SUNTRUST BANKS INC
Form 10-Q
May 08, 2006
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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 March 31, 2006

Commission File Number 001-08918

SunTrust Banks, Inc.

(Exact name of registrant as specified in its charter)

Georgia	**58-1575035**
(State or other jurisdiction	**(I.R.S. Employer**
of incorporation or organization)	**Identification No.)**

303 Peachtree Street, N.E., Atlanta, Georgia 30308

(Address of principal executive offices) (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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Yes ¨ No x

At April 30, 2006, 363,627,519 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 in the United States for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary to comply with Regulation S-X have been included. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the full year 2006.

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Item 1. FINANCIAL STATEMENTS (UNAUDITED)

Consolidated Statements of Income

(In thousands, except per share data) (Unaudited)	Three Months Ended March 31 2006	2005
Interest Income		
Interest and fees on loans	**$1,765,885**	$1,309,138
Interest on loans held for sale	**177,882**	86,142
Interest and dividends on securities available for sale		
Taxable interest	**250,839**	262,445
Tax-exempt interest	**9,439**	8,725
Dividends[1]	**32,247**	25,856
Interest on funds sold and securities purchased under agreements to resell	**11,962**	9,683
Other interest	**30,459**	14,033
Total interest income	**2,278,713**	1,716,022
Interest Expense		
Interest on deposits	**705,610**	322,477
Interest on funds purchased and securities sold under agreements to repurchase	**112,208**	56,190
Interest on other short-term borrowings	**25,181**	16,947
Interest on long-term debt	**256,673**	208,848
Total interest expense	**1,099,672**	604,462
Net Interest Income	**1,179,041**	1,111,560
Provision for loan losses	**33,403**	10,556
Net interest income after provision for loan losses	**1,145,638**	1,101,004
Noninterest Income		
Service charges on deposit accounts	**186,185**	184,103
Trust and investment management income	**168,089**	164,515
Retail investment services	**54,989**	55,143
Other charges and fees	**112,382**	111,375
Investment banking income	**51,815**	50,007
Trading account profits and commissions	**36,875**	44,046
Card fees	**56,603**	48,156
Net gain on sale of RCM assets		19,874
Mortgage production related income	**63,037**	17,997
Mortgage servicing related income	**44,710**	12,210
Other income	**76,717**	52,047
Securities gains/(losses), net	**104**	(5,659)
Total noninterest income	**851,506**	753,814
Noninterest Expense		
Employee compensation	**556,530**	516,504
Employee benefits	**148,435**	118,289
Net occupancy expense	**81,044**	75,851
Outside processing and software	**94,892**	82,848
Equipment expense	**49,448**	52,882
Marketing and customer development	**42,646**	31,629

Amortization of intangible assets	**27,245**	31,217
Merger expense		25,738
Other expense	**226,251**	198,948
Total noninterest expense	**1,226,491**	1,133,906
Income before provision for income taxes	**770,653**	720,912
Provision for income taxes	**239,126**	228,618
Net Income	**$531,527**	$492,294
Average common shares - diluted (thousands)	**363,437**	363,138
Average common shares - basic (thousands)	**359,934**	358,253
Net income per average common share - diluted	**$1.46**	$1.36
Net income per average common share - basic	**1.48**	1.37
[1]Includes dividends on common stock of		
The Coca-Cola Company	**14,963**	13,515

See notes to consolidated financial statements

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Consolidated Balance Sheets

(Dollars in thousands) (Unaudited)	As of March 31 2006	December 31 2005
Assets		
Cash and due from banks	**$4,158,082**	$4,659,664
Interest-bearing deposits in other banks	**81,857**	332,444
Funds sold and securities purchased under agreements to resell	**1,108,841**	1,313,498
Trading assets	**2,937,137**	2,811,225
Securities available for sale[1]	**27,335,487**	26,525,821
Loans held for sale	**9,351,662**	13,695,613
Loans	**118,130,245**	114,554,895
Allowance for loan and lease losses	**(1,039,247)**	(1,028,128)
Net loans	**117,090,998**	113,526,767
Premises and equipment	**1,876,579**	1,854,527
Goodwill	**6,897,105**	6,835,168
Other intangible assets	**1,123,463**	1,122,967
Customers acceptance liability	**20,935**	11,839
Other assets	**6,894,330**	7,023,308
Total assets	**$178,876,476**	$179,712,841
Liabilities and Shareholders Equity		
Noninterest-bearing consumer and commercial deposits	**$24,649,242**	$26,327,663
Interest-bearing consumer and commercial deposits	**73,290,646**	71,244,719
Total consumer and commercial deposits	**97,939,888**	97,572,382
Brokered deposits	**16,965,675**	15,644,932
Foreign deposits	**6,870,179**	8,835,864
Total deposits	**121,775,742**	122,053,178
Funds purchased	**4,346,238**	4,258,013
Securities sold under agreements to repurchase	**6,970,317**	6,116,520
Other short-term borrowings	**1,494,384**	1,937,624
Long-term debt	**18,919,961**	20,779,249
Acceptances outstanding	**20,935**	11,839
Trading liabilities	**1,734,328**	1,529,325
Other liabilities	**6,457,123**	6,139,698
Total liabilities	**161,719,028**	162,825,446
Preferred stock, no par value; 50,000,000 shares authorized; none issued		
Common stock, $1.00 par value	**370,578**	370,578
Additional paid in capital	**6,743,418**	6,761,684
Retained earnings	**9,621,597**	9,310,978
Treasury stock, at cost, and other	**(472,505)**	(493,936)
Accumulated other comprehensive income	**894,360**	938,091
Total shareholders equity	**17,157,448**	16,887,395
Total liabilities and shareholders equity	**$178,876,476**	$179,712,841

Common shares outstanding	**363,338,615**	361,984,193
Common shares authorized	**750,000,000**	750,000,000
Treasury shares of common stock	**7,239,783**	8,594,205
[1] Includes net unrealized gains on securities available for sale	**$1,497,176**	$1,572,033

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[1]	Accumulated Other Comprehensive Income	Total
Balance, January 1, 2005	360,840	$370,578	$6,749,219	$8,118,710	($528,558)	$1,276,950	$15,986,899
Net income				492,294			492,294
Other comprehensive income:							
Change in unrealized gains (losses) on derivatives, net of taxes						8,962	8,962
Change in unrealized gains (losses) on securities, net of taxes						(194,376)	(194,376)
Change related to supplemental retirement benefits, net of taxes						(940)	(940)
Total comprehensive income							305,940
Cash dividends declared, $0.55 per share				(198,430)			(198,430)
Exercise of stock options and stock compensation element expense	922		2,119		50,221		52,340
Acquisition of treasury stock	(995)				(71,405)		(71,405)
Performance and restricted stock activity	44		(2,821)		2,821		
Amortization of compensation element of performance and restricted stock					3,011		3,011
Issuance of stock for employee benefit plans	366		5,646		20,120		25,766
Other activity			138				138
Balance, March 31, 2005	361,177	$370,578	$6,754,301	$8,412,574	($523,790)	$1,090,596	$16,104,259
Balance, January 1, 2006	**361,984**	**$370,578**	**$6,761,684**	**$9,310,978**	**($493,936)**	**$938,091**	**$16,887,395**
Net income				**531,527**			**531,527**
Other comprehensive income:							
Change in unrealized gains (losses) on derivatives, net of taxes						**4,357**	**4,357**
Change in unrealized gains (losses) on securities, net of taxes						**(48,912)**	**(48,912)**
Change related to supplemental retirement benefits, net of taxes						**824**	**824**
Total comprehensive income							**487,796**
Cash dividends declared, $0.61 per share				**(220,908)**			**(220,908)**
Exercise of stock options and stock compensation element expense	**1,033**		**2,664**		**63,841**		**66,505**
Acquisition of treasury stock	**(1,535)**				**(108,623)**		**(108,623)**
Performance and restricted stock activity	**971**		**(11,915)**		**9,161**		**(2,754)**

Amortization of compensation element of performance and restricted stock					**2,411**		**2,411**
Issuance of stock for employee benefit plans	**683**		**(11,231)**		**41,857**		**30,626**
Issuance of stock for BancMortgage contingent consideration	**203**		**2,216**		**12,784**		**15,000**
Balance, March 31, 2006	**363,339**	**$370,578**	**$6,743,418**	**$9,621,597**	**($472,505)**	**$894,360**	**$17,157,448**

[1] Balance at March 31, 2006 includes $399,505 for treasury stock and $73,000 for compensation element of restricted stock. Balance at March 31, 2005 includes $490,612 for treasury stock and $33,178 for compensation element of restricted stock.

See notes to consolidated financial statements

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Consolidated Statements of Cash Flow

(Dollars in thousands) (Unaudited)	Three Months Ended March 31 2006	2005
Cash Flows from Operating Activities:		
Net income	**$531,527**	$492,294
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net gain on sale of RCM assets		(19,874)
Depreciation, amortization and accretion	**196,053**	180,334
Gain on sale of excess mortgage servicing rights	**(24,429)**	
Origination of mortgage servicing rights	**(127,209)**	(68,640)
Provisions for loan losses and foreclosed property	**34,013**	11,530
Amortization of compensation element of performance and restricted stock	**2,411**	3,011
Stock option compensation	**6,764**	6,232
Excess tax benefits from stock-based compensation	**(14,347)**	
Securities (gains)/losses	**(104)**	5,659
Net gain on sale of assets	**(16,883)**	(669)
Originated loans held for sale	**(11,250,843)**	(8,191,224)
Sales and securitizations of loans held for sale	**15,598,771**	7,815,908
Net increase in other assets	**(134,802)**	(1,044,282)
Net increase in other liabilities	**607,551**	400,491
Net cash provided by (used in) operating activities	**5,408,473**	(409,230)
Cash Flows from Investing Activities:		
Proceeds from maturities, calls and repayments of securities available for sale	**755,837**	1,164,013
Proceeds from sales of securities available for sale	**246,690**	1,515,016
Purchases of securities available for sale	**(1,803,802)**	(3,433,416)
Loan originations net of principal collected	**(3,683,977)**	(3,680,178)
Proceeds from sale of loans	**68,447**	31,048
Capital expenditures	**(73,931)**	(49,350)
Proceeds from the sale of other assets	**8,477**	7,740
Other investing activities		551
Net cash used in investing activities	**(4,482,259)**	(4,444,576)
Cash Flows from Financing Activities:		
Net increase in consumer and commercial deposits	**370,191**	929,547
Net (decrease) increase in foreign and brokered deposits	**(644,942)**	3,247,845
Net increase in funds purchased and other short-term borrowings	**498,782**	875,708
Proceeds from the issuance of long-term debt	**820**	500,000
Repayment of long-term debt	**(1,857,795)**	(4,072)
Proceeds from the exercise of stock options	**65,088**	46,108
Acquisition of treasury stock	**(108,623)**	(71,405)
Excess tax benefits from stock-based compensation	**14,347**	
Dividends paid	**(220,908)**	(198,430)
Net cash (used in) provided by financing activities	**(1,883,040)**	5,325,301
Net (decrease) increase in cash and cash equivalents	**(956,826)**	471,495
Cash and cash equivalents at beginning of period	**6,305,606**	5,488,939
Cash and cash equivalents at end of period	**$5,348,780**	$5,960,434

Supplemental Disclosures:		
Interest paid	**$1,062,015**	$549,084
Income taxes paid	**3,303**	32,764
Income taxes refunded	**11,520**	610

See notes to consolidated financial statements

Notes to Consolidated Financial Statements (Unaudited)

Note 1 Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of SunTrust Banks, Inc. (SunTrust or the Company), its majority-owned subsidiaries, and variable interest entities (VIEs) where the Company is the primary beneficiary. All significant intercompany accounts and transactions have been eliminated. Results of operations of companies purchased are included from the date of acquisition. Results of operations associated with companies or net assets sold are included through the date of disposition. Assets and liabilities of purchased companies are stated at estimated fair values at the date of acquisition. Investments in companies which are not VIEs, or where SunTrust is not the primary beneficiary in a VIE, that the Company owns a voting interest of 20% to 50%, and for which it may have significant influence over operating and financing decisions are accounted for 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 noninterest income.

