from the underlying loan by sale or securitization of the loan where servicing is retained. Additionally, the SAB prohibits entities from recording internally-developed intangible assets as part of the loan commitment derivative. SAB No. 105 is effective for mortgage loan commitments that are accounted for as derivatives and are entered into after March 31, 2004. The adoption of SAB No. 105 did not have a material impact on the Company s financial position or results of operations.

Recently Issued Accounting Pronouncements

In December 2003, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 03-3, Accounting for Loans or Certain Debt Securities Acquired in a Transfer. The SOP

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Notes to Consolidated Financial Statements (Unaudited)

addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor s initial investment in loans or debt securities acquired in a transfer if those differences relate to a deterioration of credit quality. The SOP also prohibits companies from carrying over or creating a valuation allowance in the initial accounting for loans acquired that meet the scope criteria of the SOP. The SOP is effective for loans acquired in fiscal years beginning after December 15, 2004. The adoption of this SOP is not expected to have a material impact on the Company s financial position or results of operations.

In December 2003, the Medicare Prescription Drugs, Improvement and Modernization Act of 2003 (the Medicare Act) was signed into law. The Medicare Act calls for sponsors of retiree health care benefit plans to be reimbursed for a certain percentage of the prescription cost for retirees. SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, requires enacted changes in relevant laws to be considered in current period measurements of postretirement benefit costs and Accumulated Postretirement Benefit Obligations (APBO). Therefore, under SFAS No. 106, measures of APBO and net periodic post retirement benefit costs on or after the date of enactment should reflect the effects of the Medicare Act. However, certain accounting issues raised in the Medicare Act resulted in the FASB allowing plan sponsors to elect to defer accounting for the effects of the Medicare Act until further guidance is issued. The Company elected to defer until the FASB issued additional guidance.

In May 2004, the FASB issued FASB Staff Position (FSP) No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 , which provides the guidance on how to account for the effects of the new Medicare prescription drug legislation. If the Company determines that the drug benefits being offered to retirees are actuarially equivalent to the drug benefits under the Medicare Act, then the subsidy should be accounted for in the measurement of the APBO and recognized as an actuarial gain over an estimated average working life of the current employee workforce. The FSP also provides guidance for disclosures concerning the effects of the subsidy for employers when the employer has not yet determined actuarial equivalency. The FSP is effective for the first interim period beginning after June 15, 2004 and provides various transition alternatives. The measurement of the APBO or net periodic postretirement benefit cost in the Consolidated Financial Statements does not reflect any amount associated with the subsidy, as the Company plans to adopt the FSP in the quarter ending September 30, 2004. The Company does not expect the adoption of the FSP to have a material impact on the Company s financial position or results of operations.

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Notes to Consolidated Financial Statements (Unaudited) continued

Note 4 Intangible Assets

Under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, the Company completed its 2003 annual review of goodwill and determined there was no impairment. The Company will review goodwill on an annual basis for impairment and as events occur or circumstances change that would more likely than not reduce fair value of a reporting unit below its carrying amount. The changes in the carrying amount of goodwill by reportable segment for the six months ended June 30, 2003 and 2004 are as follows:

(Dollars in thousands) (Unaudited)	Retail	Commercial	Corporate and Investment Banking	Mortgage	Private Client Services	Corporate/ Other	Total
Balance, January 1, 2003	$ 687,185	$ 96,626	$ 94,852	$ 15,765	$ 69,333	$	$ 963,761
Purchase price adjustment	4,188						4,188
Lighthouse acquisition	41,830	24,447		24,804			91,081
Other acquisitions				690			690
Balance, June 30, 2003	$ 733,203	$ 121,073	$ 94,852	$ 41,259	$ 69,333	$	$ 1,059,720
Balance, January 1, 2004	**$ 736,514**	**$ 123,276**	**$ 94,852**	**$ 53,663**	**$ 69,333**	**$**	**$ 1,077,638**
Purchase price adjustment	**449**	**190**		**2,579**			**3,218**
Seix Investment Advisors					**83,990**		**83,990**
Reallocation	**(4,975)**				**4,975**		
Balance, June 30, 2004	**$ 731,988**	**$ 123,466**	**$ 94,852**	**$ 56,242**	**$ 158,298**	**$**	**$ 1,164,846**

