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BB&T (BBT) Earnings Report: Q4 2015 Conference Call Transcript

The following BB&T conference call took place on January 21, 2016, 08:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Alan Greer; BB&T Corporation ; EVP of Investor Relations
- Kelly King; BB&T Corporation ; Chairman & CEO
- Ricky Brown; BB&T Corporation ; President of Community Banking
- Daryl Bible; BB&T Corporation ; CFO
- Clarke Starnes; BB&T Corporation ; Chief Risk Officer
- Chris Henson; BB&T Corporation ; COO

Other Participants

- Betsy Graseck; Morgan Stanley ; Analyst
- Gerard Cassidy; RBC Capital Markets ; Analyst
- Paul Miller; FBR & Co ; Analyst
- John Pancari; Evercore ISI ; Analyst
- Matt Burnell; Wells Fargo Securities LLC ; Analyst
- Erika Najarian; BofA Merrill Lynch ; Analyst
- Michael Rose; Raymond James & Associates Inc. ; Analyst
- Amanda Larson; Jefferies & Co. ; Analyst
- Marty Mosby; Vining Sparks ; Analyst
- Nancy Bush; NAB Research ; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the BB&T Corporation fourth-quarter 2015 earnings conference. Currently all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation.

As a reminder, this event is being recorded.

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

Alan Greer (EVP of Investor Relations):

Thank you, Operator. 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. 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; Clarke Starnes, our Chief Risk Officer; and Ricky Brown, our Community Banking President.

We will be referencing a slide presentation during our comments. A copy of the presentation as well as

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our Earnings Release and supplemental financial information are available on the BB&T website.

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. Please refer to the forward-looking statements in our presentation and our SEC filings.

In addition, please note that our presentation includes certain non-GAAP disclosures. Please refer to page 2 in the appendix of our presentation for the appropriate reconciliations to GAAP. Now, I'll turn it over to Kelly.

Kelly King (Chairman & CEO):

Thanks, Alan. Good morning, everybody. Thanks for your interest in BB&T and as always thanks for joining our call. I think that fourth quarter overall, for us, was a very solid quarter, particularly given the challenging environment we have out there, that really steadied organic performance and really it was a great year from a strategic point of view.

Our core loan and deposit growth numbers a bit better than we expected. GAAP growth numbers included the impact of the acquisition as you will note. We grew revenues and held the net interest margin stable, which was a very comforting trend. Also, we have a very strong level of capital and liquidity. So overall, we continue to be a very strong Company.

If you focus on the quarter in terms of earnings, we made $502 million or diluted EPS of $0.64, which was flat with last quarter. We did have $50 million in pretax merger-related and restructuring charges. So if you ex that, we had what I'd call operating or core earnings of $0.68 per share excluding merger charges. If you look at GAAP ROA of 1.03%, return on tangible common was 13.37%. But if you adjust for the merger and restructuring charges, ROA was 1.09% and return on tangible was 14.19%.

Revenue totaled $2.6 billion, up $164 million versus fourth quarter, that was primarily due to Susquehanna. Revenue was up, annualized 10.8% compared to third. So we did have strong revenue growth. Now, that did include acquisitions but that's part of our business, so that's real revenue increase. For the full year, we totaled $9.8 billion, including acquisitions we were up 4.1%. We did have record fee income for the year.

Our net interest margin, as I indicated, was stable at 3.35%, which is an important consideration. Efficiency did improve to 58.8% as we achieved positive operating leverage. I would point out to you that we are really focused on expense management. We're working through the Susquehanna and we'll be working through the National Penn conversions, which really gives us an excellent opportunity to become more efficient, which we're absolutely committed to do.

Average loans and leases held for investment totaled $134.8 billion, fourth quarter versus $130.5 billion in the third quarter. Excluding acquisitions, our average loans are a little better than we expected, growing approximately 2% annualized versus the third.

Now, if you take out residential mortgage, which you'll recall we are intentionally running down and continue to do that, it's up 4.5%. So a pretty good loan growth quarter. Organic growth was very strong in C&I, direct retail and equipment finance.

From a strategic point of view, we're very happy that we did receive full approval from all the regulators on National Penn. We now expect to move that closing up to April 1. We still plan to do the conversion about mid-July. So the cost saves of National Penn will still be back -- second half loaded, because you

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don't really get the cost saves until the conversion.

You could argue why we don't move the conversion up, but if you know, we've done a lot of mergers for a long time. It's best to take your time and do it right rather than get in a hurry and do it wrong. So we'll get the savings by the end of the year, but we'll take our time doing it.

Susquehanna is going great. We did that conversion in mid-November. I will point out this is the largest conversion ever just based on loan and deposit accounts. So we have 144,000 loan accounts and 790,000 deposit accounts. So it was a big deal. It's gone extraordinary well.