The consolidated interim financial statements of SunTrust are unaudited. The preparation of financial statements in conformity with accounting principles generally accepted in the United States (US GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from these estimates. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. These financial statements should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2005. 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, 2005.

Note 2 Acquisitions/Dispositions

On March 31, 2006, SunTrust sold its 49% interest in First Market Bank, FSB (First Market). The sale of its approximately $79 million net investment resulted in a gain of $3.6 million which was recorded in other income in the Consolidated Statements of Income.

On March 30, 2006, SunTrust issued $15.0 million of common stock, or 202,866 shares, and $7.5 million in cash as contingent additional merger consideration to the former owners of BancMortgage Financial Corporation, a company acquired by National Commerce Financial Corporation (NCF) in 2002. NCF and its subsidiaries were purchased by SunTrust in 2004. Payment of the contingent consideration was made pursuant to the original purchase agreement between NCF and BancMortgage and was considered an adjustment to goodwill.

On March 17, 2006, SunTrust acquired 11 Florida Wal-Mart banking branches from Community Bank of Florida (CBF), based in Homestead, Florida. The Company acquired approximately $5.1 million in assets and $56.4 million in deposits and related liabilities. The transaction resulted in $1.1 million of other intangible assets which were deductible for tax purposes.

On March 10, 2006, SunTrust paid $3.9 million to the former owners of SunAmerica Mortgage (SunAmerica) that was contingent on the performance of SunAmerica. This resulted in $3.9 million of goodwill that was deductible for tax purposes. In 2003, SunTrust completed the acquisition of SunAmerica, one of the top mortgage lenders in Metro Atlanta.

On January 28, 2006, AMA Holdings, Inc. (AMA Holdings), a 100% subsidiary of SunTrust, exercised its right to call 98 minority member owned interests in AMA, LLC. The transaction resulted in $6.9 million of goodwill and $4.5 million of other intangibles related to client relationships which were both deductible for tax purposes. During the second quarter of 2005, AMA Holdings exercised its right to call 41 minority member owned interests in AMA, LLC which resulted in $3.3 million of goodwill that was also deductible for tax purposes. As of March 31, 2006, AMA Holdings owned 890 member interests of AMA, LLC, and 338 member

Notes to Consolidated Financial Statements (Unaudited) continued

interests of AMA, LLC were owned by employees and former employees. 111 of the employee and former employee-owned interests may be called by AMA Holdings at its discretion, or put to AMA Holdings by the holders of the member interest, in accordance with the member agreement. The remaining 227 employee-owned interests may be subject to certain vesting requirements and may be put or called at certain dates in the future, in accordance with the member agreement.

On December 31, 2005, SunTrust sold its 100% interest in Carswell of Carolina, Inc., a full service insurance agency offering comprehensive insurance services to its clients, for cash totaling $10.9 million.

On March 31, 2005, SunTrust sold substantially all of the factoring assets of its factoring division, Receivables Capital Management (RCM), to an affiliate of CIT Group, Inc. The sale of approximately $238 million in net assets resulted in a gain of $30.0 million. This gain was partially offset by $10.1 million of expenses primarily related to the severance of RCM employees and the write-off of obsolete RCM financial systems and equipment. The net gain of $19.9 million was recorded in the Consolidated Statements of Income as a component of noninterest income. In the third quarter of 2005, an additional gain of $3.5 million was recorded due to the actual expense incurred for severance and the write-off of obsolete systems and equipment being less than what was estimated in the first quarter of 2005. As a result, the gain related to the RCM factoring asset sale totaled $23.4 million for the year ended December 31, 2005.

On January 27, 2005, AMA Holdings purchased the remaining 20% minority interest of Lighthouse Partners, LLC (LHP), a nonregistered limited liability company established to provide alternative investment strategies for clients. The transaction resulted in $39.8 million of goodwill and $11.1 million of other intangibles related to client relationships and noncompete agreements which were both deductible for tax purposes.

Note 3 Accounting Developments

Accounting Policies Adopted

In December 2004, the FASB issued SFAS No. 123 (Revised), Share-Based Payment. This Statement replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Practice Bulletin (APB) Opinion No. 25, Accounting for Stock Issued to Employees . SFAS No. 123(R) clarifies and expands the guidance of SFAS No. 123 in several areas, including measuring fair value, classifying an award as equity or as a liability, accounting for non-substantive vesting provisions, and accounting for forfeitures. Under the provisions of SFAS No. 123(R), the alternative to use APB Opinion No. 25 s intrinsic value method of accounting that was provided in SFAS No. 123, as originally issued, is eliminated, and entities are required to measure and record compensation expense in share-based payment transactions at fair value, reduced by expected forfeitures. In accordance with SFAS 123(R), the Company changed its policy of recognizing forfeitures as they occur and began estimating the number of awards for which it is probable service will be rendered. The estimate of forfeitures adjusts the initial recognition of compensation expense and the estimated forfeitures will be subsequently adjusted through compensation expense to reflect actual forfeitures. Effective January 1, 2002, the Company adopted the fair value recognition provision of SFAS No. 123, prospectively, and began expensing the cost of stock options. As of December 31, 2005, all compensation expense related to awards granted prior to January 1, 2002 had been recognized. The Company adopted SFAS No. 123(R) effective January 1, 2006 using the modified prospective application method. The modified prospective application method applies to new awards, to any outstanding liability awards, and to awards modified, repurchased, or cancelled after January 1, 2006. In conjuction with the adoption of SFAS 123(R), the Company refined its measurement of the expected stock price volatility calculation by using a daily average calculation.

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Notes to Consolidated Financial Statements (Unaudited) continued

The adoption of this standard did not have a material impact on the Company s financial position or results of operations.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 changes the requirements for reporting and accounting for a change in accounting principle. This statement requires retrospective application to prior period financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The provisions of APB Opinion No. 20, Accounting Changes, that relate to reporting the correction of an error in previously issued financial statements and a change in accounting estimate are carried forward in SFAS No. 154. SFAS No. 154 also carries forward the provisions of SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements - an amendment of APB Opinion No. 28, that govern the reporting of accounting changes in interim financial statements. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company adopted the provisions of SFAS No. 154 on January 1, 2006. The adoption of this Statement did not impact the Company s financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. SFAS No. 155 requires companies to evaluate interests in securitized financial assets to determine whether they are freestanding derivatives or hybrid instruments that contain embedded derivatives requiring bifurcation from the host contract. SFAS No. 155 also permits companies to measure certain hybrid financial instruments at fair value in their entirety if they contain embedded derivatives that would otherwise require bifurcation in accordance with SFAS No. 133. The election may be made on an instrument-by-instrument basis and is irrevocable. Additionally, the Derivative Implementation Group (DIG) issued DIG Issues B38 and B39 in June 2005, which both clarify whether certain options embedded in debt instruments require bifurcation under SFAS No. 133. SunTrust adopted SFAS No. 155 and DIG Issues B38 and B39 as of January 1, 2006. The adoption of these pronouncements did not have a material impact on the Company s financial position or results of operations.

Recently Issued And Pending Accounting Pronouncements

In July 2005, the FASB issued a proposed FASB Staff Position (FSP) No. 13-a, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction. FSP No. 13-a indicates that a change in the timing of the realization of tax benefits on a leveraged lease will require recalculation of that lease. In January 2006, the FASB reached a tentative decision that an entity would not have to reclassify a lease from leveraged lease accounting if, as a result of the most recent recalculation, the lease no longer qualifies as a leveraged lease. SunTrust is currently in the process of evaluating the impact that this proposed guidance, if finalized, would have on the Company s financial position and results of operations. The FASB expects to issue the final FSP in the second quarter of 2006 with an anticipated effective date of January 1, 2007 for calendar year companies.

In July 2005, the FASB issued an exposure draft of a Proposed Interpretation, Accounting for Uncertain Tax Positions an interpretation of FASB Statement No. 109. This exposure draft clarifies guidance on the recognition and measurement of uncertain tax positions and, if issued, may result in companies revising their threshold for recognizing tax benefits that have some degree of uncertainty. The exposure draft also addresses the accrual of any interest and penalties related to tax uncertainties. The FASB expects to issue the Final Interpretation, which would include amendments to SFAS No. 109, Accounting for Income Taxes, in the second quarter of 2006 with an anticipated effective date of January 1, 2007 for calendar year companies. SunTrust is currently in the process of evaluating the impact that this exposure draft, if finalized, would have on the Company s financial position and results of operations.

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Notes to Consolidated Financial Statements (Unaudited) continued

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. This Statement requires that all separately recognized servicing rights be initially measured at fair value. Subsequently, an entity may either recognize its servicing rights at fair value or amortize its servicing rights over an estimated life and assess for impairment at least quarterly. SFAS No. 156 also amends how gains and losses are computed in transfers or securitizations that qualify for sale treatment in which the transferor retains the right to service the transferred financial assets. Additional disclosures for all separately recognized servicing rights are also required. This Statement is effective January 1, 2007 for calendar year companies. SunTrust is currently in the process of evaluating the impact that SFAS No. 156 will have on the Company s financial position and results of operations.

In March 2006, the FASB issued an exposure draft of a Proposed Statement, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R). This proposal requires that companies recognize the overfunded or underfunded status of a defined benefit postretirement plan in the statement of financial position. If issued, SunTrust would record its net funded position related to its retirement benefits plan, supplemental retirement benefits plan, and other postretirement benefits plan on the Consolidated Balance Sheets with an offsetting impact, net of tax, to beginning equity. The Company would also reclassify its unrecognized actuarial gains and losses and unrecognized prior service cost to beginning accumulated other comprehensive income, net of tax. Any transition asset or transition obligation remaining from the initial application of SFAS No. 87, Employers Accounting for Pensions or SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions, should be recognized in opening retained earnings, net of tax. Additionally, post-adoption changes in unrecognized actuarial gains and losses as well as unrecognized prior service costs will be recognized in other comprehensive income, net of tax. Finally, under the proposed guidance companies will no longer be permitted to use a measurement date other than the date of their fiscal year end. The Company currently uses a December 31 measurement date. The FASB expects to issue a final standard during the third quarter of 2006. If issued as currently proposed, this statement would be effective December 31, 2006 with retrospective application for all periods presented.

In April 2006, the FASB issued FSP No. FIN 46(R)-6, Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R). The FSP states that an evaluation of the design of the entity should be the single method used to understand variability when applying FIN 46(R) as opposed to alternative methods used to measure the amount of variability. This FSP introduces two steps to analyze the design of the entity and to determine the variability. Step one requires an analysis of the nature of the risks in the entity including credit risk, interest rate risk, foreign currency exchange risk, commodity price risk, equity price risk, and operations risk. Step two requires a determination of the purpose for which the entity is created and determination of the variability the entity is designed to create and pass along to its interest holders. Although this is a new approach, the conclusions will often be the same under the guidance of this FSP as those reached using other approaches. This FSP is to be applied on a prospective basis beginning July 1, 2006, to all entities that an enterprise becomes involved with and to all entities previously required to be analyzed under FIN 46(R) when a reconsideration event has occurred. SunTrust is currently in the process of evaluating the impact that this standard will have on the Company s financial position and results of operations.

