BB&T (BBT) Earnings Report: Q4 2014 Conference Call Transcript

The following BB&T conference call took place on January 22, 2015, 08:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Alan Greer; BB&T; EVP - IR
- Kelly King; BB&T; Chairman, CEO
- Daryl Bible; BB&T; SEVP, CFO
- Christopher Henson; BB&T; COO
- Clarke Starnes; BB&T; SEVP, CRO
- Ricky Brown; BB&T; SEVP, President, Community Banking

Other Participants

- John McDonald; Sanford Bernstein; Analyst
- Betsy Graseck; Morgan Stanley; Analyst
- Gerard Cassidy; RBC; Analyst
- Ken Usdin; Jefferies; Analyst
- Erika Najarian; Bank of America; Analyst
- Mike Mayo; CLSA Investment Bank; Analyst
- Geoffrey Elliott; Autonomous Research; Analyst
- John Pancari; Evercore ISI; Analyst
- Matthew Burnell; Wells Fargo Securities; Analyst
- Eric Wasserstrom; Guggenheim Securities; Analyst
- Kevin Barker; Compass Point Trading and Research; Analyst
- Paul Miller; FBR Capital Markets; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Greetings, ladies and gentlemen. Welcome to the BB&T Corporation fourth quarter 2014 earnings conference.

(Operator Instructions)

It is now my pleasure to introduce your host, Alan Greer of Investor Relations for BB&T Corporation.

Alan Greer (EVP - IR):

Thank you. Good morning everyone. Thanks to all of our listeners for joining us today.

We have with us Kelly King, our Chairman and Chief Executive Officer and Daryl Bible, our Chief Financial Officer who will review the results for the fourth quarter of 2014.

We also have other members of our Executive Management team who are with us to participate in the Q&A session; Chris Henson, our Chief Operating Officer; Ricky Brown the President of Community Banking; and Clarke Starnes, our Chief Risk Officer.

We will be referencing a slide presentation during our comments today. A copy of the presentation as well as our earnings release and supplemental financial information are available on the BB&T Web site.

Before we begin, let me remind you that BB&T does not provide public earnings, predictions, or forecasts. However, there may be statements made during the course of this call that express management's intentions, beliefs, or expectations. BB&T's actual results may differ materially from those contemplated by these forward-looking statements. I refer you to the forward-looking statement warnings in our presentation and in our SEC filings.

In addition, please note that our presentation does include certain non-GAAP disclosures. Please refer to page two and the appendix of our presentation for the appropriate reconciliations to GAAP.

And now I'll turn it over to Kelly.

Kelly King (Chairman, CEO):

Thanks Alan and good morning everybody. Thanks for your interest in our company. We really appreciate you joining our call.

Overall, I'd say we had a very strong fourth quarter, frankly -- with almost every area being positive. There's solid loan growth, strong non-interest -- deposit growth, really good fee income, very effective expense control and frankly, our overall diversification strategy is really kicking in and really making a difference.

We had record earnings for the full year of 2014, and for the fourth quarter. Net income for the year was $2 billion, that's 28% over 2013. Remember, in 2013 we had a significant tax adjustment.

Fourth quarter earnings totaled $557 million, up 3.7% versus fourth quarter. So, diluted EPS totaled $0.76 for the fourth quarter, up 1.3%. Diluted EPS was $2.75 for the year versus $2.19, which was up 25.6%.

A very strong ROA of 1.3% for the quarter, so we felt really good about that.

Revenue, I was pleased with was $2.4 billion, up 9.2% versus the third quarter. So, revenue increase was really due to higher mortgage banking income, seasonally strong our insurance, record quarter for investment banking and brokerage. Very pleased at our fee income ratio was a record 45.8%.

In terms of lending, our average loans excluding residential mortgage grew 3.2% versus the third quarter. Growth was led by C&I, CRE, direct retail and other lending, I'll have a few more comments about that and just a minute.

We did announce an agreement to acquire Susquehanna Bancshares, as you probably know, and very excited about this. It's a significant merger, $18.6 billion in assets, $13.6 billion in deposits for 245 retail branches. I've had the opportunity over the last several weeks to visit a lot of their branches, visit a lot of their clients, a lot of their community leaders. I'll tell you, it's a really great company, strong culture, strong community focus, looks just like BB&T .

To be honest, I felt a lot better about the acquisition today than when we announced in November and I felt really good then. This is a really good company and is going to work out to be a really, really important part of our franchise.

Also, the Bank of Kentucky is proceeding very, very well. We're going to really enjoy that opportunity and in Northern Kentucky and Cincinnati, great opportunity for us. Also a second group of Citi branches are moving right along in terms of the approval process.

I'll point out that at this point we anticipate no problems in terms of the approvals. Sort of no guarantees in this world, but everything is tracking along very normally and we anticipate no difficulties in that area.

With regard to the expenses, just point out that our adjusted non-interest expense was $1.38 billion, down 12.8% versus the third quarter. Our efficiency ratio was 56.7.

I'd like to tell you I was traveling and when the numbers were coming in, Daryl sent me an email and said we will have 56 handle on our efficiency ratio and I replied him back and said God is good.

As you all know, we were working really, really hard to get a (inaudible) handle and we did. So, ex-the unusual items, we were below our $1.4 billion target, which we had indicated we thought we could do.

I'm really pleased about where we are with regard to expense focus. We have a really healthy and intense focus on expenses. Getting much better at distinguishing between what I call retained expenses, which in today's environment you really have to manage very intensely, and expense investments, which support improved risk management revenue growth.

So, we can talk about more of that in the Q&A, but I just would say that we are really, really maturing into an excellent expense management company. That hadn't always been our strong suit, to be honest, but we're really, really getting to be very good about that today.

If you follow along on the slides, looking at slide 4. I just want to emphasize a couple of special items for the quarter. We did have a mortgage reserve adjustment which we had mentioned earlier in the quarter. That settled down at $27 million pretax, so it was $0.02 negative impact to EPS.