All the regions are running really, really smoothly. An early look by Ricky and his people at the combination of National Penn and Susquehanna, it looks really great. It's frankly better than we anticipated when we announced the combination.

So if you're following along on the slide, if you look at slide 5, I'll give you a little more detail with regard to our loan growth, which as I said was 4.5% ex-acquisitions and ex-residential mortgage. C&I loan growth was strong. Estimated core C&I loan growth was up $848 million or 7.8% annualized. That was largely led by corporate lending and production in the branching network.

C&I lending was mostly in large participations as it was in previous quarters, so it's very competitive, spreads are tight. But the spreads are flattening out, so that's a good sign. End of period balances increased $335 million, again, led by large corporate.

So right now, looking forward for the next quarter, we expect C&I to continue to grow. Could be a little slower depending on strength in manufacturing.

I want to particularly point out to you that our oil and gas portfolio is not large for our Company. It's $1.4 billion outstanding, which is about 1% of our portfolio. It's a very conservative portfolio, 67% is upstream, 30% is midstream. We only have about 3% in support services. At the end of the fourth quarter, we have no delinquencies, no losses and we have no energy loans on non-accrual.

So, I know there's been a lot written and talked about, about energy but energy is just not a negative story for us. It's a good, solid story. We don't anticipate any major problems in that area. Obviously, if oil goes to extreme lows, we'll have some challenges. But because that the absolute size of this business is so small, we just do not anticipate that to be a big issue for BB&T .

In the dealer floor plan area, we had a very strong quarter, up $108 million, about 40% annualized. That's really being driven by new markets that we're entering, some new lines we're offering. We expect it to continue to grow, although probably not at quite that pace.

In CRE construction and development, we increased 1.6% annualized in the quarter. Excluding acquisitions, end of period balances did decline a bit. So we expect C&D growth to become seasonally soft until the spring.

CRE income producing increased 2.5% annualized, excluding acquisitions. That was mostly broad-based office, hospitality, industrial. The market fundamentals in those spaces continues to improve, although spreads continue to tighten. So looking at next quarter, we expect core IPP to slow and to really be about flat, mostly because of the competitive pricing. We're just not -- we'll just not try to book long just to book long. If the prices are not acceptable, we'd just rather not have them.

Average direct retail lending is a really good story for us, increasing $237 million, almost 11% annualized due to our HELOC portfolio, direct lending, auto lending in the branches. Our wealth division is doing great, producing about 30% of our retail volume. It's just a really good story. We have really good momentum heading into the first quarter. It might be a little bit slower just because it's seasonal, but the

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underlying strategic direction in that portfolio has strong momentum as we look forward.

Now, if you look at sales finance on the other hand, it did decline $406 million or 17.5%. That was very consistent with our strategies. We simply are unwilling to participate in the tighter spread market that exists in that space. Now with increased capital that is required today, it simply does not make sense to book loans where there's not a reasonable risk adjusted return on capital.

So we've been very careful and judicious at looking at the kind of assets we're willing to book. Right now, sales finance is just not a particularly profitable area. That doesn't mean we're getting out of the business. We are restructuring the business, however. You heard us say it recently. We've now implemented a flat rate compensation program for our dealers. We're watching the space carefully.

I would point out that we did pick up a portfolio called the Hann auto leasing business from Susquehanna, which we are exiting because we don't choose to do auto leasing. So that will be winding down. That will be a little bit of a negative impact, but it won't affect our fundamental strategies.

Average residential mortgage, about like you've been hearing from everybody, was down 5.9% linked-quarter annualized. We are selling all of our conforming production and originations were 30% lower than the third quarter, of course, that was largely seasonal. So we expect to see applications continuing to be soft as we head through the winter months.

Gain on sales was down about 5%. Our correspondent channel mix shifted to 55%. So there's a lot of moving parts in the mortgage business today.

The whole TRID disclosure program is definitely slowing down production and booking of transactions. It's hard to know what the underlying issues are in terms of consumer preferences in terms of millennials, et cetera, choosing to own homes or not. Personally, I think it's a little bit early to call all of that. What we do know, right now though, is that mortgage production is down and part of that is substantially because of the mortgage disclosures that takes just a long, long time.

I would point out on a very positive note that overall the Community Bank loan production is really accelerating. It's the best it's been in years. Our commercial production's up 16.7%, retail's up 44% compared to last fourth quarter. That momentum will continue as we head into the first and second quarters.

Our other lending subsidiaries grew $227 million or 7.3%. That's a good number. It's actually a little seasonally weaker though because of seasonality from these mix of businesses. The strongest ones in this area was Grandbridge, equipment finance and Regional Acceptance.