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Notes to Consolidated Financial Statements (Unaudited) continued

Note 4 Allowance for Loan and Lease Losses

Activity in the allowance for loan and lease losses is summarized in the table below:

	Three Months Ended March 31		%
(Dollars in thousands)	**2006**	2005	**Change**
Balance at beginning of period	**$1,028,128**	$1,050,024	(2.1)
Provision for loan losses	**33,403**	10,556	216.4
Loan charge-offs	**(54,266)**	(65,093)	(16.6)
Loan recoveries	**31,982**	28,259	13.2
Balance at end of period	**$1,039,247**	$1,023,746	1.5

Note 5 Intangible Assets

Under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, goodwill is tested for impairment on an annual basis and as events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company completed its 2005 annual review as of September 30, 2005, and determined there was no impairment of goodwill as of this date. The changes in the carrying amount of goodwill by reportable segment for the three months ended March 31, 2005 and 2006 are as follows:

(Dollars in thousands)	**Retail**	**Commercial**	**Corporate and Investment Banking**	**Mortgage**	**Wealth and Investment Management**	**Corporate Other and Treasury**	**Total**
Balance, January 1, 2005	$4,875,347	$1,267,452	$148,362	$243,808	$260,905	$10,139	$6,806,013
NCF purchase adjustments	15,920	(2,662)	(705)	(283)	(571)	(141)	11,558
Purchase of LHP minority shares					39,801		39,801
SunAmerica contingent consideration				4,349			4,349
Balance, March 31, 2005	$4,891,267	$1,264,790	$147,657	$247,874	$300,135	$9,998	$6,861,721
Balance, January 1, 2006	**$4,873,158**	**$1,261,363**	**$147,470**	**$247,985**	**$297,857**	**$7,335**	**$6,835,168**
NCF purchase adjustments	**23,636**	**3,480**	**198**	**571**	**685**	**31**	**28,601**
BancMortgage contingent consideration				**22,500**			**22,500**
Purchase of AMA, LLC minority shares					**6,930**		**6,930**
SunAmerica contingent consideration				**3,906**			**3,906**
Balance, March 31, 2006	**$4,896,794**	**$1,264,843**	**$147,668**	**$274,962**	**$305,472**	**$7,366**	**$6,897,105**

US GAAP requires net assets acquired in a business combination to be recorded at their estimated fair value. Adjustments to the estimated fair value of acquired assets and liabilities generally occur within one year of the acquisition. However, tax related adjustments are permitted to extend beyond one year due to their nature and complexity. The purchase adjustments in the above table represent adjustments to the estimated fair value of the acquired net assets within the guidelines under US GAAP.

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Notes to Consolidated Financial Statements (Unaudited) continued

The changes in the carrying amounts of other intangible assets for the three months ended March 31, 2006 and 2005 are as follows:

(Dollars in thousands)	Core Deposit Intangible	Mortgage Servicing Rights	Other	Total
Balance, January 1, 2005	$424,143	$482,392	$154,916	$1,061,451
Amortization	(26,411)	(36,839)	(4,806)	(68,056)
Servicing rights originated		68,640		68,640
Purchase of LHP minority shares			11,119	11,119
Balance, March 31, 2005	$397,732	$514,193	$161,229	$1,073,154
Balance, January 1, 2006	**$324,743**	**$657,604**	**$140,620**	**$1,122,967**
Amortization	**(22,545)**	**(43,984)**	**(4,700)**	**(71,229)**
Servicing rights originated		**127,209**		**127,209**
CBF branch acquisition	**1,085**			**1,085**
Reclass to marketable securities			**(1,050)**	**(1,050)**
Purchase of AMA, LLC minority shares			**4,473**	**4,473**
Sale of excess mortgage servicing rights		**(59,992)**		**(59,992)**
Balance, March 31, 2006	**$303,283**	**$680,837**	**$139,343**	**$1,123,463**

The estimated amortization expense for intangible assets, excluding amortization of mortgage servicing rights, for the full year 2006 and the subsequent years is as follows:

(Dollars in thousands)	Core Deposit Intangible	Other	Total
Full year 2006	$84,216	$18,512	$102,728
2007	68,959	18,291	87,250
2008	53,616	16,363	69,979
2009	36,529	13,143	49,672
2010	28,781	11,552	40,333
Thereafter	53,727	66,182	119,909
Total	$325,828	$144,043	$469,871

Note 6 Securitizations

In March 2006, the Company securitized $750.2 million of student loans in exchange for net proceeds totaling $750.1 million and retained interests of $27.6 million. The Company recognized a pretax gain of $2.5 million. The retained interests are classified on the Consolidated Balance Sheets as securities available for sale and the fair value as of March 31, 2006 was $28.3 million. Fair value was derived using the following assumptions: a discount rate of 9% and prepayment speed of 15% for 2006 and 6% for each year thereafter resulting in a weighted average life of six years. In addition, the Company is the master servicer for the securitized student loans and subservices its servicing responsibilities to an external third party.

Additionally, in March 2006, the Company sold $60.0 million of excess mortgage servicing rights into a securitization in exchange for net proceeds of $74.0 million and retained interests of $10.4 million. A pretax gain of $24.4 million was recognized as a result of the transaction. At March 31, 2006, the retained interests were classified on the Consolidated Balance Sheets as securities available for sale and were valued at

$15.9 million based on dealer prices. The Company continues to perform servicing for the underlying mortgage loans.

In the first quarter of 2006, the Company sold leveraged commercial loans to a securitization vehicle in exchange for net proceeds of $234.4 million. A pretax gain of $1.2 million was recognized as a result of the transaction. Interests retained from the securitization are classified on the Consolidated Balance Sheets as securities available for sale and the fair value as of March 31, 2006 was $3.9 million. Fair value was determined based on prices paid for recent market trades.

Notes to Consolidated Financial Statements (Unaudited) continued

Note 7 Employee Benefit Plans

The Company provides stock-based awards through the SunTrust Banks, Inc. 2004 Stock Plan (Stock Plan) under which the Compensation Committee (Committee) has the authority to grant Stock Options, Restricted Stock, and Performance-based Restricted Stock (Performance Stock) to key employees of the Company. Under the 2004 Stock Plan, a total of 14 million shares of common stock is authorized and reserved for issuance, of which no more than 2.8 million shares may be issued as Restricted Stock. Stock options are granted at a price which is no less than the fair market value of a share of SunTrust common stock on the grant date and may be either tax-qualified incentive stock options or non-qualified stock options. Stock options typically vest over three years. Upon option exercise, shares are issued to employees from treasury stock and generally have a maximum contractual life of ten years.

Shares of restricted stock may be granted to employees and directors and typically vest over three years. Restricted stock grants may be subject to one or more objective employment, performance or other forfeiture conditions as established by the Committee at the time of grant. Any shares of restricted stock that are forfeited will again become available for issuance under the Plan. An employee or director has the right to vote the shares of restricted stock after grant until they are forfeited or vested. Compensation cost for restricted stock is equal to the fair market value of the shares at the date of the award and is amortized to compensation expense over the vesting period.

With respect to currently outstanding Performance Stock, shares must be granted, awarded and vested before participants take full title. After Performance Stock is granted by the Committee, specified portions are awarded based on increases in the average price of SunTrust common stock above the initial price specified by the Committee. Awards are distributed, subject to continued employment, on the earliest of (i) fifteen years after the date shares are awarded to participants; (ii) the participant attaining age 64; (iii) death or disability of a participant; or (iv) a change in control of the Company as defined in the Stock Plan. Dividends are paid on awarded but unvested Performance Stock, and participants may exercise voting privileges on such shares.

The compensation element for Performance Stock (which is deferred and shown as a reduction of shareholders equity) is equal to the fair market value of the shares at the date of the award and is amortized to compensation expense over the period from the award date to the participant attaining age 64 or the 15th anniversary of the award date whichever comes first. Approximately 40% of Performance Stock awarded became fully vested on February 10, 2000 and is no longer subject to the forfeiture condition set forth in the original agreements. This early-vested Performance Stock was converted into an equal number of Phantom Stock Units as of that date. Payment of Phantom Stock Units will be made to participants in shares of SunTrust common stock upon the earlier to occur of (1) the date on which the participant would have vested in his or her Performance Stock or (2) the date of a change in control. Dividend equivalents will be paid at the same rate as the shares of Performance Stock; however, these units will not carry voting privileges.

The fair value of each stock option award is estimated on the date of grant using a Black-Scholes valuation model that uses assumptions noted in the following table. Expected volatility is based on the historical volatility of the Company s stock, using daily price observations over the expected term of the stock options. The expected term represents the period of time that stock options granted are expected to be outstanding and is derived from historical data which is used to evaluate patterns such as stock option exercise and employee termination. The expected dividend yield is based on recent dividend history, given that yields are reasonably stable. The risk-free interest rate is the U.S. Treasury yield curve in effect at the time of grant.

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Notes to Consolidated Financial Statements (Unaudited) continued

The weighted average fair value of options granted during the first quarters of 2006 and 2005 were $16.53 and $8.11 per share, respectively. The increase in fair value was due to the change in methodology used to calculate the expected stock price volatility. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Three Months Ended March 31	
	2006	2005
Expected dividend yield	**3.18%**	2.80%
Expected stock price volatility	**25.76**	12.02
Risk-free interest rate (weighted average)	**4.51**	3.61
Expected life of options	**6 years**	5 years

The following table presents a summary of stock option and performance and restricted stock activity:

	Stock Options			Performance and Restricted Stock		
(Dollars in thousands except per share data)	Shares	Price Range	Weighted-Average Exercise Price	Shares	Deferred Compensation	Weighted-Average Grant Price
Balance, December 31, 2005	21,790,455	$14.18 - $76.50	$62.46	2,326,969	$26,222	$
Granted	945,908	71.03 - 75.34	71.05	694,365	49,321	71.03
Exercised/vested	(1,061,965)	14.18 - 74.89	51.72	(600,070)		
Cancelled/expired/forfeited	(127,928)	14.18 - 73.19	67.85	(1,846)	(132)	
Amortization of compensation element					(2,411)	
Balance, March 31, 2006	21,546,470	$14.56 - $76.50	$63.33	2,419,418	$73,000	$
Exercisable, March 31, 2006	13,490,086		$57.74			
Available for additional grant, March 31, 2006 [1]	10,384,054					

[1] Includes 1.8 million shares available to be issued as Restricted Stock.

The following table presents information on stock options by ranges of exercise price at March 31, 2006:

	Options Outstanding				Options Exercisable			
Range of Exercise Prices	Number Outstanding at March 31, 2006	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)	Number Exercisable at March 31, 2006	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
$14.56 to $49.46	1,735,852	$40.80	3.83	$55,473	1,735,852	$40.80	3.83	$55,473
$49.75 to $64.57	8,889,769	56.45	5.66	144,995	8,802,669	56.42	5.66	143,805
$64.73 to $76.50	10,920,849	72.51	7.25	2,678	2,951,565	71.64	3.62	3,313
	21,546,470	$63.33	6.32	$203,146	13,490,086	$57.74	4.98	$202,591

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company s closing stock price on the last trading day of the first quarter of 2006 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2006. This amount changes based on the fair market value of the Company s stock. Total intrinsic value of options exercised for the three months ended March 31, 2006 was $23.5 million. Total fair value of performance and restricted shares vested was $13.1 million and $5.0 million, net of tax, for the three months ended March 31, 2006 and 2005, respectively.

As of March 31, 2006, there was $115.2 million unrecognized stock-based compensation expense related to nonvested stock options, performance and restricted stock, which is expected to be recognized over a weighted average period of 2.13 years.

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Notes to Consolidated Financial Statements (Unaudited)   continued

(In thousands)	Three Months Ended March 31 2006	2005
Stock-based compensation expense:		
Stock options	$6,229	$6,088
Performance and restricted stock	2,411	3,011
Total stock-based compensation expense	$8,640	$9,099

The recognized tax benefit amounted to $3.3 million and $3.5 million for the three months ended March 31, 2006 and 2005.

In the first quarter of 2006, SunTrust contributed $82 million to its noncontributory qualified retirement plan (Retirement Benefits   plan) related to the 2006 plan year. The expected long-term rate of return on plan assets is 8.5% for 2006.