We did have a franchise tax benefit adjustment which was a positive $15 million pretax, which was $0.01. We did have an allowance related to a loan sale. Recall, we sold about $140 million of mostly non-performing loans which generated a pretax $24 million increase or gain, which was a positive $0.02 and then we did have some regular merger-related restructuring charges which were $18 million pretax and a negative $0.02 with regard to operating type of EPS.

So, if you put all that together, the kind of washes out with a net of $0.01 negative to GAAP. In other words, GAAP would be $0.01 lower than what we would considered to be kind of ongoing type of earnings.

If you look at page five, I want to spend a minute or two with you with regard to a little color on loans. So, in a loan growth area, we feel really good about our performance, particularly given the market conditions. It's a relatively slow economy out there, still. It's going through 2.5% to 3%, which is okay, better than a few years ago, but not robust. Competition still tough, but we remained where we've been consistently through the whole cycle, focused on long-term profitable loan growth with good risk-adjusted returns.

We're just not going to be changing quarter-to-quarter. You can probably listen to these calls going back over several years and you hear me and Clarke say the same thing. That's what you will continue to hear. And we're going to make our overall loan growth improvements through strategies and diversification versus changes, in terms of underwriting, which to some degree is going on in the marketplace.

So, if you look at some of the components, very pleased. Our C&I growth was 4.7%. That's been largely in large corporate, mortgage warehouse, mostly larger participations which of course are competitive and pretty thinly priced, but still, improving there for us.

Our CRE income-producing was 3.2%. CRE construction, which we've been really forcing or pushing to try to improve, was up 15.2% and I'm pleased that was very broad-based, single-family vertical construction is beginning to move after being down flat for a long time; industrial, hospitality, retail really good.

Multifamily was flat, probably no indication that the market is slowing a little bit in that area, which is good. It was getting a bit too heated. So, if you look at our overall commercial, it's 5% for the quarter.

Direct retail is strong at 8.7% and frankly, our momentum there is really, really good, led by HELOC and although wearing some other product focus areas in there. Rick and his team have done a fantastic job in developing some real strategies. We feel better about our retail execution in our branches than we felt in 10 years. So, that's going really, really well.

Sales finance is down 2.5%, but that's just strictly seasonal. You'll notice the residential mortgage is down 11.8% as we telegraphed before. We made a decision early in 2014, second quarter, to start selling, basically, all of our conforming loan production and we had the impact of two mortgage sales.

So, basically, mortgage activity is down about $1 billion for the year. So, that's a pretty big change. It's strategically exactly where we want to be and we feel good about that. But it does impact the total numbers; you just need to take that into account.

So, if you look at our total growth, ex-covered, of course, which are running off, I try to look at kind of how we ought to think about kind of core run rate loan growth and so, if you take -- ex-mortgage, ex-covered and then if you simply take out the sales finance and after case, which are most seasonally affected in the fourth quarter categories, we would be growing about 6.2%.

So, feel really good about that that level of core growth. Obviously, the total growth matters in terms of the income statement, but the core growth is what matters in terms of going forward and how we think about future earnings opportunities.

So, I just wanted to point out that in our portfolio, there's a lot of questions today about oil and gas. We have a $1.4 billion oil and gas portfolio. I would point out that 78% of that is upstream, 89% of it is reserve base, 17% is midstream, and only 5% service -- oilfield services.

And so, we viewed at the highest risk part of this businesses is an oilfield services, so we're in the least risky part of the business. We're lending on proven reserves. We stress tested our portfolio all the way down to $40 and have very little problems even at $40. So, we just don't think oil and gas is that issue for us, frankly, relative to our total portfolio.

We do expect loan growth in the first quarter to be 5% to 7% excluding mortgage and frankly, that's because all of our key strategies are working. Corporate is up 23% this quarter. So, that's really got legs and has a good bit more potential as we go forward over the next two or three years.

CRE is coming back at 5.6% and that has strong legs. Retail as I indicated is 8% and gaining momentum. Wealth is really, really strong being driven by a lot of support out of the community bank; specializing business is growing very, very well. We of seasonality there, but aside from seasonality, they are just doing really, really well across the Board.

And plus add to that in terms of our diversification strategy, our insurance business is just doing fantastic as Daryl will cover it just a little bit. So, overall, I feel really good about our loan execution, particularly given the market. If the market gets better, then we will get better. If the rates go up, we'll get better spreads. That would be good.

But for the time being, we're assuming that the year is going to be relatively challenging in the first half, probably get a little better in the second half. We think the Fed will raise rates about the middle of the year notwithstanding what's going on globally and we think there will be some positives kicked in oil prices pretty soon.

And so we are thinking as we head into second half of the year that there will be some upward pressure on interest rates and that will serve us and the industry as well.

But even if that doesn't happen we are hunkered down and assuming that it is relatively tough year and we are focusing on execution on our diversification strategies and their working.

If you look at page six just a brief comment, deposit growth continuing to work really, really well, non-interest bearing DDAs up 10.7%. Some good category performances, personnel business and public fund DDA growth was 11.8, 12.3 and 16 respectively versus the fourth quarter of 2013. So we feel good about that.

I would point out that our non-interest bearing deposit mix is up to 30% from 21.1% and I think about five years ago it was about 15%. So we've made dramatic improvement in that area over the last several years.

Again, I'd just point that out to illustrate that our diversification strategy is working on asset side and on the liability side. Importantly our cost and total deposits was 0.25% in the fourth versus 0.28% in the earlier period, and so we are continuing to bring our cost down, which we feel good about.

So that's a little color with regard to loans and deposits. Let me turn it to Daryl now to give you some color on some of the key areas.

Daryl Bible (SEVP, CFO):

Thank you, Kelly and good morning everyone. I'm going to talk about credit quality, net interest margin, fee income, non-interest expense, capital and our segment results.