With respect to the first quarter, just again, seasonally slower but good in terms of the long-term strategies in those portfolios. So to sum up, we expect average loans held for investment to be up modestly, about 1% in the first quarter with continued pressure given the seasonality in our seasonal portfolios.

Just a comment with regard to the overall economy, because that obviously impacts the loan production. There's been a lot written and said over the last few weeks about the issues in the stock market. We believe there's a lot of over-reaction going on.

It's like you woke up January 2 and all of a sudden everybody decided the world's falling apart. We reject that. We don't see any fundamental structural changes between the first part of December and the first part of January. The world just doesn't happen that fast.

Obviously, a huge confluence of negative psychology going on, but we're trying to look past that. So what we focus on is the fact that yes, oil is down. That is a factor in terms of the oil space, but oil is overall

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really stimulative. It's stimulative to consumers. It's stimulative to businesses. It's stimulative to airlines. Oil is stimulative.

The strong dollar has other implications, but in terms of consumer purchases, it's stimulative, because obviously imports are a lot cheaper. So what we would say is that, it's not a bullish environment. It's no different from what we talked about the last two or three quarters.

The economy's growing at 2%, 2.25% kind of growth rate, which is not great but it's not falling. So I would say that for all of those pundits that are saying the sky is falling, we would respectfully disagree with that.

So if you look at our slide 6, just a comment or two on deposits. It continues to be a good story for us. Our non-interest deposits increased $1.7 billion or 15% annualized but that does include acquisitions. If you take out acquisitions, our total deposits were about flat by design, but non-interest bearing deposits grew 7.5%, which was very good.

So we're doing a really good job in improving our mix and reducing our cost. Ex-Susquehanna our non-interest bearing deposits were 32.3% of deposits. Our costs remain low at 24 basis points.

I'll point out, on a very bright note that, we introduced in the fourth quarter our new U digital mobile online platform. It is doing extraordinary well. We now have over 650,000 users. It is gaining momentum as we go forward. We believe it is the best integrated platform in the business today. It's certainly a big driver of our new account production today.

So overall, we feel really great about our deposit performance. We feel really good about our digital strategy. While there's plenty to do, we believe we will stand out as a real positive performer in the whole digital space as we go forward.

So now with that, I'll ask Daryl to give you some more detail and then I'll summarize after that.

Daryl Bible (CFO):

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

Turning to slide 7. Our credit quality remains very strong. Loans, 90 days or more past due, declined $69 million mostly driven by loans acquired from the FDIC and impaired loans. Loans, 30 to 89 past due, increased 13%, mostly because we conformed Susquehanna's delinquencies to our more conservative methodology.

We also had some seasonal growth which is typical for the fourth quarter. NPAs declined 4.3%, mostly because of the sale of non-performing residential mortgage loans. This was offset by a more conservative approach for determining non-accrual status for mortgage loans in HELOC. Excluding the loan sale, NPAs were essentially flat compared to last quarter.

Net charge-offs increased slightly to 38 basis points in the quarter, led by higher charge-offs at Regional Acceptance. The increase at Regional was due to seasonality, declining small car values and Regional's Texas exposure. Regional accounted for about half of the total charge-offs.

Overall, we are very pleased with credit quality. Looking forward, we expect NPAs to remain in a similar range in the first quarter next year. We expect charge-offs to be in the range of 35 to 45 basis points.

Continuing on slide 8. Our allowance coverage ratios remain strong at 2.83 times for charge-offs and 2.53 times for NPLs. The allowance to loan ratio was 1.07% compared to 1.08% last quarter. Remember, all of our acquired loans have a combined mark of about $750 million from all of our acquisitions. So the

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effective allowance coverage is significantly higher.

We recorded a provision of $129 million for the quarter compared to net charge-offs of $130 million. As Kelly mentioned earlier, we have a very clean and conservative energy portfolio that's about 1% of our loan portfolio or $1.4 billion. The allowance coverage for these loans is approximately 5% given the stress in the sector.

Turning to slide 9. Net interest margin was 3.35%, flat compared to third quarter and in line with our guidance. Core margin was 3.12%, down 3 basis points. Both GAAP and core margin were impacted by larger balances at the Fed for a majority of the quarter and lower loan yields.

We expect GAAP and core margin to increase modestly in the first quarter due to higher rates on earning assets driven by recent rate increase, lower Fed balances and the ability to lag deposit rates. We became slightly less asset sensitive this quarter, mostly due to investment and funding mix changes. As you can see, we will continue to benefit from additional rate hikes.

Continuing on slide 10. Fee income for the year was a new record. Our fee income ratio was 41.8% for the quarter. Looking at a few component of fee income.