The changes in the carrying amounts of other intangible assets for the six months ended June 30, 2003 and 2004 are as follows:

(Dollars in thousands) (Unaudited)	Core Deposit Intangible	Mortgage Servicing Rights	Other	Total
Balance, January 1, 2003	$ 216,855	$ 383,918	$ 11,385	$ 612,158
Amortization	(30,902)	(198,859)	(1,023)	(230,784)
Servicing rights originated		211,763		211,763
Asset acquisition			402	402
Lighthouse acquisition	9,400	5,398	7,800	22,598
Balance, June 30, 2003	$ 195,353	$ 402,220	$ 18,564	$ 616,137
Balance, January 1, 2004	**$ 165,028**	**$ 449,293**	**$ 25,298**	**$ 639,619**
Amortization	**(27,226)**	**(97,339)**	**(3,005)**	**(127,570)**
Servicing rights originated		**108,317**		**108,317**

Seix acquisition			99,200	99,200
Other			1,862	1,862
Balance, June 30, 2004	**$ 137,802**	**$ 460,271**	**$ 123,355**	**$ 721,428**

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Notes to Consolidated Financial Statements (Unaudited) continued

The estimated amortization expense for intangible assets, excluding amortization of mortgage servicing rights, for the year 2004 and the subsequent years is as follows:

(Dollars in thousands)(Unaudited)	Core Deposit Intangible	Other	Total
2004	$ 52,208	$ 8,858	$ 61,066
2005	41,515	11,629	53,144
2006	31,975	11,065	43,040
2007	22,664	11,054	33,718
2008	13,339	10,387	23,726
Thereafter	3,327	73,367	76,694
Total	$ 165,028	$ 126,360	$ 291,388

Note 5 Stock Options

Effective January 1, 2002, the Company adopted the fair-value recognition provision of SFAS No. 123 prospectively to all awards granted after January 1, 2002. The effect on net income and earnings per share if the fair-value based method had been applied to all outstanding awards for the three and six months ended June 30, 2004 and 2003 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(Dollars in thousands) (Unaudited)	**2004 (As restated)**	2003	**2004 (As restated)**	2003
Net income, as reported	**$ 386,571**	$ 330,359	**$ 748,406**	$ 658,207
Stock-based employee compensation expense included in reported net income, net of related tax effects	**3,245**	1,365	**5,904**	2,487
Total stock-based employee compensation expense determined under fair-value-based method for all awards, net of related tax effects	**(4,742)**	(4,459)	**(9,018)**	(8,814)
Net income, pro forma	**$ 385,074**	$ 327,265	**$ 745,292**	$ 651,880
Earning per share:				
Diluted - as reported	**$ 1.36**	$ 1.17	**$ 2.64**	$ 2.34
Diluted - pro forma	**1.36**	1.16	**2.63**	2.32
Basic - as reported	**1.39**	1.19	**2.68**	2.37

Basic - pro forma	**1.37**	1.18	**2.66**	2.35

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Notes to Consolidated Financial Statements (Unaudited) continued

Note 6 Comprehensive Income

Comprehensive income for the six months ended June 30, 2004 and 2003 is calculated as follows:

(Dollars in thousands) (Unaudited)	**2004 (As restated)**	2003
Unrealized (loss) gain on available for sale securities, net, recognized in other comprehensive income:		
Before income tax	**$ (357,965)**	$ 37,180
Income tax	**125,288**	(13,013)
Net of income tax	**$ (232,677)**	$ 24,167
Amounts reported in net income:		
(Loss) gain on sale of securities	**$ (4,121)**	$ 73,277
Net amortization	**36,358**	93,951
Reclassification adjustment	**32,237**	167,228
Income tax	**(11,283)**	(58,530)
Reclassification adjustment, net of tax	**$ 20,954**	$ 108,698
Unrealized (loss) gain on available for sale securities arising during period, net of tax	**$ (211,723)**	$ 132,865
Reclassification adjustment, net of tax	**(20,954)**	(108,698)
Net unrealized (loss) gain on available for sale securities recognized in other comprehensive income	**$ (232,677)**	$ 24,167
Unrealized gain on derivative financial instruments, net, recognized in other comprehensive income:		
Before income tax	**$ 71,551**	$ 32,437
Income tax	**(25,043)**	(11,353)
Net of income tax	**$ 46,508**	$ 21,084
Accumulated other comprehensive income related to retirement plans	**$ (248)**	$ 9,757
Total unrealized (losses) gains recognized in other comprehensive income	**$ (186,417)**	$ 55,008
Net income	**748,406**	658,207
Total comprehensive income	**$ 561,989**	$ 713,215