Anticipated employer contributions/benefit payments for the full year 2006 remain at $8.1 million for the Supplemental Retirement Benefit plans. For the first quarter of 2006, the actual contributions/benefit payments totaled $1.2 million.

	Three Months Ended March 31					
		2006			2005	
(Dollars in thousands)	Retirement Benefits	Supplemental Retirement Benefits	Other Postretirement Benefits	Retirement Benefits	Supplemental Retirement Benefits	Other Postretirement Benefits
Service cost	**$18,308**	**$547**	**$780**	$16,500	$575	$775
Interest cost	**25,219**	**1,742**	**2,728**	23,675	1,500	2,425
Expected return on plan assets	**(40,367)**		**(2,031)**	(39,100)		(2,225)
Amortization of prior service cost	**(120)**	**883**		(125)	550	
Recognized net actuarial loss	**13,687**	**1,350**	**2,478**	8,900	1,325	1,550
Amortization of initial transition obligation			**580**			575
Participant information adjustment				(14,600)		
Partial settlement	**300**	**54**			3,140	
Net periodic benefit cost	**$17,027**	**$4,576**	**$4,535**	($4,750)	$7,090	$3,100

Note 8   Comprehensive Income

Comprehensive income for the three months ended March 31, 2006 and 2005 was calculated as follows:

(Dollars in thousands)	Three Months Ended March 31 2006	2005
Comprehensive income:		
Net income	**$531,527**	$492,294
Other comprehensive income:		
Change in unrealized gains (losses) on securities, net of taxes	**(48,912)**	(194,376)
Change in unrealized gains (losses) on derivatives, net of taxes	**4,357**	8,962
Change related to supplemental retirement benefits, net of taxes	**824**	(940)
Total comprehensive income	**$487,796**	$305,940

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Notes to Consolidated Financial Statements (Unaudited) continued

The components of accumulated other comprehensive income were as follows:

	Three Months Ended	
	March 31	December 31
(Dollars in thousands)	**2006**	2005
Unrealized net gain on available for sale securities	**$ 922,905**	$ 971,817
Unrealized net loss on derivative financial instruments	**(12,982)**	(17,339)
Supplemental retirement benefits	**(15,563)**	(16,387)
Total accumulated other comprehensive income	**$ 894,360**	$ 938,091

Note 9 Earnings Per Share Reconciliation

Net income is the same in the calculation of basic and diluted EPS. Equivalent shares of 0.3 million and 9.2 million related to stock options for the periods ended March 31, 2006 and 2005, respectively, were excluded from 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 months ended March 31, 2006 and 2005 is included in the following table:

	Three Months Ended March 31	
(In thousands, except per share data)	**2006**	2005
Diluted		
Net income	**$ 531,527**	$ 492,294
Average basic common shares	**359,934**	358,253
Effect of dilutive securities:		
Stock options	**2,140**	3,108
Performance and restricted stock	**1,363**	1,777
Average diluted common shares	**363,437**	363,138
Earnings per average common share - diluted	**$ 1.46**	$ 1.36
Basic		
Net income	**$ 531,527**	$ 492,294
Average basic common shares	**359,934**	358,253
Earnings per average common share - basic	**$ 1.48**	$ 1.37

Note 10 Business Segment Reporting

The Company uses a line of business management structure to measure business activities. The Company has five primary functional lines of business: Retail, Commercial, Corporate and Investment Banking, Wealth and Investment Management, and Mortgage.

The Retail line of business includes loans, deposits, and other fee-based services for consumers and business clients with less than $5 million in sales (up to $10 million in sales in larger metropolitan markets). 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 enterprises with a full array of financial products and services including traditional commercial lending, treasury management, financial risk management, and corporate bankcard. This line of business primarily serves business clients between $5 million and $250 million in annual revenues and clients specializing in commercial real estate activities.

Corporate and Investment Banking is comprised of the following businesses: corporate banking, investment banking, capital markets businesses, commercial leasing, and merchant banking. The corporate banking strategy is focused on companies with revenues in excess of $250 million and is organized along industry specialty and geographic lines.

Notes to Consolidated Financial Statements (Unaudited) continued

Wealth and Investment Management provides a full array of wealth management products and professional services to both individual and institutional clients. Wealth and Investment Management s primary segments include Private Wealth Management (brokerage and individual wealth management), Asset Management Advisors and Institutional Investment Management and Administration.

The Mortgage line of business offers residential mortgage products nationally through its retail, broker and correspondent channels. These products are either sold in the secondary market primarily with servicing rights retained or held as whole loans in the Company s residential loan portfolio. The line of business services loans for its own residential mortgage portfolio as well as for others. Additionally, the line of business generates revenue through its tax service subsidiary (ValuTree Real Estate Services, LLC) and its captive reinsurance subsidiary (Cherokee Insurance Company).

In addition, the Company reports a Corporate Other and Treasury 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 internal management reporting transactions not already eliminated in the results of the functional lines of business are reflected in Reconciling Items.

The Company continues to augment its internal management reporting methodologies. Currently, the lines of business financial performance is comprised of direct financial results as well as various allocations that for internal management reporting purposes provides an enhanced view of analyzing the lines of business financial performance. The internal allocations include the following: match maturity funds transfer pricing and a fully taxable-equivalent (FTE) gross-up on tax exempt loans and securites to create net interest income, occupancy expense (inclusive of the cost to carry the assets), various support costs such as operational, human resource and corporate finance, certain product-related expenses incurred within production support areas, and overhead costs. Beginning January 2006, income tax expense is calculated based on a marginal income tax rate which is modified to reflect the impact of various income tax adjustments and credits that are unique to each business segment. Future enhancements to line of business segment profitability reporting are expected to include: the attribution of economic capital and the use of expected loss in lieu of net charge-offs. The implementation of these enhancements to the internal management reporting methodology may materially affect the net income disclosed for each segment with no impact on consolidated amounts. Whenever significant changes to management reporting methodologies take place, the impact of these changes is quantified and prior period information is reclassified wherever practicable. The Company will reflect these reclassified changes in the current period, and will provide updated historical year-to-date, quarterly, and annual schedules.

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Notes to Consolidated Financial Statements (Unaudited) continued

The tables below disclose selected financial information for SunTrust s reportable segments for the three months ended March 31, 2006 and 2005.

Three Months Ended March 31, 2006

(Dollars in thousands)	**Retail**	**Commercial**	**Corporate and Investment Banking**	**Mortgage**	**Wealth and Investment Management**	**Corporate Other and Treasury**	**Reconciling Items**	**Consolidated**
Average total assets	**$38,503,934**	**$33,880,940**	**$23,365,829**	**$39,570,090**	**$8,899,981**	**$114,359,991**	**($80,962,482)**	**$177,618,283**
Average total liabilities	**67,285,422**	**14,156,903**	**8,835,014**	**1,740,984**	**9,349,192**	**59,174,478**	**24,485**	**160,566,478**
Average total equity							**17,051,805**	**17,051,805**
Net interest income	**$593,012**	**$222,710**	**$61,853**	**$148,443**	**$92,391**	**($17,772)**	**$78,404**	**$1,179,041**
Fully taxable-equivalent adjustment (FTE)	**22**	**10,073**	**6,498**		**16**	**3,729**		**20,338**
Net interest income (FTE)[1]	**593,034**	**232,783**	**68,351**	**148,443**	**92,407**	**(14,043)**	**78,404**	**1,199,379**
Provision for loan losses[2]	**19,718**	**(1,097)**	**(395)**	**2,766**	**192**	**1,100**	**11,119**	**33,403**
Net interest income after provision for loan losses	**573,316**	**233,880**	**68,746**	**145,677**	**92,215**	**(15,143)**	**67,285**	**1,165,976**
Noninterest income	**257,692**	**67,934**	**157,007**	**120,346**	**238,797**	**25,402**	**(15,672)**	**851,506**
Noninterest expense	**528,886**	**159,104**	**123,190**	**142,967**	**258,402**	**29,593**	**(15,651)**	**1,226,491**
Net income before taxes	**302,122**	**142,710**	**102,563**	**123,056**	**72,610**	**(19,334)**	**67,264**	**790,991**
Provision for income taxes[3]	**111,630**	**35,932**	**38,408**	**43,360**	**26,956**	**(21,776)**	**24,954**	**259,464**
Net income	**$190,492**	**$106,778**	**$64,155**	**$79,696**	**$45,654**	**$2,442**	**$42,310**	**$531,527**

Three Months Ended March 31, 2005

(Dollars in thousands)	Retail	Commercial	Corporate and Investment Banking	Mortgage	Wealth and Investment Management	Corporate Other and Treasury	Reconciling Items	Consolidated
Average total assets	$35,791,383	$32,083,484	$19,618,227	$29,053,845	$8,304,128	$103,108,743	($66,741,588)	$161,218,222
Average total liabilities	63,664,129	13,756,876	7,392,059	1,483,419	9,570,719	49,575,002	(343,412)	145,098,792
Average total equity							16,119,430	16,119,430
Net interest income	$522,011	$201,313	$55,223	$125,439	$77,373	$13,139	$117,062	$1,111,560
Fully taxable-equivalent adjustment (FTE)	15	8,978	4,838		14	3,821		17,666

Net interest income (FTE)[1]	522,026	210,291	60,061	125,439	77,387	16,960	117,062	1,129,226
Provision for loan losses[2]	32,597	(390)	(708)	1,054	251	1,785	(24,033)	10,556
Net interest income after provision for loan losses	489,429	210,681	60,769	124,385	77,136	15,175	141,095	1,118,670
Noninterest income	237,265	57,110	176,372	44,827	232,705	18,196	(12,661)	753,814
Noninterest expense	499,665	146,691	120,938	111,675	241,765	25,101	(11,929)	1,133,906
Net income before taxes	227,029	121,100	116,203	57,537	68,076	8,270	140,363	738,578
Provision for income taxes[3]	85,403	29,560	43,739	19,362	25,353	2,317	40,550	246,284
Net income	$141,626	$91,540	$72,464	$38,175	$42,723	$5,953	$99,813	$492,294

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

2 Provision for loan losses represents net charge-offs for the functional lines of business.

3 Includes regular income tax provision and taxable-equivalent income adjustment reversal.

Notes to Consolidated Financial Statements (Unaudited) continued

Note 11 Variable Interest Entities and Off-Balance Sheet Arrangements

SunTrust assists in providing liquidity to select corporate clients 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 clients. Three Pillars finances this activity by issuing A-1/P-1 rated commercial paper. The result is a favorable funding arrangement for these clients.

Three Pillars has issued a subordinated note to a third party. The holder of this note absorbs 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. As of March 31, 2006 and December 31, 2005, Three Pillars had assets not included on the Company s Consolidated Balance Sheets of approximately $5.6 billion and $4.7 billion, respectively, consisting of primarily secured loans and marketable asset-backed securities.

Activities related to the Three Pillars relationship generated net fee revenue for the Company of approximately $5.9 million and $5.5 million for the quarters ended March 31, 2006 and 2005, 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 March 31, 2006, off-balance sheet liquidity commitments and other credit enhancements made by the Company to Three Pillars, the sum of which represents the Company s maximum exposure to potential loss, totaled $7.7 billion and $683.5 million, respectively, compared to $7.2 billion and $707.1 million, respectively, as of December 31, 2005. The Company manages the credit risk associated with these commitments by subjecting them to the Company s normal credit approval and monitoring processes.

On March 23, 2006, the Company sold a majority of the equity in a securitization vehicle that was consolidated by the Company under FIN 46(R) at December 31, 2005. As a result of the sale, the Company is no longer considered the primary beneficiary of this VIE and therefore deconsolidated the securitization vehicle. The Company s remaining contractual relationships with that securitization vehicle, including a 15% interest in the preferred shares, are not considered to be significant variable interests in this VIE.