Continuing on slide seven. We are pleased to report a very strong fourth quarter. This was partly driven by the improvement we saw in credit quality. Net charge-offs were better than expected coming in at 39 basis points, down 18%. Excluding Regional Acceptance, charge-offs were 21 basis points.

Loans 30 to 89 and 90 days past due decreased, mostly due to loans acquired from the FDIC that were performing low. By the way the commercial loss sharing agreement expired last quarter so we don't refer to them as covered loans any more. However, we continue to have 654 million of mortgages covered under our consumer loss share agreement for the next five years.

We expect net charge-offs to remain between 40 and 45 basis points next quarter assuming no material decline in the economy. NPAs declined 16.7% versus third quarter, primarily due to residential mortgage loan sale and a decrease in commercial NPLs of 10.1%. NPAs as a percentage of total assets remained at the lowest level since 2007 at 42 basis points.

We completed our second loan sell this quarter, selling 140 million of mostly non-performing mortgage loans. We received excellent pricing on the transaction. The sell also improve servicing efficiency going forward.

Turning to side eight. Our allowance coverage remains very strong, increasing to 3.2 times from 2.8 times last quarter. Let me highlight our core provision since we had some noise this quarter. We recorded provision of 84 million excluding loans acquired from the FDIC and the provision was reduced by a pre-tax 24 million from the loan sell. Our core provision was a $108 million compared to charge-offs of $102 million, a modest build. Going forward we continue to anticipate no reserve releases.

Continuing on slide nine, net interest margin was 3.36% this quarter, down two basis points, a bit better than our expectations. Core margin was 3.20, stable compared to last quarter. The small decline in GAAP margin resulted from lower loan balances and lower yields on new loans, offset by stronger interest recoveries, lower funding cost and a change in a funding mix.

Looking at next quarter, we expect GAAP margin to decline in the mid-single digits given that rates have fallen, plus continued runoff of loans acquired from the FDIC. Core margin should remain fairly stable in light of our ability to offset lower new loans yields with improved funding mix.

We expect net interest income to be down a bit due to margin decline and two fewer days. We remain slightly asset sensitive and continue to be in a good position to benefit when interest rates start to rise.

Turning to slide 10, we had a really strong quarter from a fee income produced in businesses. Our fee income ratio improved to a record 45.8% for the quarter. Total fee income exceeded $1 billion; a 29% annualized increase compared with last quarter. This performance was led by insurance, up $24 million, primarily due to seasonal strength in property and casualty commissions.

In addition, mortgage banking increased $21 million, driven by the revaluation of MSR, higher gain on sale spreads and stronger commercial mortgage volume. BB&T Capital Markets had a record quarter led by both equity and fixed income businesses, resulting from a $17 million increase in investment banking and brokerage fees and commissions.

Turning to slide 11, our adjusted non-interest expense totaled $1.38 billion for the quarter, down 13% compared with adjusted expenses from last quarter. This excludes relevant items that Kelly discussed on page four of our presentation.

Expenses benefited this quarter from lower insurance related costs, lower FTEs and a decrease in IT expenses. Combined with solid growth in revenues, we achieved our goal of efficiency ratio of 56.7% for the quarter.

Looking at taxes, our effective tax rate was 27.9% and should increase to about 30% in the first quarter. This increase will be driven by the adoption of new tax credit accounting the first quarter, which will show higher non-interest income and income taxes.

Looking forward, the first quarter is seasonally challenging, driven by two fewer days, higher fringe costs and higher pension cost due to lower interest rates.

Turning to slide 12. Capital ratios remained very strong with Tier 1 common at 10.6% and Tier 1 at 12.4%. Our estimated Basel III common equity Tier 1 ratio was strong at 10.3%. Capital ratios were affected by the expiration of the commercial loss share agreement which increased the bank's risk weighted assets.

Looking at liquidity, our LCR was very strong at 130%, substantially above the minimum requirement of 90% by 2016. And our liquid asset buffer at the end of the quarter was very healthy at 13.6%.

Looking briefly at our segments. On slide 13, community bank had a very good quarter with segment net income up 10% compared with last quarter. Largely due to lower credit and personnel cost.

On slide 14, the mortgage segment performed better versus like and linked quarters, driven by improved gain on sale margins, better MSR performance and lower provision due to loan sales.

On slide 15, the dealer financial services had a decline in segment income due to higher provision expenses driven by seasonally higher net charge-offs in Regional Acceptance. On slide 16, specialized lending was down versus linked quarter, driven by seasonality in Sheffield and premium finance.

On slide 17, insurance had a strong quarter due to strong insurance commissions at Crump Life, at McGriff, Seibels & Williams, plus improved operating margins. On slide 18, financial services segment net income was up driven by BB&T Capital Partners and Investment Banking.

In summary, we had a really strong quarter driven by credit quality, fee income and lower expenses. We continue to make investments in systems and processes which will pay off in a long run.

Now let me turn it back over to Kelly for his closing remarks and Q&A.

Kelly King (Chairman, CEO):

Thanks Daryl. As you've heard it really was an excellent quarter, solid loan growth and very strong fee income. Very pleased about our expense control focus. All of our key strategies are working. We are very excited about our mergers. To be honest relative to the market I feel really good about our future performance and look forward to discussing that you as we go forward.

So I will turn it back to Alan for Q&A.

Alan Greer (EVP - IR):

Thank you, Kelly. At this time we will begin our Q&A session. Kim, if you would come back on explain how our listeners can participate in this session.

QUESTIONS & ANSWERS

Operator:

Absolutely. (Operator Instructions)

Our first question comes from John McDonald of Sanford Bernstein.

John McDonald (Analyst - Sanford Bernstein):

Yes, hi. Good morning. Wondering about the efficiency ratio, Daryl and Kelly, do you have a target for this quarter and kind of how are you thinking about the revenue to expense relationship for 2015? I know you said that first quarter, Daryl, you've got some seasonal pressure on the efficiency ratio. How are you thinking about it in terms of goals for the full year?