Insurance income increased $26 million for 29% annualized, mostly due to seasonal factors. Investment banking and brokerage experienced a decline of $14 million, mostly due to higher capital markets activity last quarter. Mortgage banking income decreased $7 million, mostly due to lower gain on sale of loans and lower saleable production offset by better commercial mortgage income.

Other income increased $15 million due to $25 million higher income related to assets of certain post employment benefits and $12 million in the client derivative income, offset by a $20 million decrease in partnership and other investment income. Non-interest income should increase modestly next quarter. This will be led by stronger insurance and investment banking revenues with lower mortgage and service charge income.

Turning to slide 11. Non-interest expenses totaled $1.6 billion, essentially flat from last quarter. Personnel expense increased $11 million driven by higher salary expenses from Susquehanna. In addition, we had some offsetting expenses with higher post employment benefit expense and lower medical and retirement cost.

Average FTEs were up just a bit over 1,000 due to Susquehanna. Excluding acquisitions, FTEs remained flat. Occupancy and equipment expense increased $9 million, mostly due to acquisitions.

Merger-related and restructuring charges totaled $50 million. We do not expect a material amount of merger-related costs next quarter. Our effective tax rate was 31.7%. We expect a similar rate next quarter.

Non-interest expense should be flat on a GAAP basis next quarter, as we lower the merger-related charges will be offset by seasonally higher FICA and employee benefit related expenses. We are confident we will achieve the cost saves from our acquisitions. We also expect to improve efficiency throughout 2016, with fourth-quarter efficiency ratio around 56% to 57%.

Turning to slide 12. Capital ratios remain very strong with Common Equity Tier 1 of 10.2%. Fully phased in Common Equity Tier 1 increased to 10%. Our LCR decreased to 130%. Our asset liquid buffer at the end of the quarter was very strong at 13.5%.

Let's look at some segment results, beginning on slide 13. Community Bank's net income was up $9 million from last quarter and up $22 million from the fourth quarter of last year. This was driven by commercial lending, retail lending and deposits as well as higher funding spreads on deposits, partially

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offset by lower rates on new commercial loans. Net interest income increased $87 million with about half of that driven by Susquehanna. Finally, with all the regulatory approvals we received for the planned acquisition of National Penn, we expect to close on April 1, with a third-quarter systems conversion.

Turning to slide 14. Residential mortgage banking net income totaled $49 million, down $10 million from last quarter, driven by lower gain on mortgage loan production, partially offset by increasing net servicing income. Gain on sale spreads dropped slightly to $103 million and 58% of our production mix was purchase.

Looking at slide 15. Dealer financial services income totaled $42 million, down $2 million from last quarter. The provision was up due to higher charge-offs in dealer finance and Regional Acceptance.

Turning to slide 16. Specialized lending net income totaled $71 million, up $2 million from last quarter, driven by higher commercial mortgage income and leasing income.

Looking at slide 17. Insurance services net income totaled $36 million, up $15 million from last quarter, mostly driven by a seasonal increase in commercial property and casualty insurance and higher life commissions due to seasonality and improved production. Year-to-date same store sales achieved about a 1% growth as the market for insurance pricing is softer.

Turning to slide 18. Financial services segment had $103 million in net income, up $21 million from last quarter. Corporate banking generated significant loan growth of 30%. Wealth experienced 16% loan growth and 21% growth in transaction deposits. Non-interest income decreased $10 million linked-quarter due to lower SBIC partnership income and investment advisory fees.

In summary, we achieved broad-based loan growth and revenue growth due to Susquehanna, continued excellent credit quality and positive operating leverage. We look forward to executing on the opportunities with our merger partners in the coming quarters.

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

Kelly King (Chairman & CEO):

Thank you, Daryl. So in summarizing, again, we did have a solid quarter, good loan and deposit growth, real momentum in the Community Bank, stable margins as Daryl described, excellent credit quality, strong capital, strong liquidity, acquisitions give us a real opportunity in terms of cost saves and revenue enhancements as we go forward. While we don't think the economy's tanking, we don't think it's going to be super robust either. It's kind of a slow, steady as you go activity.

But even so, we have huge opportunities in new markets, in new product penetrations. So, overall a good quarter. We think we have a decent momentum as we head forward into the first.

So with that, we'll turn it over to Alan for Q&A.

Alan Greer (EVP of Investor Relations):

Okay. Thank you, Kelly.

Operator, if you would come back on the line now and explain how our listeners may participate in the Q&A session.

QUESTIONS & ANSWERS

Operator:

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(Operator Instructions)

Betsy Graseck with Morgan Stanley .

Betsy Graseck (Analyst - Morgan Stanley):

I just had a question on loan growth and on reserves.