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 $794.1 million and $803.0 million in partnerships where SunTrust is only a limited partner were not included in the Consolidated Balance Sheets at March 31, 2006 and December 31, 2005, respectively. The Company s maximum exposure to loss for these limited partner investments at March 31, 2006 totaled $353.4 million as compared to $357.9 million at December 31, 2005. The Company s maximum exposure to loss related to its affordable housing limited partner investments consists of the limited partnership equity investments, unfunded equity commitments, and debt issued by the Company to the limited partnerships.

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 clients. In reviewing the partnerships for consolidation, SunTrust determined that these were voting interest entities and accordingly considered the consolidation guidance contained in Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. Under the terms of SunTrust s non-registered investment limited partnerships, the limited partners have certain rights, such as the right to remove the general partner, or kick-out rights , as indicated in EITF Issue No. 04-5. Therefore, SunTrust, as the general partner, is precluded from consolidating the limited partnerships.

Notes to Consolidated Financial Statements (Unaudited) continued

Note 12 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 March 31, 2006, 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 client 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 clients 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 March 31, 2006 and December 31, 2005, the maximum potential amount of the Company s obligation was $13.1 billion and $13.3 billion, respectively, for financial and performance standby letters of credit. The Company has recorded $121.3 million and $113.8 million in other liabilities for unearned fees related to these letters of credit as of March 31, 2006 and December 31, 2005, respectively. The Company s outstanding letters of credit generally have a term of less than one year but may extend longer than one year. If a letter of credit is drawn upon, the Company may seek recourse through the client s underlying line of credit. If the client s line of credit is also in default, the Company may take possession of the 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. The potential liability associated with these arrangements was approximately $86.6 million and $163.0 million as of March 31, 2006 and December 31, 2005, respectively. 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 as of March 31, 2006. If required, these contingent payments would be payable within the next three years.

Notes to Consolidated Financial Statements (Unaudited) continued

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 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, $350.0 million, and an approximate yield of 8.5% per annum subject to reduction for any cash or property dividends paid to date. As of March 31, 2006 and December 31, 2005, $503.9 million and $492.9 million was 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 from the February 25, 2002 date of issuance of the Series B Preferred Stock.

SunTrust Investment Services, Inc. (STIS) and SunTrust Capital Markets, Inc. (STCM), broker-dealer affiliates of SunTrust, use a common third party clearing broker to clear and execute their clients securities transactions and to hold clients accounts. Under their respective agreements, STIS and STCM agree to indemnify the clearing broker for losses that result from a client s failure to fulfill their contractual obligations. As the clearing broker s rights to charge STIS 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 through cash or securities held in the defaulting clients accounts. For the three months ended March 31, 2006, SunTrust experienced minimal net losses as a result of the indemnity. The clearing agreements for STIS and STCM expire in May 2010.

The Company 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 client; or (iii) restructuring or reorganization by the client. The notional amount outstanding as of March 31, 2006 and December 31, 2005 was $497.1 million and $664.2 million, respectively. As of March 31, 2006, the notional amounts expire as follows: $165.0 million in 2006, $30.0 million in 2007, $87.0 million in 2008, $34.8 million in 2009, $78.0 million in 2010, and $102.3 million thereafter. 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. In addition, there are certain purchased credit default swap contracts that mitigate a portion of the Company s exposure on written contracts. Such contracts are not included in this disclosure since they represent benefits to, rather than obligations of, the Company.

Note 13 Concentrations of Credit Risk

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if borrowers failed to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on- or off-balance sheet) arising from financial instruments can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, certain loan products, or certain regions of the country.

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Notes to Consolidated Financial Statements (Unaudited) continued

Credit risk associated with these concentrations could arise when a significant amount of loans, related by similar characteristics, are simultaneously impacted by changes in economic or other conditions that cause their probability of repayment to be adversely affected. The Company does not have a significant concentration to any individual client except for the U.S. government and its agencies. The major concentrations of credit risk for the Company arise by collateral type in relation to loans and credit commitments. The only significant concentration that exists is in loans secured by residential real estate. At March 31, 2006, the Company had $46.2 billion in residential real estate loans, representing 39.1% of total loans, and an additional $16.7 billion in commitments to extend credit on such loans. The Company originates and retains certain residential mortgage loan products that include features such as interest only loans, high loan to value loans and low initial interest rate loans, which comprised approximately 30% of loans secured by residential real estate. The risk in each loan type is mitigated and controlled by managing the timing of payment shock, private mortgage insurance and underwriting guidelines. A geographic concentration arises because the Company operates primarily in the Southeastern and Mid-Atlantic regions of the United States.

SunTrust engages in limited international banking activities. The Company s total cross-border outstandings were $413.4 million as of March 31, 2006.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OVERVIEW

SunTrust Banks, Inc. (SunTrust or the Company), one of the nation s largest commercial banking organizations, is a financial holding company with its headquarters in Atlanta, Georgia. SunTrust s principal banking subsidiary, SunTrust Bank, offers a full line of financial services for consumers and businesses through its branches located primarily in Florida, Georgia, Maryland, North Carolina, South Carolina, Tennessee, Virginia and the District of Columbia. Within its geographic footprint, the Company operates under five business segments. These business segments are: Retail, Commercial, Corporate and Investment Banking (CIB), Wealth and Investment Management, and Mortgage. In addition to traditional deposit, credit and trust and investment services offered by SunTrust Bank, other SunTrust subsidiaries provide mortgage banking, credit-related insurance, asset management, securities brokerage and capital market services.

SunTrust has 1,677 full-service branches, including in-store branches, and continues to leverage technology to provide customers the convenience of banking on the Internet, through 2,786 automated teller machines and via twenty-four hour telebanking.

The following analysis of the financial performance of SunTrust for the first quarter of 2006 should be read in conjunction with the financial statements, notes and other information contained in this document and the 2005 Annual Report found on Form 10-K. Certain reclassifications may be made to prior year financial statements and related information to conform them to the 2006 presentation. In Management s Discussion and Analysis, net interest income, net interest margin and the efficiency ratio are presented on a fully taxable-equivalent (FTE) basis, and the ratios are presented on an annualized basis. The FTE basis adjusts for the tax-favored status of income from certain loans and investments. The Company believes this measure to be the preferred industry measurement of net interest income and provides relevant comparison between taxable and non-taxable amounts. The Company also presents diluted earnings per share excluding merger expense and efficiency ratio excluding merger expense related to the NCF acquisition. The Company believes the exclusion of the merger charges, which represent incremental costs to integrate NCF s operations, is more reflective of normalized operations. Additionally, the Company presents a return on average realized shareholders equity, as well as a return on average total shareholders equity (ROE). The Company also presents a return on average assets less net unrealized securities gains and a return on average total assets (ROA). The return on average realized shareholders equity and return on average assets less net unrealized securities gains exclude realized securities gains and losses, The Coca-Cola Company dividend, and net unrealized securities gains. Due to its ownership of approximately 48 million shares of common stock of The Coca-Cola Company, resulting in an unrealized net gain of $2.0 billion as of March 31, 2006, the Company believes ROA and ROE excluding these impacts from the Company s securities portfolio is the more comparative performance measure when being evaluated against other companies. The Company provides reconcilements on pages 26 through 27 for all non US GAAP financial measures.

The information provided herein, including estimates of future operating results for SunTrust may constitute forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) which involve significant risks and uncertainties. The forward looking statements are intended to be subject to the safe harbor protection provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements include statements preceded by, followed by or that include the words intends, believes, expects, anticipates, plans, estimates, or similar expressions or future conditional verbs such as will, should, would, and could. Actual results could differ materially from those contained in or implied by such statements for a variety of reasons including, but not limited to: changes in interest rates, changes in accounting principles, policies, or guidelines, significant changes in the economic scenario, margin compression, significant changes in legislation or regulatory requirements, changes in business conditions or the competitive banking environment, significant changes in securities markets, and litigation risks. Additional factors are described in the Company s Annual Report on Form 10-K under the heading Risk Factors. SunTrust does not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made.

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EARNINGS OVERVIEW

SunTrust reported earnings of $531.5 million for the first quarter of 2006, an increase of $39.2 million, or 8.0%, compared to the same period of the prior year. Reported diluted earnings per share were $1.46 and $1.36 for the three months ended March 31, 2006 and 2005, respectively. Diluted earnings per share excluding merger expense, which excluded $16.0 million of after-tax merger charges for the first quarter of 2005, were $1.40 for the first quarter of 2005.

Net interest income was $1,199.4 million for the first quarter of 2006, an increase of $70.2 million, or 6.2%, from the first quarter of 2005. The primary driver of the increase was strong growth in loans and loans held for sale. Average loans increased $13.0 billion, or 12.6%, from the first quarter of 2005. The net interest margin decreased 15 basis points from the first quarter of 2005 to the first quarter of 2006 due to higher short-term borrowing costs and tighter spreads resulting from the continued flattening of the yield curve.

Provision for loan losses was $33.4 million in the first quarter of 2006, an increase of $22.8 million, or 216.4%, from the same period of the prior year. The increase in the provision was primarily attributed to loan growth resulting from continued demand for mortgage portfolio products and construction lending. Credit quality continued to be outstanding for the first quarter of 2006, as evidenced by the net charge-off ratio and level of nonperforming loans. Annualized net charge-offs to average loans were 0.08% for the first quarter of 2006 compared to 0.14% for the same period last year. Nonperforming loans totaled $289.7 million, or 0.25% of total loans at March 31, 2006, compared to $296.3 million, or 0.26% of total loans at December 31, 2005.

Total noninterest income was $851.5 million for the first quarter of 2006, an increase of $97.7 million, or 13.0%, from the same period of the prior year. A significant portion of the income growth resulted from growth in mortgage production and servicing income, while improvements in trust and investment management income and card fees also contributed to the increase. Net securities gains totaled $0.1 million in the first quarter of 2006 compared to net losses of $5.7 million in the first quarter of 2005. The 2006 improvement in noninterest income was achieved despite the first quarter of 2005 including a net gain of $19.9 million on the sale of substantially all of the assets of RCM. (See Note 2 to the Consolidated Financial Statements.)

Total noninterest expense was $1,226.5 million for the first quarter of 2006, an increase of $92.6 million, or 8.2%, from the same period of the prior year. Personnel expenses in the first quarter of 2006 increased $70.1 million, or 11.1%, from the prior year period. The increase was attributed to normal merit increases, higher pension expenses, increased incentive based payments, and a higher headcount. Also negatively impacting noninterest expense were increases in outside processing and software expense due to higher transaction volume, increases in marketing and customer development expense resulting from the Company s marketing campaigns focusing on customer acquisition and deposit promotion, as well as an increase in consulting and legal expense primarily related to consulting costs for the Company s risk management process initiatives. Offsetting these increases was the absence of merger expense for the first quarter of 2006 compared to $25.7 million incurred during the first quarter of 2005.