The components of accumulated other comprehensive income at June 30 were as follows:

(Dollars in thousands) (Unaudited)	**2004**	2003
Unrealized gain on available for sale securities	**$ 1,466,667**	$ 1,608,257
Unrealized gain (loss) on derivative financial instruments	**29,252**	(25,660)
Accumulated other comprehensive income related to retirement plans	**(18,244)**	(18,120)
Total accumulated other comprehensive income	**$ 1,477,675**	$ 1,564,477

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Notes to Consolidated Financial Statements (Unaudited) continued

Note 7 Earnings Per Share Reconciliation

Net income is the same in the calculation of basic and diluted earnings per share (EPS). Shares of 6.7 million and 6.4 million for the periods ended June 30, 2004 and 2003, respectively, were excluded in the computation of diluted EPS because they would have been antidilutive. A reconciliation of the difference between average basic common shares outstanding and average diluted common shares outstanding for the three and six months ended June 30, 2004 and 2003 is included in the following table:

(In thousands, except per share data) (Unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2004 (As restated)	2003	**2004 (As restated)**	2003
Diluted				
Net income	**$ 386,571**	$ 330,359	**$ 748,406**	$ 658,207
Average common shares outstanding	**279,840**	277,397	**279,682**	278,011
Effect of dilutive securities:				
Stock options	**1,516**	854	**1,867**	778
Performance restricted stock	**1,760**	2,036	**1,771**	2,017
Average diluted common shares	**283,116**	280,287	**283,320**	280,806
Earnings per common share - diluted	**$ 1.36**	$ 1.17	**$ 2.64**	$ 2.34
Basic				
Net income	**$ 386,571**	$ 330,359	**$ 748,406**	$ 658,207
Average common shares	**279,840**	277,397	**279,682**	278,011
Earnings per common share - basic	**$ 1.39**	$ 1.19	**$ 2.68**	$ 2.37

Note 8 Business Segment Reporting

The Company uses a line of business management structure to measure business activities. The Company has five functional lines of business: Retail, Commercial, Corporate and Investment Banking (CIB), Mortgage, and Private Client Services (PCS). In addition, the Company reports a Corporate/Other segment which includes the investment securities portfolio, long-term debt, capital, short-term liquidity and funding activities, balance sheet risk management including derivative hedging activities, office premises and certain support activities not currently allocated to the aforementioned lines of business. Any transactions between the separate lines of business not already eliminated in the results of the functional lines of business are also reflected in the Corporate/Other line of business. Finally, the provision for income taxes is also reported in the Corporate/Other line of business segment.

The Retail line of business includes loans, deposits, and other fee-based services for consumer and private banking clients, as well as business clients with less than $5 million in sales. Clients are serviced through an extensive network of traditional and in-store branches, ATMs, the Internet and the telephone. The Commercial line of business provides clients with a full array of financial solutions including traditional commercial lending, treasury management, financial risk management products and corporate bankcard services.

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Notes to Consolidated Financial Statements (Unaudited)   continued

This line of business primarily serves business customers between $5 million and $250 million in annual revenues in addition to entities specializing in commercial real estate activities. CIB is comprised of the following businesses: corporate banking, investment banking, capital markets businesses, commercial leasing, receivables capital management and merchant banking. The corporate banking strategy is focused on companies with sales in excess of $250 million and is organized along industry specialty and geographic lines. The Mortgage line of business offers residential mortgage products nationally through its retail, broker and correspondent channels. PCS provides a full array of wealth management products and professional services to both individual and institutional clients. PCS   primary divisions include brokerage, individual wealth management, insurance product sales, and institutional investment management and administration.