Kelly King (Chairman, CEO):

So, John I want to give you -- and I appreciate that is the first question, because I wanted to kind of address that philosophically. To be honest, last year we spent a lot of time and focus on efficiency ratio because we had the unusual situation where our expenses had popped up at the end of 2013 and there was lot of concern that our efficiency ratios will go on to 59, 60, whatever. And we knew that is what will happen and so we set a target of in the 56 range for the year and we ended up making it.

But as you know it was a little up and down and this is, as you just pointed out, it's a tricky ratio because you can manage your expenses more carefully than you can manage revenues, and revenues vary a lot and that impact from a denominator point of view will make some difference.

So we're not going to set an efficiency ratio for this year, because I really don't want to spend that much energy worrying about exactly whether its 56 or 57 or 58.1. I mean it's just too much energy on that.

But what I would say to you, and having said that is, our intensity focus on expenses will remain to the extent that revenues grow more rapidly and that will put downward pressure on the efficiency ratio to the extent that it doesn't have its upward pressure on it.

What we are going to be focused on is absolute level of expenses. So we think expenses this quarter can be roughly flat. We've got a little challenge covering that $72 million all in pension expense, but we're going to target to try to cover that. And so that would argue that we would have a relatively attractive efficiency ratio.

Long-term we still have a target. I will say of that in the 55 range. I don't think this year this could be that level. But, certainly, better than the 59, 60 kind of level, but probably in the middle area, but I'm not going to give a particular number.

John McDonald (Analyst - Sanford Bernstein):

Okay. And just quick follow-up to that, I guess, the other side of relationship. Just in terms of -- on the revenue side, what are your expectations for the ability to grow net interest income this year? And Daryl, are those helpful on the first quarter outlook for the margin? How you think about margin for the full year?

Daryl Bible (SEVP, CFO):

So, John, if you look at net interest income, rates have fallen in the last three to four weeks. I would tell you that, net interest income, we're planning for it to be up slightly on a year-over-year basis a lot of it is really determined by what happens by the Fed.

The Fed impact will impact us more than what we are seeing on the long end of the curve. As Kelly said, we are still expecting the Fed to increase middle of the year. And if Fed with their announcement in March takes the word patience out, you're going to see LIBOR rates start to increase in the second quarter. What you're going to see that starting to flow through in the net interest income in the second quarter just by LIBOR rates increasing.

As far as margin for next quarter, we expect it be down about three to five basis points, couple of basis points on purchase accounting, maybe one or two basis points on core, but thereafter what we think a relatively stable margin, maybe margin actually going up a little bit for quarters two, three and four.

John McDonald (Analyst - Sanford Bernstein):

Okay, great. Thanks guys.

Operator:

And we will take our next question from Betsy Graseck of Morgan Stanley.

Betsy Graseck (Analyst - Morgan Stanley):

Hi, good morning.

Kelly King (Chairman, CEO):

Hi Betsy.

Betsy Graseck (Analyst - Morgan Stanley):

Clarification question, just all the guidance is based on BB&T today, not including any acquisitions?

Kelly King (Chairman, CEO):

Correct.

Betsy Graseck (Analyst - Morgan Stanley):

Okay, can we talk little bit about how you are thinking about how the acquisitions will impact? Big picture we can -- if you don't want to get too much detailed on that and how you are expecting it's likely to drive the overall company as they get integrated?

Daryl Bible (SEVP, CFO):

Yeah. So the first acquisition will be Citi and hopefully that will close at the end of this quarter. That acquisition will basically increase our core deposits really won't have any impact on the size of the company. We're just going to pay off national market purchases from that perspective. But will add to run rate, because their cost to funds is actually where we've got our cost of funds. So that should start to help.

The Bank of Kentucky, we plan for that to close in the second quarter. That will be a good transaction. On a size basis it's a couple of billion dollars. But you will start to see a little bit impact, positive there, just because our earnings assets, balance sheet growth is couple of billion dollars. And they have a lot of good momentum going on there, good market and Greater Cincinnati, so that should actually be a really strong transaction over time.

And then Susquehanna, we are expecting that to close some time in the third quarter, and as that closes in the first quarter we're going to see a nice lift in net interest income, fee income from that acquisition. And then expenses will start to fade away over the next year or so. So I don't want to get any more definitive than that. But that's kind of the timing that we are looking at.

Betsy Graseck (Analyst - Morgan Stanley):

And so then the improved funding mix, Daryl, that you talked about in the prepared remarks, is that in part a function of the Citi closing or what else is there that you are thinking about?

Daryl Bible (SEVP, CFO):

If you just look at what's happened, what Kelly talked about early in our remarks, we are really growing our core deposits from DDA and our non-maturity deposits and it's just outpacing all of our rather funding.

And what Kelly said was exactly right. We've doubled our percentage of DDA in the last five years funding our company and we still expect to have strong momentum there. I mean, all the investments that we've made in wealth and corporate banking is really paying dividends and our company is really becoming advantaged from a funding perspective.

Kelly King (Chairman, CEO):

And Betsy, I would add that, depending on how it goes my personal prediction is that, as I said earlier, I think rates will start rising, as I said, in June, and as Daryl alluded to LIBOR going up in advance of that.

And then I think you're going to see institutions lagging in terms of deposit cost increase going up just because of the narrow spreads we're already operating under. And so if all that happens then that will bode well for net interest margins as we get through the year.

Betsy Graseck (Analyst - Morgan Stanley):

Sure. Got it. Okay, thank you.

Kelly King (Chairman, CEO):

You bet.

Operator:

Our next question comes from Gerard Cassidy of RBC.

Gerard Cassidy (Analyst - RBC):

Good morning, Kelly and good morning, Daryl.

Kelly King (Chairman, CEO):

Good morning.

Daryl Bible (SEVP, CFO):

Hey, Gerard.