On loan growth, I saw your commentary on the outlook for 1Q, but maybe you could give us a sense as to how you're thinking about the loan book over the course of the year, given the fact that you just made one acquisition, are about to make another one; wanted to get your sense of how you're planning on driving loan growth on a core level as well as through the acquisitions?

Kelly King (Chairman & CEO):

Thanks, Betsy. I'll give you a pass and then nominate Ricky to comment on this. I feel -- relative to the economy, I feel pretty good. This combination of Susquehanna and National Penn, giving us the number four market share in Pennsylvania, is a real opportunity for us. We are further along in those two mergers than we've been in any mergers we've ever done that I can recall.

Pennsylvania's a really good market; a nice, diversified market between Philadelphia and the Lancaster area. So it's our kind of area. So we feel good about that. Florida is doing really, really well now. Texas is having a little bit of a dampening effect because of energy. But energy is only about 10% of the overall impact, so I tell people --

Texas was increasing by 1,000 people a day, so now maybe it's down to 850. Texas is still doing really well. We have such a tiny share, we're going to do well. So I think it's going to be relative to the economy, a pretty good loan year for us. Ricky, would you comment on that.

Ricky Brown (President of Community Banking):

Yes, Kelly. I would say that we are pretty well-positioned in Pennsylvania. We think that will be an opportunity. Obviously, in new markets you've got to stabilize, build your brand, get your sales culture in place. But we feel very positive about that. From a core perspective, we're seeing really strong growth in Texas. I would support that Texas is not just all oil. Big -- to be sure, but there's a lot of other things. We've been pleased with our loan growth in the Texas market.

Florida across the whole state has rebounded. We've seen really solid growth in the state of Florida. We've got opportunities to grow our ABL business. We're looking really closely at how we make that more effective. Pleased with growth in small commercial and small business with the strategies that we've been employing. We're going to be careful with CRE. You heard Kelly talk about that. We've got to be careful with pricing. We've got to be careful with risk. But the last two quarters in the third and the fourth, Community Bank growth on a linked basis has been the best it's been in probably five, six or seven years.

Production, as Kelly said, is up. Our activity levels are good. I would not say that means that we think the economy's doing outstandingly well. We just are grinding it out, finding opportunities. Our guys are working really, really hard. I feel good about where we are. As we go into 2016, I feel as good about making our loan growth goals in the Community Bank in terms of where we've been over the last several years than any of those years. So I feel really good about where we are.

Betsy Graseck (Analyst - Morgan Stanley):

Okay. Thanks for the color. I just wanted to have the follow-up on the allowance. Daryl, in the past, I think you've mentioned wanting to make sure that the [ALLR] ratio doesn't go below 1%. I know you called out

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the marks that you've got. So, are you thinking about the ALLR as the 1.07% print? Or are you embedding in your thoughts the marks that you've got?

Daryl Bible (CFO):

It really includes both. When we go through the model, Betsy, every quarter we go through an analysis that look at how the loans are rated and how they're going to perform and what the embedded losses are. The marks are part of the embedded losses and what's on balance sheet. So I think we feel very good about our current allowance level.

As we've said in the last couple quarters, as we grow our balance sheet, we're going to continue to have to provide for loan growth which means we're going to have to get paid for incremental growth from that perspective. So I would expect the provision, unless something changes materially, to be basically charge-offs plus also coverage for loan growth going forward.

Betsy Graseck (Analyst - Morgan Stanley):

Okay. So some reserve build related to loan growth?

Daryl Bible (CFO):

Correct.

Betsy Graseck (Analyst - Morgan Stanley):

Okay. All right, thank you.

Operator:

Gerard Cassidy with RBC.

Gerard Cassidy (Analyst - RBC Capital Markets):

Coming back to the commercial real estate comments that you guys just made, can you share with us some of the underwriting concerns that you have? Can you relate that at all to what the regulators came out with recently about their concerns about underwriting standards in commercial real estate?

Kelly King (Chairman & CEO):

I'll make a comment, Gerard, then let Clarke give you much more color. But we've said for several quarters as you know that the competition in that CRE space has been very difficult. That's been really low cap rates being used and high advance rates. So we've maintained our steady conservative underwriting.

For example, everybody's underwriting on these low cap rates, we underwrite on long-term expected normal cap rates. So that makes a big difference in how much you advance. We look at a lot of deals, we don't get them. But we're fine with that. We're just not going to violate our risk appetite to get volume in that space. Clarke, maybe you can add some color to that.

Clarke Starnes (Chief Risk Officer):

Yes, Gerard, you've seen recently the regulators sent back out all the historical inter-agency guidance around CRE, which is clearly a signal that they think that it's moving a little too fast right now. We see and hear most about multi-family concern about just the sheer number of continued starts or units in pipeline at some point that's going to outstrip certainly the supply. Although the market is in balance today and fundamentals look really good.