The Company continues to augment its internal management reporting system. Future enhancements of items reported for each line of business segment are expected to include: assets, liabilities and attributed economic capital; matched maturity funds transfer priced net interest revenue, net of credit risk premiums; direct noninterest income; internal credit transfers between lines of business for supportive business services; and fully allocated expenses. The internal management reporting system and the business segment disclosures for each line of business do not currently include attributed economic capital, nor fully allocated expenses. During 2004, certain product-related expenses incurred within production support areas of the Company that had previously been allocated to the line of business segments, are no longer distributed to the line of business segments. These expenses are reported in the Corporate/Other line of business segment and prior periods have been reclassified. This change was made in anticipation of finalizing the methodology for full cost allocations, one of the primary future enhancements to the Company   s internal management reporting system. The implementation of these enhancements to the internal management reporting system is expected to materially affect the net income disclosed for each segment with no impact on consolidated amounts. Whenever significant changes to management report methodologies take place, the impact of these changes is quantified and prior period information is reclassified. The Company will reflect these reclassified changes immediately in the current period and in year to date historical comparisons, and will provide updated historical quarterly and annual schedules in the 2004 Annual Report on Form 10-K.

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Notes to Consolidated Financial Statements (Unaudited) continued

The tables below disclose selected financial information for SunTrust s reportable business segments for the three and six months ended June 30, 2004 and 2003.

(Dollars in thousands) (Unaudited)	Retail	Commercial	Corporate and Investment Banking	Mortgage	Private Client Services	Corporate/ Other (As restated)	Consolidated (As restated)
Three Months Ended June 30, 2004							
Average total assets	$ 29,388,058	$ 24,619,399	$ 19,123,294	$ 23,288,466	$ 2,681,897	$ 28,186,344	$ 127,287,458
Average total liabilities	54,641,833	12,141,039	7,610,996	1,751,774	1,854,083	39,093,532	117,093,257
Average total equity						10,194,201	10,194,201
Net interest income	444,969	164,524	66,501	125,745	14,125	56,565	872,429
Fully taxable-equivalent adjustment (FTE)	19	7,344	3,942		2	1,330	12,637
Net interest income (FTE)[1]	444,988	171,868	70,443	125,745	14,127	57,895	885,066
Provision for loan losses [2]	33,154	4,157	(130)	303	19	(34,676)	2,827
Net interest income after provision for loan losses	411,834	167,711	70,573	125,442	14,108	92,571	882,239
Noninterest income	207,793	77,182	153,713	23,838	192,583	(32,444)	622,665
Noninterest expense	291,820	82,844	83,029	82,587	150,482	237,687	928,449
Total income before taxes	327,807	162,049	141,257	66,693	56,209	(177,560)	576,455
Provision for income taxes [3]						189,884	189,884
Net Income	$ 327,807	$ 162,049	$ 141,257	$ 66,693	$ 56,209	$ (367,444)	$ 386,571

	Retail	Commercial	Corporate and Investment Banking	Mortgage	Private Client Services	Corporate/ Other	Consolidated
Three Months Ended June 30, 2003							
Average total assets	$ 26,182,536	$ 23,291,717	$ 21,467,724	$ 21,563,112	$ 2,246,039	$ 24,696,914	$ 119,448,042
Average total liabilities	52,933,973	10,342,079	7,560,087	1,900,459	1,534,030	36,313,351	110,583,979
Average total equity						8,864,063	8,864,063
Net interest income	433,122	155,985	66,398	137,443	12,787	(6,222)	799,513
Fully taxable-equivalent adjustment (FTE)	15	6,374	3,191		3	1,319	10,902
Net interest income (FTE) [1]	433,137	162,359	69,589	137,443	12,790	(4,903)	810,415

Provision for loan losses [2]	33,717	2,550	44,115	540	291	1,449	82,662
Net interest income after provision for loan losses	399,420	159,809	25,474	136,903	12,499	(6,352)	727,753
Noninterest income	188,824	61,721	154,562	11,256	165,896	14,533	596,792
Noninterest expense	267,235	65,547	74,369	71,579	125,727	233,271	837,728
Total income before taxes	321,009	155,983	105,667	76,580	52,668	(225,090)	486,817
Provision for income taxes [3]						156,458	156,458
Net Income	$ 321,009	$ 155,983	$ 105,667	$ 76,580	$ 52,668	$ (381,548)	$ 330,359

1 Net interest income is fully taxable equivalent and is presented on a matched maturity funds transfer price basis for the line of business.