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Selected Quarterly Financial Data **Table 1**

(Dollars in millions, except per share data) (Unaudited)	Three Months Ended March 31 **2006**	2005
Summary of Operations		
Interest and dividend income	**$2,278.7**	$1,716.0
Interest expense	**1,099.7**	604.4
Net interest income	**1,179.0**	1,111.6
Provision for loan losses	**33.4**	10.6
Net interest income after provision for loan losses	**1,145.6**	1,101.0
Noninterest income	**851.5**	753.8
Noninterest expense	**1,226.5**	1,133.9
Income before provision for income taxes	**770.6**	720.9
Provision for income taxes	**239.1**	228.6
Net income	**$531.5**	$492.3
Net interest income - FTE	**$1,199.4**	$1,129.2
Total revenue - FTE	**2,050.9**	1,883.0
Per Common Share		
Diluted	**$1.46**	$1.36
Diluted excluding merger expense	**1.46**	1.40
Basic	**1.48**	1.37
Dividends declared	**0.61**	0.55
Book value	**47.22**	44.59
Market price:		
High	**76.75**	74.18
Low	**69.68**	69.00
Close	**72.76**	72.07
Selected Average Balances		
Total assets	**$177,618.3**	$161,218.2
Earning assets	**156,713.6**	140,852.8
Loans	**116,262.3**	103,215.8
Consumer and commercial deposits	**95,292.4**	90,967.8
Brokered and foreign deposits	**24,651.7**	13,424.4
Total shareholders equity	**17,051.8**	16,119.4
Total average shareholders equity to average assets	**9.60%**	10.00%
Average common shares - diluted (thousands)	**363,437**	363,138
Average common shares - basic (thousands)	**359,934**	358,253
Financial Ratios (Annualized)		
Return on average total assets	**1.21%**	1.24%
Return on average assets less net unrealized securities gains	**1.19**	1.23
Return on average total shareholders equity	**12.64**	12.39
Return on average realized shareholders equity	**13.06**	13.23
Net interest margin	**3.10**	3.25
Efficiency ratio	**59.80**	60.22
Efficiency ratio excluding merger expense	**59.80**	58.85
Tangible efficiency ratio	**58.47**	58.56
Tangible equity to tangible assets	**5.72**	5.52
Capital Adequacy		
Tier 1 capital ratio	**7.26**	7.07
Total capital ratio	**10.88**	10.44

Tier 1 leverage ratio	**6.71**	6.61

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Selected Quarterly Financial Data, continued **Table 1**

(Dollars in millions, except per share data) (Unaudited)	Three Months Ended March 31 2006	2005
Reconcilement of Non US GAAP Financial Measures		
Net income	**$531.5**	$492.3
Securities (gains)/losses, net of tax	**(0.1)**	3.5
Net income excluding net securities (gains)/losses	**531.4**	495.8
The Coca-Cola Company dividend, net of tax	**(13.3)**	(12.0)
Net income excluding net securities (gains)/losses and The Coca-Cola Company dividend	**$518.1**	$483.8
Net income	**$531.5**	$492.3
Merger expense, net of tax		16.0
Net income excluding merger expense	**$531.5**	$508.3
Noninterest expense	**$1,226.5**	$1,133.9
Merger expense		(25.7)
Noninterest expense excluding merger expense	**$1,226.5**	$1,108.2
Diluted earnings per share	**$1.46**	$1.36
Impact of excluding merger expense		0.04
Diluted earnings per share excluding merger expense	**$1.46**	$1.40
Efficiency ratio	**59.80%**	60.22%
Impact of excluding merger expense		(1.37)
Efficiency ratio excluding merger expense	**59.80%**	58.85%
Efficiency ratio	**59.80%**	60.22%
Impact of excluding amortization of intangible assets	**(1.33)**	(1.66)
Tangible efficiency ratio	**58.47%**	58.56%
Tangible efficiency ratio	**58.47%**	58.56%
Impact of excluding merger expense		(1.37)
Tangible efficiency ratio excluding merger expense	**58.47**	57.19
Impact of net gain on sale of RCM assets		0.61
Tangible efficiency ratio excluding merger expense and net gain on sale of RCM assets	**58.47%**	57.80%
Total average assets	**$177,618.3**	$161,218.2
Average net unrealized securities gains	**(1,612.8)**	(2,032.8)

Average assets less net unrealized securities gains	**$176,005.5**	$159,185.4
Total average equity	**$17,051.8**	$16,119.4
Average accumulated other comprehensive income	**(963.7)**	(1,285.3)
Total average realized equity	**$16,088.1**	$14,834.1
Return on average total assets	**1.21%**	1.24%
Impact of excluding net realized and unrealized securities gains/losses and The Coca-Cola Company dividend	**(0.02)**	(0.01)
Return on average total assets less net unrealized securities gains [1]	**1.19%**	1.23%
Return on average total shareholders equity	**12.64%**	12.39%
Impact of excluding net realized and unrealized securities gains/losses and The Coca-Cola Company dividend	**0.42**	0.84
Return on average realized shareholders equity [2]	**13.06%**	13.23%

1 Computed by dividing annualized net income, excluding tax effected net securities gains and The Coca-Cola Company dividend, by average assets less net unrealized gains/losses on securities.

2 Computed by dividing annualized net income, excluding tax effected net securities gains/losses and The Coca-Cola Company dividend, by average realized shareholders equity.

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Selected Quarterly Financial Data, continued **Table 1**

(Dollars in millions, except per share data) (Unaudited)	Three Months Ended March 31 2006	2005
Reconcilement of Non US GAAP Financial Measures		
Total shareholders equity	**$17,157,448**	$16,104,259
Goodwill	**(6,897,105)**	(6,861,721)
Other intangible assets including mortgage servicing rights (MSRs)	**(1,123,463)**	(1,073,154)
Mortgage servicing rights	**680,837**	514,193
Tangible equity	**$9,817,717**	$8,683,577
Total assets	**$178,876,476**	$164,810,954
Goodwill	**(6,897,105)**	(6,861,721)
Other intangible assets including MSRs	**(1,123,463)**	(1,073,154)
Mortgage servicing rights	**680,837**	514,193
Tangible assets	**$171,536,745**	$157,390,272
Tangible equity to tangible assets	**5.72%**	5.52%
Net interest income	**$1,179.0**	$1,111.6
FTE adjustment	**20.4**	17.6
Net interest income - FTE	**1,199.4**	1,129.2
Noninterest income	**851.5**	753.8
Total revenue - FTE	**2,050.9**	1,883.0
Securities (gains)/losses	**(0.1)**	5.7
Total revenue excluding securities (gains)/losses	**$2,050.8**	$1,888.7

CONSOLIDATED FINANCIAL PERFORMANCE

Net Interest Income/Margin

Net interest income was $1,199.4 million for the first quarter of 2006, an increase of $70.2 million, or 6.2%, from the first quarter of 2005. Strong growth in loans and loans held for sale were the primary drivers of the increase in net interest income.

The net interest margin decreased 15 basis points from 3.25% in the first quarter of 2005 to 3.10% in the first quarter of 2006 primarily due to higher short-term borrowing costs and tighter spreads resulting from the continued flattening of the yield curve. The earning asset yield for the first quarter of 2006 increased 96 basis points from the first quarter of 2005. Loan yield increased 102 basis points and securities available for sale yields increased 36 basis points from the prior year. In the first quarter of 2006, the total interest-bearing liability costs increased 133 basis points from the first quarter of 2005.

While both short-term and long-term interest rates have risen for the last year, the yield curve has flattened considerably. The Federal Reserve Bank Fed Funds rate averaged 4.44% for the first quarter of 2006, an increase of 199 basis points over the first quarter 2005 average, and one-month LIBOR increased 197 basis points to average 4.61% in the first quarter 2006. In contrast, the five-year swap rate averaged 5.03%, an increase of 74 basis points over the first quarter 2005 average, and the ten-year swap rate increased 39 basis points over the same time period to an average rate of 5.09%. As a result, incremental asset growth, in particular mortgage loans and mortgage loans held for sale, has been funded at tighter spreads due to higher short-term borrowing costs.

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Average earning assets were up 11.3% and average interest-bearing liabilities increased 11.7% for the first quarter of 2006 versus the first quarter of 2005. Average loans increased $13.0 billion, or 12.6%, average securities available for sale decreased $2.5 billion, or 9.0%, and average loans held for sale increased $5.0 billion, or 77.7%, in the first quarter of 2006 compared to the first quarter of 2005.

The Company continued to take steps to obtain alternative lower cost funding sources, such as developing initiatives to grow customer deposits. Campaigns to attract client deposits were implemented in 2005 and continued in the first quarter of 2006 as evidenced by the 34.8% increase in marketing and customer development expense, and a $4.3 billion increase in average consumer and commercial deposits compared to the first quarter of 2005.

Interest income that the Company was unable to recognize on nonperforming loans had a negative impact on net interest margin of one basis point for the first quarter of 2006 and 2005. Table 2 contains more detailed information concerning average loans, yields and rates paid.

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Consolidated Daily Average Balances, Income/Expense and Average Yields Earned and Rates Paid **Table 2**

	Three Months Ended					
	March 31, 2006			March 31, 2005		
(Dollars in millions; yields on taxable-equivalent basis) (Unaudited)	Average Balances	Income/ Expense	Yields/ Rates	Average Balances	Income/ Expense	Yields/ Rates
Assets						
Loans:[1]						
Real estate 1-4 family	**$31,489.6**	**$456.4**	**5.80%**	$23,435.7	$300.5	5.13%
Real estate construction	**11,117.5**	**195.6**	**7.14**	9,621.2	134.8	5.68
Real estate home equity lines	**13,389.9**	**235.1**	**7.12**	11,573.7	152.8	5.35
Real estate commercial	**12,780.4**	**204.4**	**6.49**	9,537.0	124.8	5.31
Commercial - FTE[1]	**33,064.5**	**482.8**	**5.92**	33,423.9	394.9	4.79
Business credit card	**278.1**	**4.4**	**6.30**	197.7	3.4	6.81
Consumer - direct	**5,284.8**	**84.2**	**6.46**	6,767.2	96.6	5.79
Consumer - indirect	**8,553.0**	**115.2**	**5.46**	8,384.4	112.1	5.42
Nonaccrual and restructured	**304.5**	**4.1**	**5.52**	275.0	2.8	4.19
Total loans [1]	**116,262.3**	**1,782.2**	**6.22**	103,215.8	1,322.7	5.20
Securities available for sale:[1]						
Taxable	**23,927.9**	**283.1**	**4.73**	26,477.7	288.3	4.36
Tax-exempt - FTE[1]	**916.5**	**13.4**	**5.85**	836.1	12.7	6.10
Total securities available for sale - FTE[1]	**24,844.4**	**296.5**	**4.77**	27,313.8	301.0	4.41
Funds sold and securities purchased under agreements to resell	**1,130.1**	**12.0**	**4.23**	1,604.3	9.7	2.41
Loans held for sale	**11,359.6**	**177.9**	**6.26**	6,393.2	86.1	5.39
Interest-bearing deposits	**293.6**	**2.4**	**3.34**	17.5	0.1	1.60
Trading assets	**2,823.6**	**28.1**	**4.04**	2,308.2	14.1	2.48
Total earning assets	**156,713.6**	**2,299.1**	**5.95**	140,852.8	1,733.7	4.99
Allowance for loan and lease losses	**(1,037.8)**			(1,065.5)		
Cash and due from banks	**4,056.0**			4,309.5		
Premises and equipment	**1,871.1**			1,862.9		
Other assets	**14,402.6**			13,225.7		
Unrealized gains on securities available for sale	**1,612.8**			2,032.8		
Total assets	**$177,618.3**			$161,218.2		
Liabilities and Shareholders Equity						
Interest-bearing deposits:						
NOW accounts	**$17,000.0**	**$60.5**	**1.44%**	$17,479.8	$33.8	0.78%
Money market accounts	**25,628.4**	**146.6**	**2.32**	24,767.4	82.1	1.34
Savings	**5,291.2**	**15.0**	**1.15**	7,506.9	15.5	0.84
Consumer time	**13,894.6**	**117.3**	**3.42**	12,324.0	75.1	2.47
Other time	**9,579.6**	**91.7**	**3.88**	5,166.6	34.9	2.74
Total interest-bearing consumer and commercial deposits	**71,393.8**	**431.1**	**2.45**	67,244.7	241.4	1.46
Brokered deposits	**15,447.9**	**172.7**	**4.47**	6,462.1	41.1	2.54
Foreign deposits	**9,203.8**	**101.8**	**4.42**	6,962.3	40.0	2.30
Total interest-bearing deposits	**96,045.5**	**705.6**	**2.98**	80,669.1	322.5	1.62
Funds purchased	**3,974.9**	**43.8**	**4.40**	3,870.1	23.4	2.42
Securities sold under agreements to repurchase	**6,865.1**	**68.4**	**3.99**	6,263.9	32.8	2.09
Other short-term borrowings	**1,866.6**	**25.2**	**5.47**	2,591.3	17.0	2.65

Long-term debt	**20,413.0**	**256.7**	**5.10**	22,197.7	208.8	3.82
Total interest-bearing liabilities	**129,165.1**	**1,099.7**	**3.45**	115,592.1	604.5	2.12
Noninterest-bearing deposits	**23,898.6**			23,723.1		
Other liabilities	**7,502.8**			5,783.6		
Shareholders equity	**17,051.8**			16,119.4		
Total liabilities and shareholders equity	**$177,618.3**			$161,218.2		
Interest Rate Spread			**2.50%**			2.87%
Net Interest Income - FTE [1,2]		**$1,199.4**			$1,129.2	
Net Interest Margin			**3.10%**			3.25%

[1] Interest income includes the effects of taxable-equivalent adjustments using a federal income tax rate of 35% and, where applicable, state income taxes to increase tax-exempt interest income to a taxable-equivalent basis. The net taxable-equivalent adjustment amounts included in the above table aggregated $20.4 million, $20.0 million, and $17.6 million in the quarters ended March 31, 2006, December 31, 2005 and March 31, 2005, respectively.