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We are seeing certain markets where rents are as high as home ownership. You're seeing some of that again. But we're seeing underwriting things like lenders underwriting off these low cap rates, looking at pro forma trended rents that are above market, really low vacancy, et cetera, et cetera. It's certainly -- the regulators are just asking everyone to go back to the fundamentals, in which Kelly described, will for us, which we look very much at the cash flow and not so much just the low cap rate environment that we've been in the last few years.

Gerard Cassidy (Analyst - RBC Capital Markets):

Can you manage to give us a flavor on the cap rates that you both addressed? What you're using versus what you're seeing in the marketplace?

Clarke Starnes (Chief Risk Officer):

Yes. So for example, probably the most aggressive -- you're seeing cap rates in the multi-family space in the 4% to 5.5% range. BRA properties -- it office would be in the 5.75% to 7.75%. Retail down as low as 6%. Industrial as low as 5.50%. Hospitality down to 6%. So again, we don't underwriting merely on the cap rate.

We're going to look at a stressed cash flow coverage. We're going to look at existing market rents. We're not going to look at those pro forma escalations. We're going to look at a stress exit, so a lot of lenders are lending against that really low cap rate. So it looks like you've got a lot of equity in the deal, but it's really probably over-financed. So our loans would typically have less proceeds, given our approach.

Gerard Cassidy (Analyst - RBC Capital Markets):

Great. Kelly, to come back to your comments about your digital channel, U, that has rolled out successfully. Can you give us some color on -- if you look at it over the next two or three years, is this going to impact the number of branches that you need? Do you see your branch count maybe falling or shrinking in size, the individual branches? Then second, do you have any metrics on the cost savings that if you steer somebody into this digital channel rather than using a teller for a transaction, what kind of cost savings you guys are seeing?

Kelly King (Chairman & CEO):

Let me give you an overview, Gerard. Then Ricky can give you more details. He's really been driving that whole U platform. What we've said, even though U is extremely successful and that will be true for the industry, we're clearly seeing transactions slowly, methodically reducing in the branches.

At the same time though, when you talk to X'ers and Y'ers and millennials, they will still tell you that one of the top two preference items in terms of selecting a bank is the convenience of a branch. The fact is, people still want to be able to go in the branch and see somebody, to have a complex product that have a problem. There's a little bit of just pure psychology, to ride by the branch and say, that's where my money is and it makes me feel good.

So you're not going to see a dramatic change in the number of branches, but you will see an increasing focus on the size of the branches, the structure of the staffing in the branches. All of that will help to relatively reduce our cost as we shift more into the digital platform. But Ricky, you could give a bit more color on that.

Ricky Brown (President of Community Banking):

Yes. So let me just talk about the branches just a little bit. We've been on a very methodical long-term pruning of our branch system. We've not had any real major branch reductions other than one time

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several years ago. But we constantly look at our branches. We look at underperforming branches. We look at opportunities to consolidate branches. So we're all over that.

Secondly, we've been on a pretty steady path of reducing headcount in our branches in response to less transactions in the branches. So we are already running pretty doggone lean in our branches today. We're also believing that the folks in the branches need to know more, do more, so this sort of universal concept, something we're embracing and moving forward on so that lesser people, better people, better enabled people can do more for our clients.

What we're finding is our associates like it because they feel better armed to take care of client needs. It also creates savings for us. So this is an evolutionary process. I don't view it as a revolutionary process. We've got to continue to be on top of it. We are seeing clearly reduction of branch transactions. It's steady. It continues to be. It has not gone over a cliff.

Branches still are important. They're part of our branding. They're part of the convenience that we have to have. They're part of the omni-channel development. So it's about having you, but it's also about having good branches. It's about having great ATMs. It's about having great call center. It's about having a great experience 24 hours a day, 7 days a week. That's what we're trying to put together at BB&T . A lot of focus on digital. The U platform is, we think, unique and different. It's got lots of accolades.

Kelly mentioned over 650,000 users. The last number that just came out yesterday was over 700,000 users. The positive impact from our associates, the feedback from our clients is all very, very good. Now, to get to the cost of transactions, we have not really done that to say, what if a transaction's done in U, what did it save? There's no question, self service would save money, no doubt about that.

But overall, what we find is if we can get somebody to do U, we think they're going to do more at the branch. We think they'll do more at the call center. They're going to do more across all of our platforms. So at the end of the day, that gives us a better chance to have a bigger share of wallet, better referrals from them and ultimately drive the revenue while overall aspects around cost reduction ultimately leads to positive operating leverage in the branch system. That's what we're trying to achieve.