2 Provision for loan losses includes an allocation to the lines of business reflecting credit losses.

3 Includes income tax provision and taxable-equivalent income adjustment reversal of $12,637 and $10,902 for the three months ended June 30, 2004 and 2003, respectively.

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Notes to Consolidated Financial Statements (Unaudited) continued

Six Months Ended June 30, 2004

(Dollars in thousands)(Unaudited)	**Retail**	**Commercial**	**Corporate and Investment Banking**	**Mortgage**	**Private Client Services**	**Corporate/ Other (As restated)**	**Consolidated (As restated)**
Average total assets	$ 28,901,076	$ 24,309,754	$ 19,840,255	$ 22,279,338	$ 2,537,685	$ 27,702,494	$ 125,570,602
Average total liabilities	54,077,544	11,946,710	7,979,639	1,536,212	1,758,723	38,254,532	115,553,360
Average total equity						10,017,242	10,017,242
Net interest income	888,387	328,042	130,956	242,545	28,807	105,340	1,724,077
Fully taxable-equivalent adjustment (FTE)	37	14,593	7,620		4	2,639	24,893
Net interest income (FTE)[1]	888,424	342,635	138,576	242,545	28,811	107,979	1,748,970
Provision for loan losses [2]	71,917	11,648	9,171	2,740	32	(38,844)	56,664
Net interest income after provision for loan losses	816,507	330,987	129,405	239,805	28,779	146,823	1,692,306
Noninterest income	401,558	160,472	286,559	44,078	377,853	(52,769)	1,217,751
Noninterest expense	574,693	165,206	158,137	153,939	294,805	471,417	1,818,197
Total income before taxes	643,372	326,253	257,827	129,944	111,827	(377,363)	1,091,860
Provision for income taxes [3]						343,454	343,454
Net Income	$ 643,372	$ 326,253	$ 257,827	$ 129,944	$ 111,827	$ (720,817)	$ 748,406

Six Months Ended June 30, 2003

	Retail	Commercial	Corporate and Investment Banking	Mortgage	Private Client Services	Corporate/ Other	Consolidated
Average total assets	$ 25,998,391	$ 22,837,441	$ 21,878,360	$ 21,216,318	$ 2,143,841	$ 24,791,001	$ 118,865,352
Average total liabilities	52,594,709	10,240,651	7,648,728	1,674,510	1,492,337	36,388,887	110,039,822
Average total equity						8,825,530	8,825,530
Net interest income	851,886	306,759	125,660	269,666	24,574	43,438	1,621,983
Fully taxable-equivalent adjustment (FTE)	36	12,509	6,250		6	2,644	21,445
Net interest income (FTE) [1]	851,922	319,268	131,910	269,666	24,580	46,082	1,643,428
Provision for loan losses [2]	77,033	5,221	77,184	869	231	2,927	163,465
Net interest income after provision for loan losses	774,889	314,047	54,726	268,797	24,349	43,155	1,479,963
Noninterest income	373,127	124,201	278,479	11,274	323,168	34,202	1,144,451

Noninterest expense	532,276	127,136	145,820	138,745	247,723	464,257	1,655,957
Total income before taxes	615,740	311,112	187,385	141,326	99,794	(386,900)	968,457
Provision for income taxes [3]						310,250	310,250
Net Income	$ 615,740	$ 311,112	$ 187,385	$ 141,326	$ 99,794	$ (697,150)	$ 658,207

[1] Net interest income is fully taxable equivalent and is presented on a matched maturity funds transfer price basis for the line of business.

[2] Provision for loan losses includes an allocation to the lines of business reflecting credit losses.