Gerard Cassidy (Analyst - RBC):

Kelly, when we look at your ROE this quarter it came in strong a 130 basis points. And when you go back to the pre-recession periods, you guys regularly reported 140, 150, I think one year even 170 plus basis points return on assets. Now, I recognize the efficiency ratios are higher today than where you were back then.

But when you look out over the next couple of years, what do you think BB&T could get to on an ROA basis? What's something that you think comfortably you guys can report in terms of profitability in an normal interest rate environment?

Kelly King (Chairman, CEO):

Yeah. We spend a lot of time thinking about that Gerard. And obviously, you well know the ROA depends a lot on what's our level of equity is. But, we cannot think given the projected levels of equity we've talked about that ROAs will be in the range of 130 to 150 and that will probably kick out ROEs of 13 to 15. I think that's kind of the way it would go.

It depends a little bit how the mix works out in terms of equity levels in any given short term period of time. But -- so, I think you get back to kind of where we were on ROAs, but that's because the relatively stronger equity. This could be a little challenging to back to the kind of ROEs we had, because we just got a lot more equity.

Now, that argues well for multiples in my view with regard to the stock, because you've got a less risky and more conservative and more resilient type of forward looking earnings theme. And so -- but I think for us and for the industry, you think about good ROAs, more like the old days that we remember so fondly and ROE being somewhat less, but still 13 to 15 with a low risk kind of company. Relative to the other alternative investments, I think it's pretty attractive.

Gerard Cassidy (Analyst - RBC):

Great. Thank you. And Daryl, you mentioned your LCR ratio was about 130% in the quarter, obviously well above where it needs to be. Will you guys think you will manage to on that ratio? How much lower will it go, if it will go lower? And when do you think you will get there?

Daryl Bible (SEVP, CFO):

So, we are still learning about the LCR ratio. Our daily reporting starts to go live later this quarter, and we are just going to see try and see how -- what it is. Our best guess is right now that we want to manage about 20 points over what our threshold is. So we have to be at 90 by the end of -- next year and then 100 following year after that.

So I think long-term we should be in the 120 range give or take. We actually are continuing to buy Tier 2 securities. It's just our funding mix continues to improve which is helping from a liquidity perspective, that's offsetting that. So we've shifted away from our Tier 1 securities and are buying more your Fannie and Freddie now. But it's just that our funding mix is also moving to positive direction for us. So that's why you didn't see it really move a whole lot this quarter.

Gerard Cassidy (Analyst - RBC):

Thank you.

Daryl Bible (SEVP, CFO):

Okay.

Operator:

And we will take our next question from Ken Usdin of Jefferies.

Ken Usdin (Analyst - Jefferies):

Hi, good morning guys. Just one follow-up on the expense cycle, your general context of trying to keep expenses flattish this year. Can you just clarify, you are talking about trying to manage that on an operating basis, on the way you would ex those couple of big items you had mid-year. And does it also contemplate the pension up increase and also the run off of the FDIC add back?

Daryl Bible (SEVP, CFO):

Yeah, all of Kelly comments really incorporated all the pension impact. We are talking about a flattish non-interest expense number on a GAAP basis. If you back out some of the two large items that we had in 2014, specifically the FHA charge and the Federal Home Loan Bank unwind, we're probably up maybe 2% at most on a year-over-year basis. Still able to be little bit under the revenue growth that we are forecasting.

Ken Usdin (Analyst - Jefferies):

Understood.

Kelly King (Chairman, CEO):

But that doesn't take away that we are still talking about flattish this year, Daryl just making there clarifying point that if you adjust to more normalized level 13, we would have there. What I'm trying to focus, Ken, is flattish kind of expenses for this year. Because -- in terms of the expense management all you can really do is focus on what's happening in terms of absolute level of expenses.

And so if we can do that, even though it's on adjusted 2% kind of increase over the no adjusted lower level of 13, I feel really, really good about that for 14.

Ken Usdin (Analyst - Jefferies):

Understood. And my follow-up is just -- can you just talk about a couple of a bigger fee categories and what you are outlook is? Notably insurance and investment banking?

Kelly King (Chairman, CEO):

Let me let Chris give some color on that, because it's very positive story.

Christopher Henson (COO):

Yeah, I think insurance, we finished this year -- year-over-year about 8% or so. And I think we do have the end of the year pricing is beginning to -- it really flattened out than the last quarter. So you will see pricing down a little bit. You should see as economy continues to improve, a bounce in exposure and just new business. And so we would expect to probably be up in the six or so range, I would say, for next year.

And in terms of investment banking, I would say in the 5% to 6% kind of range is well. We had really good equity activity at the end and we see M&A pretty active right now. So I think we have good continued opportunities as we look forward.

Ken Usdin (Analyst - Jefferies):

Okay, got it. Thanks guys.

Operator:

And we will take our next question from Erika Najarian of Bank of America.

Erika Najarian (Analyst - Bank of America):

Good morning.

Kelly King (Chairman, CEO):

Good morning.

Daryl Bible (SEVP, CFO):

Good morning.

Erika Najarian (Analyst - Bank of America):

Some of the investors with whom I've spoken recently have a less optimistic view on the trajectory of rates than you all do and I do quite frankly. So, I guess, the question is that, given how stable the core margin has been and is predicted to be, can you grow core NII in 2015 even if the Fed doesn't move this year?

Daryl Bible (SEVP, CFO):

So, when you look at interest rates Erika, we're -- about half of our assets are floating rate and the other half is fixed rate. The fixed rate portion of our assets for the most part reprice for the yield curve five years and end.

So I know lot of people focus on a 10-year, but the 10-year really just impacts more the mortgage market little bit in prepayments from that perspective. When we ran our models, we basically used current rates and what was in the forward curve and all that, and I will say that net interest income will be challenging to grow. But I still think depending how we grow our loans and our funding mix continues to improve. I think we still have a good chance of actually growing NII little bit.