Kelly King (Chairman & CEO):

Sorry, I know it sounds complex, but this is a really important question for us and others. So if you take a portfolio of clients, as those clients move to more mobile, digital technology and as Ricky continues to downsize the size and the number of staff in the branches, there's no question in my mind that the aggregate net cost of that portfolio of clients goes down. That's a big deal for the industry. Now, it's going to take 10 to 15 years for it to phase out, but it is a big positive trend for our industry.

Gerard Cassidy (Analyst - RBC Capital Markets):

Great. Thank you, guys.

Operator:

Paul Miller with FBR Capital.

Paul Miller (Analyst - FBR & Co):

On the insurance line, I know you sold some -- it looks like we were a little bit overestimating that insurance. But I don't think we were completely factoring in some the insurance sales. How should we look at that going forward? Is this a good run rate on a seasonality basis? What you guys did in the third and fourth quarter?

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Chris Henson (COO):

Well, this is Chris. We were a little lighter in the fourth quarter, primarily because we've got really declining -- we had a soft market and really cranked up in the fall. Average P&C prices today are down about 4%. We might be a little heavier in that because we're heavier in property. But our new business growth has been, given the market, really good, up north of say 3% to 4%. So on average, if you kind of look at -- what I look at same store sales when you pull out acquisitions, et cetera, we're up about 1.5% or so.

We think this next year with sort of run rate and growth, we think -- potential acquisitions, we think we could be up in say the 3% to 4% kind of range. Next quarter, probably up in the 10% sort of range. There's less volatility. We still have volatility from quarter to quarter but there's becoming less volatility. We think first quarter's certainly become one of our stronger quarters, first and second. Second could be a little stronger than first quarter, but pretty much similar run rates I would say.

Paul Miller (Analyst - FBR & Co):

Can you just add real quick color on why pricing was soft in the second half of the year?

Chris Henson (COO):

Yes, what you've got in the general market is a lot of over-capacity. We just have not had huge catastrophes to sort of eat up the capital. So you've got retailers, which are the standard underwriters, are just sort of bidding each other up for price. They're trying to take deals from the next guy. So you got pricing on the retail side falling rather substantially. We're the second largest wholesaler.

We try to keep about half of our business in retail, half in wholesale for this very reason, because generally when retail is struggling, wholesale is a bit better. We're seeing pricing actually hold up in wholesale P&C pretty well today. We, as you know, being the second largest, we've got pretty good efficiencies. On the AmRisc side, which is more of an MGA, a specific sort of wind cat underwriter, you've got big, discounted price.

We've been able to make it up for the most part with volume in terms of the bottom line. So it's really all about over-capacity in the market and each other just really kind of competing heavy on price. That all rectifies when you have a catastrophe. It sort of flips the other way then.

Kelly King (Chairman & CEO):

But keep in mind, one of the really positives about our insurance strategy is, as you grow your client base better than the market, which we're doing, as you have a higher retention rate better than the market, which we're doing, you're building in basically, the way I think about it, is a really positive annuity story.

Because the best I can tell, catastrophes we'll probably continue to have for since the creation of the earth. So I think it probably will continue. So when they occur, premiums will go up. When premiums go up, our commissions go up, which put virtually no increase in our cost structure. So it's not there today, but it will be there.

Chris Henson (COO):

I think -- Kelly's right, our retention which is the amount of existing business you retain at renewal is about 93%. We think the peers are probably in the upper 80%s -- mid to upper 80%s. So we think we clearly are advantaged there. The other thing with the pricing market, is in early 2000s, you used to have huge volatility. You had up 30%. I think in 2007, we might have been down in the mid-teens. Today, you see much less volatility. It might be up and down 6% or 7% because they have much better forecasting

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models to determine losses. So it's within a much tighter range.

Paul Miller (Analyst - FBR & Co):

Okay, guys. Thank you very much.

Operator:

John Pancari with Evercore ISI.

John Pancari (Analyst - Evercore ISI):

On the loan growth side, I know you mentioned that you saw some impact from manufacturing sluggishness there. I guess if you can give us a little bit of color about what you're seeing in manufacturing? How that's impacting growth? If you could just give us a little more color there, thanks.

Clarke Starnes (Chief Risk Officer):

Hey, John, this is Clarke. We haven't seen it substantially impact growth yet. I would say the early signals that we've seen out of that is mostly when we look at large company manufacturers or exporters. Their sales are softer. Their margins are down. Profitability is strained a bit. But we've not seen that necessarily translate yet into slower overall demand in the market. So it's been more of just a subtle signals as we continue to analyze the credits.

Kelly King (Chairman & CEO):

So our comment was really saying that looking forward, if there's a substantial decline in manufacturing that would impact loan growth.

Clarke Starnes (Chief Risk Officer):

John?