[3] Includes income tax provision and taxable-equivalent income adjustment reversal of $24,893 and $21,445 for the six months ended June 30, 2004 and 2003, respectively.

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Notes to Consolidated Financial Statements (Unaudited) continued

Note 9 Employee Benefits

In the first quarter of 2004, SunTrust contributed $30 million related to the 2003 plan year. SunTrust does not expect to make contributions for the 2004 plan year. The expected long-term rate of return on plan assets is 8.5% for 2004.

The components of the net periodic benefit cost for the three and six months ended June 30, 2004 were as follows. Expenses for 2003 are not shown because obtaining that information is not practical as this year is the first year interim reporting is required.

	Three months ended June 30, 2004		
(In thousands)(Unaudited)	Retirement Benefits	Supplemental Retirement Benefits	Other Postretirement Benefits
Service cost	$ 10,046	$ 426	$ 716
Interest cost	16,324	1,279	2,702
Expected return on plan assets	(26,191)		(2,188)
Amortization of prior service cost	(97)	486	
Recognized net actuarial loss	7,743	1,109	1,863
Amortization of initial transition obligation			583
Net periodic benefit cost	$ 7,825	$ 3,300	$ 3,676

	Six months ended June 30, 2004		
	Retirement Benefits	Supplemental Retirement Benefits	Other Postretirement Benefits
Service cost	$ 22,890	$ 852	$ 1,432
Interest cost	37,193	2,558	5,403
Expected return on plan assets	(59,675)		(4,376)
Amortization of prior service cost	(221)	972	
Recognized net actuarial loss	17,642	2,218	3,726
Amortization of initial transition obligation			1,166
Net periodic benefit cost	$ 17,829	$ 6,600	$ 7,351

Note 10 Variable Interest Entities and Off-Balance Sheet Arrangements

SunTrust assists in providing liquidity to select corporate customers by directing them to a multi-seller commercial paper conduit, Three Pillars Funding LLC (Three Pillars). Three Pillars provides financing for direct purchases of financial assets originated and serviced by SunTrust s corporate customers. Three Pillars finances this activity by issuing A-1/P-1 rated commercial paper. The result is a favorable funding arrangement for these SunTrust customers.

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, which addressed the criteria for the consolidation of off-balance sheet entities similar to Three Pillars. Under the provisions of FIN 46, SunTrust consolidated Three Pillars as of July 1, 2003.

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Notes to Consolidated Financial Statements (Unaudited) continued

In December 2003, the FASB issued a revision to FIN 46 (FIN 46(R)) which replaced the Interpretation issued in January 2003. FIN 46(R) is effective for reporting periods ending after March 15, 2004. As of March 31, 2004, the Company adopted all the provisions of FIN 46(R), and the adoption did not have a material impact on the Company s financial position or results of operations.

On March 1, 2004, Three Pillars was restructured through the issuance of a subordinated note to a third party. Under the terms of the subordinated note, the holder of the note will absorb the majority of Three Pillars expected losses. The subordinated note investor therefore is Three Pillars primary beneficiary, and thus the Company is not required to consolidate Three Pillars. Due to the issuance of the subordinated note, the Company deconsolidated Three Pillars effective March 1, 2004. As of June 30, 2004, Three Pillars had assets and liabilities not included on the Consolidated Balance Sheet, of approximately $3.3 billion, consisting of primarily secured loans, marketable asset-backed securities and short-term commercial paper liabilities. As of December 31, 2003, Three Pillars had assets and liabilities of approximately $3.2 billion which were included in the Consolidated Balance Sheet.

Activities related to the Three Pillars relationship generated fee revenue for the Company of approximately $5.6 million and $5.7 million for the quarters ended June 30, 2004 and 2003 and $10.5 million and $10.6 million for the six months ended June 30, 2004 and 2003, respectively. These activities include: client referrals and investment recommendations to Three Pillars; the issuing of a letter of credit, which provides partial credit protection to the commercial paper holders; and providing a majority of the temporary liquidity arrangements that would provide funding to Three Pillars in the event it can no longer issue commercial paper or in certain other circumstances.