Erika Najarian (Analyst - Bank of America):

Got it. And just -- the second follow-up question is -- thank you for the comments on charge-offs for next quarter. I was just wondering as you think about an improving U.S. economy, is 40 to 45 basis points a good bogey for the rest of the year for BB&T ?

Clarke Starnes (SEVP, CRO):

Erika this is Clarke, I think it is. Keep in mind Daryl's comments. We do have a large -- relatively large contribution losses from our non-prime auto business which is really well run. But it -- is producing a core level losses. So, we're not going to go dramatically lower. So I think in that 40, 45 basis points range is probably a good number as we look forward for the year.

Erika Najarian (Analyst - Bank of America):

Got it. Thank you.

Operator:

And we will take our next question from Mike Mayo of CLSA Investment Bank.

Mike Mayo (Analyst - CLSA Investment Bank):

Hi.

Daryl Bible (SEVP, CFO):

Hello.

Mike Mayo (Analyst - CLSA Investment Bank):

My question relates to efficiency, and Kelly, I guess, if I could get you to commit a little bit your efficiency ratio in 2011-2012 was around 55% and for the last years 2013 and 2014 it was around 59%, including a 59% in 2014. So could you guys at least the efficiency ratio below that 59% given that the ratio was 57% or even 56.7% in the fourth quarter. So doesn't seem to be a too big of a bar.

And related to that, when is -- you moved to SAP, you started to move little bit ago and what is your schedule for the conversion of the general ledger. I thought that was going to be some time in the first half of this year and could that help control your expenses?

Kelly King (Chairman, CEO):

So, Mike, I think your -- see your logical deduction around the math is reasonable. All I'm trying to do math -- and Mike you know, you've been around business long time and I just don't like to have so much attention focused to one number, because obviously there are times when your efficiency ratio going up is improving EPS and return to your shareholders. So you don't want to get the market too polarized and focus on that.

But that having been said, I think your logical deduction between we were 55, we got it to 59, somewhere in the middle is probably reasonable phase to be. So I think in terms -- and Daryl can comment. But I think with regard to project one we feel really good about where we are on that. We are in parallel. Everything is balanced to penny of a day. So it's working really well.

We are working on fine-tuning the processing times to get the efficiencies and so we're trying to decide right now to be honest how we go live in mid-February or maybe mid-April. But that's not about the quality of system, it's just we want to get the efficiencies of the system running.

So that to your second point, when this system gets running and just to be efficient then we will ratcheting down the expenses that are running to parallel all the system and then over the next 12 to 18 months we will get efficiencies that this system is really designed for, which is to be able to go out and extract information from cost system on a much more efficient basis.

Now, it's lot of work to make that happen, but we know that there are lot of system improvements and design of how we extract information of those is going to make a system much more efficient as we go forward.

Mike Mayo (Analyst - CLSA Investment Bank):

Okay. And I guess, having asked a question about the core efficiency ratio, I guess, in the end we on the outside won't really know because can we unscramble the egg, you have an acquisition. Seems like you have Citi in the first quarter and Bank of Kentucky in the second and Susquehanna in the third, so at the end of the year we won't really be able to unscramble that egg, I guess.

So how can we monitor your progress on a core basis this year?

Kelly King (Chairman, CEO):

Well, we will unscramble it for you as we go along, Mike as best as we can. As you know it is a scrambled egg. But as -- you know the Citi and the Bank of Kentucky won't have material impacts, the big change will be Susquehanna, which will be in the third quarter.

And so we will build it, pretty clearly identify for you then what the run rate for BB&T will be for the rest of the year and we will be able to be pretty clear about what the Susquehanna numbers will be. So, I don't think it will be as confusing as it may appear at this point.

Mike Mayo (Analyst - CLSA Investment Bank):

All right. Thank you.

Kelly King (Chairman, CEO):

You bet.

Operator:

And we'll take our next question from Geoffrey Elliott of Autonomous Research.

Geoffrey Elliott (Analyst - Autonomous Research):

Thanks. I've a question on the LCR. What would that 130% look like once you cross the $250 billion asset threshold from being A, modified LCR back to a full strength LCR back?

Daryl Bible (SEVP, CFO):

So, we're running actually both numbers right now, Geoffrey, and for us right now, it's about 40 points. So, 130% LCR for us, under $250 billion. Once we cross over $250 billion would be 90 from that perspective. So, we're managing, we're monitoring that in case we ever did get over $250 billion in the next couple of years. So, we won't be surprised or caught off guard. It's -- we're actually doing the calculations and monitoring it today.

Geoffrey Elliott (Analyst - Autonomous Research):

And what calculations you have done on the impact of crossing the $250 billion, the LCR dipping down to 90%. You want to run with 120. So, 30 percentage point of LCR build, what would that do to your profitability?

Daryl Bible (SEVP, CFO):

It really depends on how you get over the $250 million, Geoffrey and where you are in the environment. The acquisitions that we have this year, both Citi, the Bank of Kentucky, and Susquehanna, all should improve our LCR because of the core finding that these institutions bring to our company and how we plan to basically put the balance sheets together.

So, it's hard to say today, what the financial impact is. Obviously, it won't be a positive impact, but how negative it will be, it really depends on how you get there. And as we continue to grow and our core funding continues to strengthen and get stronger, we may not have much of an impact at all. It really depends right now.

Geoffrey Elliott (Analyst - Autonomous Research):

Great. Thanks very much.

Operator:

And our next question comes from John Pancari of Evercore ISI.

John Pancari (Analyst - Evercore ISI):

Good morning.

Kelly King (Chairman, CEO):

Good morning.

Daryl Bible (SEVP, CFO):

Good morning.

John Pancari (Analyst - Evercore ISI):

I want to give a little bit more color on your loan growth expectation for the full year of 2015. I know you give us the link quarter expectation and it does imply a good amount of acceleration. And I want to get your thoughts on what that could mean for the full year growth on an organic basis, excluding the impact of Susquehanna.