[2] Derivative instruments used to help balance the Company s interest-sensitivity position decreased net interest income $6.5 million and increased net interest income $10.7 million and $37.6 million in the quarters ended March 31, 2006, December 31, 2005 and March 31, 2005, respectively.

Noninterest Income

Noninterest income increased $97.7 million, or 13.0%, from the first quarter of 2005 to the first quarter of 2006. Positively impacting noninterest income were increases in trust and investment management income, card fees, mortgage related income, and other income. The sale of factoring assets in the first quarter of 2005 resulted in a net gain of $19.9 million.

Trust and investment management income increased $3.6 million, or 2.2%, compared to the first quarter of 2005. An overall increase in assets under management resulted in higher income. Assets under management increased 6.1% from March 31, 2005 due to new business and an increase in equity market valuations.

Card fees, which include credit and debit card fees, increased $8.4 million, or 17.5%, compared to the first quarter of 2005. The increase from the first quarter of 2005 was primarily due to an increase in interchange fee income due to increased transaction volume and size. The higher transaction volumes were due to increased debit card penetration (number of account holders who have debit cards), and a higher average purchase amount per transaction which continued to trend upward as consumers increased the use of this form of payment.

Combined mortgage related income increased $77.5 million, or 256.7%, from first quarter of 2005. Mortgage production income increased $45.0 million, or 250.3%, compared to 2005. The growth was due to a higher level of loan sales to investors in the first quarter of 2006. Loan sales were up $4.9 billion, or 92.2%, to a record level of $10.3 billion for the first quarter of 2006. Mortgage servicing income increased $32.5 million, or 266.2%, compared to 2005 primarily due to a larger servicing portfolio, a reduction in the mortgage servicing amortization rate and the securitization and subsequent sale of a portion of excess mortgage servicing rights. This excess servicing sale resulted in a gain of $24.4 million.

Other income increased $24.6 million, or 47.4%, compared to the first quarter of 2005. Contributing to the increase was a $3.6 million net gain on the sale of the Company s investment in First Market, a $1.6 million gain on the sale of the Company s stock transfer business, as well as the $2.5 million net gain on the sale of securitized student loans. In addition, the Company realized a $4.4 million gain during the first quarter of 2006 related to the receipt of a one-time cash dividend and the conversion of SunTrust s membership in the New York Stock Exchange (NYSE) into equity securities as a result of the merger of the NYSE with Archipelago Holdings. Affordable Housing revenue also contributed to the increase due to a 15% increase in the number of properties owned.

Noninterest Income **Table 3**

	Three Months Ended March 31		**%**
(Dollars in millions) (Unaudited)	**2006**	2005	**Change**
Service charges on deposit accounts	**$186.2**	$184.1	1.1
Trust and investment management income	**168.1**	164.5	2.2
Retail investment services	**55.0**	55.1	(0.3)
Other charges and fees	**112.4**	111.4	0.9
Investment banking income	**51.8**	50.0	3.6
Trading account profits and commissions	**36.9**	44.0	(16.3)
Card fees	**56.6**	48.2	17.5
Net gain on sale of RCM assets		19.9	(100.0)
Mortgage production related income	**63.0**	18.0	250.3
Mortgage servicing related income	**44.7**	12.2	266.2
Other income	**76.7**	52.1	47.4
Securities gains/(losses), net	**0.1**	(5.7)	101.8
Total noninterest income	**$851.5**	$753.8	13.0

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Noninterest Expense

Noninterest expense increased $92.6 million, or 8.2%, compared to the first quarter of 2005. Compared to the first quarter of 2005, total personnel expense increased $70.1 million, or 11.1%. The increase was primarily due to merit increases, higher pension expense, increased incentive costs, and increased headcount. Headcount increased from 33,139 as of March 31, 2005, to 33,697 as of March 31, 2006. The increase in incentives was primarily due to an increase in commission and performance based incentives resulting from strong business volumes in all lines of business and an increase in the number of incentive plan participants.

Net occupancy expense increased $5.1 million, or 6.8%, compared to the first quarter of 2005. The increase was driven by higher rent and utility costs. Outside processing and software increased $12.1 million, or 14.5%, compared to the first quarter of 2005 mainly due to higher processing costs associated with higher transaction volumes.

Marketing and customer development expense increased $11.0 million, or 34.8%, primarily due to the Company s marketing campaigns focusing on customer acquisition and deposit promotion. Consulting and legal expense increased $11.0 million, or 78.7%, primarily attributable to initiatives undertaken to enhance the Company s risk management processes.

Noninterest expense was further impacted by a $6.8 million, or 39.4%, increase in credit and collection services primarily due to increased loan volumes, especially mortgages and home equity lines. Other staff expense increased $4.4 million, or 23.9%, compared to the first quarter of 2005, due to increased severance and transportation costs. Included in the first quarter of 2005 was merger expense of $25.7 million. As of December 31, 2005, the Company had recognized all merger expense related to the NCF integration process.

The efficiency ratio improved to 59.8% in the first quarter of 2006 compared to 60.2% in the first quarter of 2005. The efficiency ratio excluding merger expense was 59.8% in the first quarter of 2006 compared to 58.9% in the first quarter of 2005.

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Noninterest Expense **Table 4**

(Dollars in millions) (Unaudited)	Three Months Ended March 31 **2006**	2005	% Change
Employee compensation	**$556.5**	$516.5	7.7
Employee benefits	**148.4**	118.3	25.5
Total personnel expense	**704.9**	634.8	11.1
Net occupancy expense	**81.0**	75.9	6.8
Outside processing and software	**94.9**	82.8	14.5
Equipment expense	**49.4**	52.9	(6.5)
Marketing and customer development	**42.6**	31.6	34.8
Amortization of intangible assets	**27.2**	31.2	(12.7)
Consulting and legal	**24.9**	13.9	78.7
Credit and collection services	**24.3**	17.5	39.4
Postage and delivery	**23.4**	20.6	13.3
Other staff expense	**23.0**	18.6	23.9
Communications	**18.0**	19.8	(9.2)
Operating supplies	**14.1**	13.5	4.5
FDIC premiums	**5.5**	5.9	(6.3)
Other real estate income	**0.1**	1.0	(90.6)
Merger expense		25.7	(100.0)
Other expense	**93.2**	88.2	5.7
Total noninterest expense	**$1,226.5**	$1,133.9	8.2
Year-over-year growth rate	**8.2%**	27.4%	
Year-over-year growth rate excluding merger expense	**10.7**	24.6	
Efficiency ratio	**59.8**	60.2	
Efficiency ratio excluding merger expense	**59.8**	58.9	

Income Taxes

The provision for income taxes was $239.1 million for the first quarter of 2006, compared to $228.6 million for the same period of the prior year. This represents a 31.0% effective tax rate for the first quarter of 2006 compared to 31.7% for the first quarter of 2005. The Company expects the 2006 annual effective tax rate to be between 31-32%, which is within the range of the Company s effective tax rate for the past several years.

Securities Available for Sale

The investment portfolio is managed as part of the overall asset and liability management process to optimize income and market performance over an entire interest rate cycle while mitigating risk. The Company managed the portfolio in the first quarter of 2006 with the goal of continuing to improve yield while slightly increasing the size to take advantage of higher interest rates. The average yield for the first quarter of 2006 improved to 4.77% compared to 4.41% in the first quarter of 2005 and 4.61% in the fourth quarter of 2005. Given improved market opportunities from higher interest rates, the Company lengthened the estimated average life of the portfolio to 3.8 years at March 31, 2006 from 3.3 years at December 31, 2005. Likewise, the portfolio s average duration increased to 3.0 as of March 31, 2006 from 2.8 as of December 31, 2005. Duration is a measure of the estimated price sensitivity of a bond portfolio to an immediate change in interest rates. A duration of 3.0 suggests an expected price change of 3.0% for a one percent instantaneous change in interest rates, without considering any embedded call or prepayment options. The size of the securities portfolio increased $809.7 million, or 3.1%, to $27.3 billion, or 15.3% of total assets at March 31, 2006, up from $26.5 billion, or 14.8% of total assets at December 31, 2005. The current mix of securities as of March 31, 2006 is shown in Table 5, Securities Available for Sale, compared to December 31, 2005.

The carrying value of the investment portfolio, all of which is classified as securities available for sale, reflected $1.5 billion in net unrealized gains at March 31, 2006, including a $2.0 billion unrealized gain on the Company s investment in common stock of The Coca-Cola Company. The net unrealized gain of this common stock investment increased $77.7 million, while the net unrealized loss on the remainder of the portfolio increased $152.5 million compared to December 31, 2005, reflecting the increase in market interest rates during the first quarter of 2006. These changes in market value did not affect the net income of SunTrust, but were included in other comprehensive income. The Company reviews all of its securities with unrealized losses for other-than-temporary impairment at least quarterly. As part of these reviews in the first quarter of 2006, the Company has determined that no impairment charges were deemed necessary this quarter.

Securities Available for Sale **Table 5**

	March 31, 2006		December 31, 2005	
(Dollars in millions) (Unaudited)	**Amortized Cost**	**Fair Value**	Amortized Cost	Fair Value
U.S. Treasury and other U.S. government agencies and corporations	**$3,195.0**	**$3,129.1**	$2,593.8	$2,547.0
States and political subdivisions	**931.7**	**935.8**	914.1	925.7
Asset-backed securities	**1,623.0**	**1,593.1**	1,630.8	1,612.7
Mortgage-backed securities	**17,729.3**	**17,287.2**	17,354.5	17,022.6
Corporate bonds	**977.0**	**953.4**	1,090.6	1,070.4
Common stock of The Coca-Cola Company	**0.1**	**2,023.3**	0.1	1,945.6
Other securities[1]	**1,382.2**	**1,413.6**	1,369.9	1,401.8
Total securities available for sale	**$25,838.3**	**$27,335.5**	$24,953.8	$26,525.8

[1] Includes $862.1 million and $860.1 million at March 31, 2006 and December 31, 2005, respectively, of Federal Home Loan Bank and Federal Reserve Bank stock stated at par value.

The following section, Enterprise Risk Management, includes additional discussion of Consolidated Financial Performance which aligns the specific performance metrics with the respective categories of risk.

ENTERPRISE RISK MANAGEMENT

In the normal course of business, SunTrust is exposed to various risks. To manage the major risks that are inherent to the Company and to provide reasonable assurance that key business objectives will be achieved, the Company has established an enterprise risk governance process. Moreover, the Company has policies and various risk management processes designed to identify, monitor, and manage risk. These risks are organized into three main categories: credit risk, market risk (including liquidity risk), and operational risk (including compliance risk).