As of June 30, 2004, off-balance sheet liquidity commitments and other credit enhancements made by the Company to Three Pillars totaled $5.2 billion and $482.0 million, respectively, which represent the Company s maximum exposure to potential loss. The Company manages the credit risk associated with these commitments by subjecting them to the Company s normal credit approval and monitoring processes.

As part of its community reinvestment initiatives, the Company invests in multi-family affordable housing properties throughout its footprint as a limited and/or general partner. The Company receives affordable housing federal and state tax credits for these limited partner investments. Partnership assets of approximately $777.0 million and $731.8 million in partnerships where SunTrust is only a limited partner were not included in the Consolidated Balance Sheet at June 30, 2004 and December 31, 2003, respectively. The Company s maximum exposure to loss for these partnerships at June 30, 2004 was $202.7 million, consisting of the limited partnership investments plus unfunded commitments.

SunTrust is the managing general partner of a number of non-registered investment limited partnerships which have been established to provide alternative investment strategies for its customers. In reviewing the partnerships for consolidations, SunTrust determined that these were voting interest entities and accordingly considered the consolidation guidance contained in SOP 78-9, Accounting for Investments in Real Estate Ventures. Under the terms of SunTrust s non-registered investment limited partnerships, the limited partnerships have certain rights, such as those specifically indicated in SOP 78-9 (including the right to remove the general partner, or kick-out rights). As such, SunTrust, as the general partner, is precluded from consolidating the limited partnerships under the provisions of SOP 78-9.

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Notes to Consolidated Financial Statements (Unaudited) continued

Note 11 - Guarantees

The Company has undertaken certain guarantee obligations in the ordinary course of business. In following the provisions of FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees (FIN 45), the Company must consider guarantees that have any of the following four characteristics (i) contracts that contingently require the guarantor to make payments to a guaranteed party based on changes in an underlying factor that is related to an asset, a liability, or an equity security of the guaranteed party; (ii) contracts that contingently require the guarantor to make payments to a guaranteed party based on another entity s failure to perform under an obligating agreement; (iii) indemnification agreements that contingently require the indemnifying party to make payments to an indemnified party based on changes in an underlying factor that is related to an asset, a liability, or an equity security of the indemnified party; and (iv) indirect guarantees of the indebtedness of others. The issuance of a guarantee imposes an obligation for the Company to stand ready to perform, and should certain triggering events occur, it also imposes an obligation to make future payments. Payments may be in the form of cash, financial instruments, other assets, shares of stock, or provisions of the Company s services. The following is a discussion of the guarantees that the Company has issued as of June 30, 2004, which have characteristics as specified by FIN 45.

Letters of Credit

Letters of credit are conditional commitments issued by the Company generally to guarantee the performance of a customer to a third party in borrowing arrangements, such as commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers and may be reduced by selling participations to third parties. The Company issues letters of credit that are classified as either financial standby, performance standby or commercial letters of credit. Commercial letters of credit are specifically excluded from the disclosure and recognition requirements of FIN 45.

As of June 30, 2004 and December 31, 2003, the maximum potential amount of the Company s obligation was $10.2 billion and $9.7 billion, respectively, for financial and performance standby letters of credit. The Company has recorded $87.7 million in other liabilities for unearned fees, which approximates fair value, related to these letters of credit as of June 30, 2004. The Company s outstanding letters of credit generally have a term of less than one year. If a letter of credit is drawn upon, the Company may seek recourse through the customer s underlying line of credit. If the customer s line of credit is also in default, the Company may take possession of any collateral securing the line of credit.

Contingent Consideration

The Company has contingent payment obligations related to certain business combination transactions. Payments are calculated using certain post-acquisition performance criteria. At June 30, 2004, the potential liability associated with these arrangements was approximately $143.1 million. As contingent consideration in a business combination is not subject to the recognition and measurement provisions of FIN 45, the Company currently has no amounts recorded for these guarantees at June 30, 2004. If required, these contingent payments would be payable within the next four years.