Clarke Starnes (SEVP, CRO):

Yeah John, this is Clarke. We think roughly total 4.5% to 6% in that range, that's including mortgage. So, ex-mortgage, maybe more than 6% to 7% range.

John Pancari (Analyst - Evercore ISI):

Okay. And then, just the drivers of that. What would you say are going to be the strongest contributors? Should it remains C&I and large corporate like we've seen, or do expect steady pick-up in some of the other areas including commercial real estate?

Kelly King (Chairman, CEO):

As we talked a little bit about earlier, it will be pretty broad-based, which is why I feel very confident about over the course of the year and our large corporate is growing at 23% growth rate. That will continue at a very nice double-digit type of growth rate, I think, certainly for this year. Our retail is coming on really strong at 8.7%. That momentum will continue and maybe even build as we go through the year.

Small business has been the challenge, but, to be honest, I think that's the bright spot for BB&T as we go forward, because the guest effect across Main Street America is likely to be very positive and that will cause more economic activity in the smaller credit area, which will really work to our advantage because we have a huge market share out in that space. And so when you look at overall loan growth, it's pretty diversified especially lending businesses, all of that will be very, very positive. So, we feel very confident.

John Pancari (Analyst - Evercore ISI):

Okay. And then on new production loan yields, just want to give some color and where you're bringing on new money, at this point. Either overall book or if you have the detail by C&I versus anything real estate oriented?

Clarke Starnes (SEVP, CRO):

Yeah. John, this is Clarke, again. As far as our C&I spreads, a little pressure this quarter, but relatively flat, about 178 basis points on new production on C&I on the spread basis. Our CRE income property, 258, and then our construction development, about 340. So, a little bit of pressure, but I think given where we're holding on our risk tolerances, they held up relatively well for the quarter.

John Pancari (Analyst - Evercore ISI):

Okay. And my last thing is just around energy. Did you allocate any additional reserves over to energy? And do you have what the reserve is for the energy book as of the end of the year? Thanks.

Clarke Starnes (SEVP, CRO):

We don't disclose that level of segmentation. But I can tell you we have a robust overall methodology for our allowance and certainly the energy segments included in that analysis and we do believe that, at this point in time, for what we know, we've allocated appropriate reserves for that book.

I will tell you just to explain what Kelly said, we've done very thorough sensitivity analysis on our book down as low as $40, looking at coverage on proven producing reserves-only, realize that we have other collateral and liquidity sources other than that and we're going on a name-by-name basis. So, I feel good about where we are. We don't anticipate even as we look forward to next quarter. So, any material increases in our reserved related to the energy book beyond what we've already done.

John Pancari (Analyst - Evercore ISI):

Okay. Thank you.

Clarke Starnes (SEVP, CRO):

Sure.

Operator:

(Operator Instructions)

And we'll take our next question from Matt Burnell of Wells Fargo Securities.

Matthew Burnell (Analyst - Wells Fargo Securities):

Good morning folks. Just -- Daryl, I wanted to ask you about the loss share amounts that are included in fee income with the exit of the commercial loss share agreement. Should we expect that number to move lower over the course of 2015? Is that, potentially, they help to your total non-interest income?

Daryl Bible (SEVP, CFO):

Yes, Matt. I think that's accurate. This past quarter we had a negative $84 million in our loss share account and fee income line item. I would expect that to trend down probably in the $10 million to $15 million range every quarter over 2015, probably ending around $40 million to $50 million negative.

So, that should be lift. And if you couple that with the change in the tax credit accounting, you're really going to see really strong fee income numbers for us next quarter.

Matthew Burnell (Analyst - Wells Fargo Securities):

Okay. And then just on the loan sales, you've done a couple of those. I'm presuming that the environment for those sales is a little bit better than you saw maybe earlier in 2014. Are you planning, at this point, further mortgage sales?

And Daryl, your comment about the servicing efficiency that might occur from the loan sales, is that something might actually be visible in the operating expenses next year? Or is it, at this point, too relatively small to matter?

Clarke Starnes (SEVP, CRO):

Yeah, Matt, on the first point, the market is still very liquid and the pricing is very attractive. And so, we were opportunistic and felt like it was a great risk trade-off given the pricing. And Daryl's point about the efficiency, just to give you some context, I think between the two sales there were over 2,000 loans or so. So, those would be TDRs and non-performer, so those are very servicing-intent. I do think, over time, you will see that bleed out into some improvement in the cost structure down in our service and operation and that's really why we're doing it.

Matthew Burnell (Analyst - Wells Fargo Securities):

Okay. Thanks very much.

Clarke Starnes (SEVP, CRO):

Sure.

Operator:

And we'll take our next question from Eric Wasserstrom of Guggenheim Securities.

Eric Wasserstrom (Analyst - Guggenheim Securities):

Thank very much. Thank. I'm sorry. Can you hear me okay?

Kelly King (Chairman, CEO):

Yeah.

Eric Wasserstrom (Analyst - Guggenheim Securities):

All right. Thanks. Sorry about that. I just wanted to follow-up without asking any specific point about your CCAR submission. Can you kind of help us kind of think through your stance on capital return over this CCAR cycle, given obviously what's going on with your acquisition activity?

Kelly King (Chairman, CEO):

Yes. Eric, we've said pretty consistently that when we think in terms of capital deployment, we're always focused on organic growth, first, because that's the most efficient utilization of capital. Dividends are a clear number two for us, and strategic opportunities are number three and buybacks our number four.

And so, I think as we think about 2015, we clearly are going to be asking for an increased total payout. We expect to ask for a modest increase in our dividend. And so, you would expect to see a request in the neighborhood of 6% kind of range.

We'd still be low compared to a lot of folks, but we're still very conservative and we just don't want to -- we just don't want to get ourselves strained at all on capital because you never know when opportunities are going to come along. So, we'll be relatively conservative, but still that will be a nice increase relative to 2014.