Credit Risk Management

Credit risk refers to the potential for economic loss arising from the failure of SunTrust clients to meet their contractual agreements on all credit instruments, including on-balance sheet exposures from loans and leases, off-balance sheet exposures from unfunded commitments, letters of credit, credit derivatives, and counterparty risk under interest rate and foreign exchange derivative products. As credit risk is an essential component of many of the products and services provided by the Company to its clients, the ability to accurately measure and manage credit risk is integral to maintain both the long-run profitability of its lines of business and capital adequacy of the enterprise.

SunTrust manages and monitors extensions of credit risk through initial underwriting processes and periodic reviews. SunTrust maintains underwriting standards in accordance with credit policies and procedures, and Credit Risk Management conducts independent risk reviews to ensure active compliance with all policies and procedures. Credit Risk Management periodically reviews its lines of business to monitor asset quality trends and the appropriateness of credit policies. In particular, total borrower exposure limits are established and concentration risk is monitored. SunTrust has made a major commitment to maintain and enhance comprehensive credit systems in order to be compliant with business requirements and evolving regulatory standards. As part of a continuous improvement process, SunTrust Credit Risk Management evaluates potential enhancements to its risk measurement and management tools, implementing them as appropriate along with amended credit policies and procedures.

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Borrower/counterparty (obligor) risk and facility risk are evaluated using the Company s risk rating methodology, which has been implemented in the lines of business representing the largest total credit exposures. SunTrust uses various risk models in the estimation of expected and unexpected losses. These models incorporate both internal and external default and loss experience. To the extent possible, the Company collects internal data to ensure the validity, reliability, and accuracy of its risk models used in default and loss estimation.

Loans

Total loans at March 31, 2006 were $118.1 billion, an increase of $3.6 billion, or 3.1%, from December 31, 2005. Residential mortgages increased $2.5 billion, or 8.3%, compared to December 31, 2005. This growth was due to continued demand for portfolio products. Additionally impacting loan growth was strong demand for construction lending resulting in a $1.0 billion, or 9.2%, increase in construction loans compared to December 31, 2005. Commercial loans declined $267.4 million, or 0.8%, from December 31, 2005, driven by the pay down of certain shorter-term corporate lending facilities, which were largely related to merger and acquisition activity and are temporary in nature.

Loans held for sale, which predominantly consists of warehoused mortgage loans, were $9.4 billion, a decrease of $4.3 billion, or 31.7%, from December 31, 2005. The decrease was attributable to a record level of mortgage loan sales. Also contributing to the decline was a student loan securitization of $750.2 million. The net gain on the sale of these securitized student loans was $2.5 million and was recorded in other income.

Loan Portfolio by Types of Loans **Table 6**

(Dollars in millions) (Unaudited)	**March 31 2006**	December 31 2005	**% Change**
Commercial	**$33,496.8**	$33,764.2	(0.8)
Real estate:			
Home equity lines	**13,791.7**	13,635.7	1.1
Construction	**12,068.5**	11,046.9	9.2
Residential mortgages	**32,366.6**	29,877.3	8.3
Commercial real estate	**12,571.0**	12,516.0	0.4
Consumer:			
Direct	**5,421.7**	5,060.8	7.1
Indirect	**8,130.5**	8,389.5	(3.1)
Business credit card	**283.4**	264.5	7.1
Total loans	**$118,130.2**	$114,554.9	3.1
Loans held for sale	**$9,351.7**	$13,695.6	(31.7)

Provision for Loan Losses and Allowance for Loan and Lease Losses

Provision for loan losses totaled $33.4 million in the first quarter of 2006, an increase of $22.8 million from the first quarter of 2005. Net charge-offs for the first quarter of 2006 were $22.3 million, a decrease of $14.6 million, or 39.5%, from the $36.9 million of net charge-offs recorded in the same period of the prior year. The decline in net charge-offs was primarily due to lower charge-offs in the Company s consumer indirect portfolio. The provision for loan losses was $11.1 million greater than net charge-offs for the first quarter of 2006, resulting in a corresponding increase to the allowance for loan and lease losses (ALLL). This increase was due to the 3.1% increase in loans from December 31, 2005, primarily in the residential real estate and construction loan categories.

SunTrust maintains an allowance for loan and lease losses that it believes is adequate to absorb probable losses in the portfolio based on management s evaluation of the size and current risk characteristics of the loan portfolio. Such evaluations consider prior loss experience, the risk rating distribution of the portfolios, the impact of current internal and external influences on credit loss and the levels of nonperforming loans. In addition to the review of credit quality through ongoing credit review processes, the Company constructs a comprehensive allowance analysis for its credit portfolios on a quarterly basis. The SunTrust ALLL Committee has the responsibility of affirming the allowance methodology and assessing all of the risk elements in order to determine the appropriate level of allowance for the inherent losses in the portfolio at the point in time being reviewed.

The allowance methodology includes a component for collective loan impairment for pools of homogeneous loans with similar risk attributes; components for specifically identified loan and lease impairment; and a non-pool-specific component related to inherent losses that are not otherwise evaluated in the other elements. The qualitative factors associated with the non-pool-specific component are subjective and require a high degree of judgment. These factors include the inherent imprecision in mathematical models and credit quality statistics, economic uncertainty, losses incurred from recent events, and lagging or incomplete data. Relevant accounting guidance is used to identify and analyze the loan pools and larger individual loans for impairment. Numerous loss factors are used to analyze the loan pools including current and historical credit quality results, credit risk ratings, industry or obligor concentrations, and external economic factors.

At March 31, 2006, SunTrust s ALLL totaled $1,039.2 million, or 0.88% of total loans, compared to $1,028.1 million, or 0.90% of total loans at December 31, 2005. The increase in the ALLL was driven by strong loan growth in the first quarter of 2006. The two basis point decline in the ratio of ALLL to total loans was primarily driven by the amount of loan growth in residential mortgage secured products which have historically experienced low loss rates. The allowance as a percentage of total nonperforming loans increased from 346.9% at December 31, 2005 to 358.7% at March 31, 2006.

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Summary of Loan Loss Experience **Table 7**

(Dollars in millions) (Unaudited)	Three Months Ended March 31 2006	2005	% Change[1]
Allowance for Loan and Lease Losses			
Balance - beginning of period	**$1,028.1**	$1,050.0	(2.1)
Provision for loan losses	**33.4**	10.6	216.4
Charge-offs			
Commercial	**(13.5)**	(16.6)	(19.0)
Real estate:			
Home equity lines	**(5.8)**	(2.3)	153.5
Construction	**(0.1)**	(0.8)	NM
Residential mortgages	**(6.3)**	(6.2)	1.8
Commercial real estate	**(1.0)**	(0.8)	16.5
Consumer:			
Direct	**(6.1)**	(4.6)	34.2
Indirect	**(21.5)**	(33.8)	(36.4)
Total charge-offs	**(54.3)**	(65.1)	(16.6)
Recoveries			
Commercial	**7.1**	9.7	(27.3)
Real estate:			
Home equity lines	**2.0**	0.8	144.4
Construction	**0.1**	0.2	NM
Residential mortgages	**2.3**	1.2	92.9
Commercial real estate	**3.4**	0.3	NM
Consumer:			
Direct	**3.6**	2.5	41.5
Indirect	**13.5**	13.5	1.2
Total recoveries	**32.0**	28.2	13.2
Net charge-offs	**(22.3)**	(36.9)	(39.5)
Balance - end of period	**$1,039.2**	$1,023.7	1.5
Average loans	**$116,262.2**	$103,215.8	12.6
Quarter-end loans outstanding	**118,130.2**	104,760.9	12.8
Ratios:			
Net charge-offs to average loans (annualized)	0.08%	0.14%	
Provision to average loans (annualized)	0.12	0.04	
Recoveries to total charge-offs	58.9	43.3	
Allowance to quarter-end loans	0.88	0.98	
Allowance to nonperforming loans	358.7	286.7	

[1] NM not meaningful

Nonperforming Assets

Nonperforming assets totaled $334.3 million at March 31, 2006, relatively flat compared to December 31, 2005. Nonperforming loans at March 31, 2006 included $262.8 million of nonaccrual loans and $26.9 million of restructured loans, the latter of which consists mostly of a group of consumer workout loans.

Interest income on nonaccrual loans, if recognized, is recorded using the cash basis method of accounting. During the first three months of 2006 and 2005, this amounted to $4.1 million and $2.8 million, respectively. For the first three months of 2006 and 2005, interest income of $6.9 million and $7.0 million, respectively, would have been recorded if all such loans had been accruing interest according to their original contract terms.

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Accruing loans past due ninety days or more increased by $28.0 million from December 31, 2005 to $399.5 million as of March 31, 2006. The increase was driven by student loan payment deferrals.

Nonperforming Assets **Table 8**

(Dollars in millions) (Unaudited)	**March 31 2006**	December 31 2005	**% Change**
Nonperforming Assets			
Nonaccrual loans:			
Commercial	**$53.0**	$70.9	(25.4)
Real estate:			
Construction	**28.1**	24.4	15.1
Residential mortgages	**115.8**	103.3	12.1
Commercial real estate	**45.6**	44.6	2.3
Consumer loans	**20.3**	28.7	(29.3)
Total nonaccrual loans	**262.8**	271.9	(3.4)
Restructured loans	**26.9**	24.4	10.5
Total nonperforming loans	**289.7**	296.3	(2.2)
Other real estate owned (OREO)	**38.9**	30.7	26.8
Other repossessed assets	**5.7**	7.2	(21.1)
Total nonperforming assets	**$334.3**	$334.2	
Ratios:			
Nonperforming loans to total loans	**0.25%**	0.26%	
Nonperforming assets to total loans plus OREO and other repossessed assets	**0.28**	0.29	
Accruing loans past due 90 days or more	**$399.5**	$371.5	

Market Risk Management

Market risk refers to potential losses arising from changes in interest rates, foreign exchange rates, equity prices, commodity prices and other relevant market rates or prices. Interest rate risk, defined as the exposure of net interest income and Economic Value of Equity (EVE) to adverse movements in interest rates, is SunTrust s primary market risk, and mainly arises from the structure of the balance sheet (non-trading activities). SunTrust is also exposed to market risk in its trading activities, mortgage servicing rights, mortgage warehouse and pipeline, other loans held for sale, and equity holdings of The Coca-Cola Company common stock. The Asset/Liability Management Committee (ALCO) meets regularly and is responsible for reviewing the interest-rate sensitivity position of the Company and establishing policies to monitor and limit exposure to interest rate risk. The policies established by ALCO are reviewed and approved by the Company s Board of Directors.

Market Risk from Non-trading Activities

The primary goal of interest rate risk management is to control exposure to interest rate risk, both within policy limits approved by ALCO and the Board and within narrower guidelines established by ALCO. These limits and guidelines reflect SunTrust s tolerance for interest rate risk over both short-term and long-term horizons.

The major sources of the Company s non-trading interest rate risk are timing differences in the maturity and repricing characteristics of assets and liabilities, changes in relationships between rate indices (basis risk), changes in the shape of the yield curve, and the potential exercise of explicit or embedded options. SunTrust measures these risks and their impact by identifying and quantifying exposures through the use of sophisticated simulation and valuation models, as well as duration gap analysis.

One of the primary methods that SunTrust uses to quantify and manage interest rate risk is simulation analysis, which is used to model net interest income from assets, liabilities, and derivative positions over a specified time period under various interest rate scenarios and balance sheet structures. This analysis measures the sensitivity of net interest income over a relatively short time horizon (two years). Key assumptions in the simulation analysis (and in the valuation analysis discussed below) relate to the behavior of interest rates and spreads, the changes in product balances and the behavior of loan and deposit customers in different rate environments. Material assumptions include the repricing characteristics and balance fluctuations of indeterminate maturity, or non-contractual, deposits.