Other

In the normal course of business, the Company enters into indemnification agreements and provides standard representations and warranties in connection with numerous transactions. These transactions include those

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Notes to Consolidated Financial Statements (Unaudited) continued

arising from underwriting agreements, merger and acquisition agreements, loan sales, contractual commitments, and various other business transactions or arrangements. The extent of the Company s obligations under these indemnification agreements depends upon the occurrence of future events; therefore, the Company s potential future liability under these arrangements is not determinable.

Third party investors hold Series B Preferred Stock in STB Real Estate Holdings (Atlanta), Inc. (STBREH), a subsidiary of SunTrust. The contract between STBREH and the third party investors contains an automatic exchange clause which, under certain circumstances, requires the Series B preferred shares to be automatically exchanged for guaranteed preferred beneficial interest in debentures of the Company. The guaranteed preferred beneficial interest in debentures are guaranteed to have a liquidation value equal to the sum of the issue price, $350 million, and an approximate yield of 8.5% per annum subject to reduction for any cash or property dividends paid to date. As of June 30, 2004 and December 31, 2003, $431.5 and $412.5 million is accrued in other liabilities for the principal and interest, respectively. This exchange agreement remains in effect as long as any shares of Series B Preferred Stock are owned by the third party investors, not to exceed 30 years.

SunTrust Securities, Inc. (STS) and SunTrust Capital Markets, Inc. (STCM), broker-dealer affiliates of SunTrust, use a common third party clearing broker to clear and execute their customers securities transactions and to hold customer accounts. Under their respective agreements, STS and STCM agree to indemnify the clearing broker for losses that result from a customer s failure to fulfill its contractual obligations. As the clearing broker s rights to charge STS and STCM have no maximum amount, the Company believes that the maximum potential obligation cannot be estimated. However, to mitigate exposure, the affiliate may seek recourse from the customer through cash or securities held in the defaulting customers account. For the quarter ended June 30, 2004, STS and STCM experienced minimal net losses as a result of the indemnity. The clearing agreements expire at the end of 2004 for STS and STCM.

SunTrust Bank has guarantees associated with credit default swaps, an agreement in which the buyer of protection pays a premium to the seller of the credit default swap for protection against an event of default. Events constituting default under such agreements that would result in the Company making a guaranteed payment to a counterparty may include (i) default of the referenced asset; (ii) bankruptcy of the customer; or (iii) restructuring or reorganization by the customer. The notional amount outstanding at June 30, 2004 and December 31, 2003 was $475.0 million and $195.0 million, respectively. As of June 30, 2004, the notional amounts expire as follows: $10.0 million in 2004, $35.0 million in 2005, $43.0 million in 2006, $55.0 million in 2007, $100.0 million in 2008, and $232.0 million in 2009. In the event of default under the contract, the Company would make a cash payment to the holder of credit protection and would take delivery of the referenced asset from which the Company may recover a portion of the credit loss.

Note 12 Restatement

The Company has restated its previously issued financial statements for the quarterly periods ended March 31, 2004 and June 30, 2004. The restatement pertains to a misstatement of the Company s allowance for loan losses during these periods, as a result of errors and internal control deficiencies. These matters were identified in connection with the review process associated with the Company s financial statements for the period ended September 30, 2004. The following table discloses the impacts of the restatement.

Restatement of Consolidated Statement of Income

(Dollars in thousands) (Unaudited)	Three Months Ended June 30, 2004		Six Months Ended June 30, 2004	
	As previously reported	As restated	As previously reported	As restated
Net interest income	$ 872,429	$ 872,429	$ 1,724,077	$ 1,724,077
Provision for loan losses	38,751	2,827	98,139	56,664
Net interest income after provision for loan losses	833,678	869,602	1,625,938	1,667,413
Total noninterest income	622,665	622,665	1,217,751	1,217,751
Total noninterest expense	928,449	928,449	1,818,197	1,818,197
Income before provision for income taxes	527,894	563,818	1,025,492	1,066,967
Provision for income taxes	163,057	177,247	302,178	318,561
Net income	$ 364,837	$ 386,571	$ 723,314	$ 748,406
Net income per average common share - diluted	$ 1.29	$ 1.36	$ 2.55	$ 2.64
Net income per average common share - basic	1.31	1.39	2.59	2.68