Daryl Bible (SEVP, CFO):

Yeah. The only thing I would add to that, Eric is that we also incorporate the acquisition into the [inaudible] and the acquisitions to use up capital. So, it's really the acquisitions plus the 60% total range that Kelly talked about.

Eric Wasserstrom (Analyst - Guggenheim Securities):

Great. Thanks. And just to follow-up on a comment from earlier, Kelly, when you referred to the benefits of some of the technology implementation that you've done in terms of extracting information more efficiently and that kind of thing, where do we see that evidenced in the income statement? Is it in lower technology headcount or where do we actually see the benefits of that?

Kelly King (Chairman, CEO):

So, where you will see it, it will be hard for you to see, to be honest, Eric, because it's enterprise-wide. So, think about it this way. Our current systems have to go out and extract information from like 83 different places to pull together information on a monthly and quarterly basis and doing our CCAR preparations.

And today, frankly, an awful lot of that is very manually extracted. And so, this system eliminates a lot of the manual extraction. It's automatic computer-to-computer extraction of information. And so in every line of business, you will see less staffing requirements because all of these data have to come out on these various lines of business, so loans and deposits and other areas across the bank.

So, it will be very widespread, very hard for you to see, but it would be very easy for us to see in terms of the aggregate processing cost and as sort of will be as I said, a downward indicator with regard to overall efficiency ratio.

Eric Wasserstrom (Analyst - Guggenheim Securities):

Good. Thanks very much.

Operator:

And we'll take our next question from Kevin Barker of Compass Point Trading and Research.

Kevin Barker (Analyst - Compass Point Trading and Research):

Good morning. Could you talk about the adjustment you made on the MSR given most of your peers have been marking down their MSR significantly this quarter? And you already have a relatively low discount rate and low CPR rate compared to most, and thinking about your MSR valuation.

Daryl Bible (SEVP, CFO):

Kevin, this is Daryl. Every quarter we go through and we look at our MSR valuations. We compare it against a couple of other services and peer information. And our MSR valuation has been trending lower than the others for the last several quarters.

It's at a point now where it's so far under that we had to rebalance it up and when we did that, we adjusted our prepayment models, and the prepayment model changes, basically was a positive to the valuation.

We are still well under our survey peers. We use a PWC survey, we use FDIC survey and Mountain View are the services we use. And we're still significantly under those from an MSR servicing perspective.

Kevin Barker (Analyst - Compass Point Trading and Research):

So, are you assuming prepay speeds below 9% at this point?

Daryl Bible (SEVP, CFO):

Well, I mean the adjustment we made to get the $11 million increase was really in the prepayment models. But there's a lot of assumptions that go in to how you come up with the total valuation.

It's hard to say exactly which assumptions make us lower than all these other surveys because they are an average of a lot of other services combined together. But I think we feel very comfortable that our valuations are adequate and on the conservative side.

Kevin Barker (Analyst - Compass Point Trading and Research):

Okay. And then overall mortgage banking, are you saying this is one of your bigger opportunities in 2015?

Daryl Bible (SEVP, CFO):

If you look at mortgage volume, since rates have come down, our application volume is up. It's hard to know how far this is going to play out, but it's definitely a positive bent for income.

I mean you're seeing refis now approaching two-thirds of our business right now, which is positive spreads widening out. So, that could continue into the year, really depends on what happens with the longer end of the curve. But it's definitely a positive event from the mortgage perspective.

Kevin Barker (Analyst - Compass Point Trading and Research):

Okay. Thank you.

Operator:

And we have time for one final question, which we'll take from Paul Miller of FBR.

Paul Miller (Analyst - FBR Capital Markets):

Thank you very much. On the origination side, I think you made a comment in your commentary about you're seeing good loan growth out of HELOC portfolios. We -- just from a couple of other banks that they're getting some decent growth out of HELOC portfolios especially in some of the hardest hit states like Florida and Georgia. Are you saying the same thing? Is that were most of the HELOC growth is coming from?

Ricky Brown (SEVP, President, Community Banking):

This is Ricky Brown, Paul. We're seeing HELOC growth kind of broadly applied across our footprint. We've done some programs and it's enabled us to not only get notional increases, but we're actually getting some nice fundings in those lines as well. And we feel really good about where we're getting the growth. As I said, it's broadly across all of our markets.

In addition, Kelly mentioned earlier, we have developed a good auto program at our branches. We're going to introduce a very good unsecured program that allows us to get some good yields. We're working on a boat program. We've got our QM lending in the branches redefined and we think that a nice uptick for 2015.

And then of course, our partnership with wealth continues to be outstanding. Last year, we made 25,000 referrals are one of our community bank into the wealth area, which is very significant both from a deposit, fee income, and loan perspective. So, we see it pretty broad-based right now, which is good.

Paul Miller (Analyst - FBR Capital Markets):

And can you talk about, a little bit, what's your average balances? Are they mostly line of credits, or are they somebody adding additional bedroom to the house?

Ricky Brown (SEVP, President, Community Banking):

What we're seeing is the HELOC is obviously lines of credit, but people are using that money, they're using it for a variety of reasons from building onto their homes, to paying educational expenses, to refinancing credit card debt, whatever it might be. So, it's a wide variety. But these aren't huge lines. They are -- I don't know the exact average line size. But, it would be probably less than $50,000.

Paul Miller (Analyst - FBR Capital Markets):

Okay. Guys thank you very much.

Ricky Brown (SEVP, President, Community Banking):

You bet.

Kelly King (Chairman, CEO):

Thanks Paul.

Operator:

And that does conclude today's question-and-answer session. At this time, I'd like to turn the conference back over to Mr. Alan Greer for any additional or closing remarks.

Alan Greer (EVP - IR):

Okay. Thank you, Kim. And we appreciate everyone joining us today. If you have any other questions, please don't hesitate to call Investor Relations.

Thank you and have a good day.

Operator:

That does conclude today's conference. Thank you for joining us.