John Pancari (Analyst - Evercore ISI):

Yes. Sorry about that. On the pricing side, I wanted to see if the widening spreads at all, if that -- you're seeing in the market, if that has helped -- given you any relief on the pricing side at all? Then separately, when we look at your loan growth -- I know you've commented on the pricing competition a couple times being a factor, normally you're in that 5% to 6% total loan growth range. You're running right now a little bit below that. Should we expect that you're looking at more like a 4% annual range as we move through the full year, mainly given these headwinds?

Clarke Starnes (Chief Risk Officer):

John, I think the way we look at it -- you've heard us say this before, it's probably what GDP is plus 1% or 2%. Our estimate and what our plan has is loan growth in the 3% to 4% range next year. But there's a lot of volatility right now. But that's what we have in our plan. As far as loan spreads linked-quarter though, versus third versus fourth, the C&I was pretty much stable, a little bit of deterioration in CRE but pretty stable in C&I.

On the consumer side, sales finance as Kelly mentioned in his earlier comments, really low but flat, about 1% on prime indirect auto, which is one of the reasons why we're shrinking that portfolio. On the bright spot is in Ricky's borough, a direct retail. We have strong growth in retail and our spreads are continuing to widen. We're up about 10, 15 basis points in that sector.

John Pancari (Analyst - Evercore ISI):

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Okay. Then one last one from me. Going back to Paul's line of questioning around insurance. Just to reconfirm, that 7% decline year-over-year in your insurance revenue, would you say that's all attributable to pricing?

Chris Henson (COO):

No, no, no. We -- remember, June 1, we sold American Coastal. So we had -- that business was worth to us about $145 million in revenue. So we had in, say the first five months of the year, we had in about $53 million or so. Then from June 1 on, we would have lost about $92 million in revenue. So it's really relative to selling. When you look back at our common quarter comparison for this quarter versus fourth 2014, that's pretty much all American Coastal. If you pull out American Coastal, we're in fact up a couple percent. So it has to do with the sale of American Coastal.

John Pancari (Analyst - Evercore ISI):

Got it.

Kelly King (Chairman & CEO):

Remember, the American Coastal sale was not a net negative. We diversified. We reduced our risk. We reinvested that money in AmRisc and produced more stable, more profitable margin business in that area. So the net positive to us but it shows a negative on the revenue line.

Chris Henson (COO):

In fact, I would even say, we invested in a higher margin business.

Daryl Bible (CFO):

Right. At the end of the day, it should drive more profitability.

John Pancari (Analyst - Evercore ISI):

Okay. So in barring that noise and barring the pricing pressure, there's nothing structurally about your insurance business that's a drag on the revenue at all?

Chris Henson (COO):

I'd say quite the opposite. We're outrunning the market. The market's down 4%. We're up 1.5% on same-store sales, when you pull out acquisitions. What you're seeing in the number is all American Coastal related.

John Pancari (Analyst - Evercore ISI):

Got it. Thank you.

Operator:

Matt Burnell with Wells Fargo Securities.

Matt Burnell (Analyst - Wells Fargo Securities LLC):

Kelly, maybe a question for you in terms of capital distribution. With your dividend payout at or maybe slightly above the 30% levels as we calculate it, I know how important dividends are to you relative to your investor base. I guess I'm curious how you're thinking about potentially increasing the dividend in 2016 and 2017? Any color you can provide on how you and the Board are thinking about buybacks would

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be helpful? Thank you.

Kelly King (Chairman & CEO):

Yes. Matt, nothing's really changed in terms of our capital deployment strategy. As you know, we made it very clear that capital should first be allocated to organic growth and second to dividends and third to M&A and fourth to buybacks. So nothing's changed about that. Nothing's likely to change about that. These are long-term concepts that we run our business by. So you would expect to see us think about kind of a steady relatively positive increase in the dividend.

You would expect to see us hold our total capital request for deployment to the low side of what a lot of people do, because we are committed to keeping a relatively strong capital position. Now, keep in mind, there is a big issue out there yet to be determined that is around the counter-cyclical buffer. Not many people are talking about it, but that is a potential increase in capital. So we're going to be conservative so that we don't end up having to go get capital at a time when it's not market friendly.

So given all of that, I would say that you will see our performance in 2016 kind of look like 2015. Whether we do specific buybacks or not, as always, will be a function of whether or not we have acquisition opportunities that allows us to use up that extra capital like we have done in the last couple of years and a function of what our price is. We're simply not going to go out and buy back stock when the price is high and it produces a negative rate of return for our existing shareholders.

Matt Burnell (Analyst - Wells Fargo Securities LLC):

Okay. Thanks, Kelly. That makes sense. Clarke, maybe a question, a theoretical question for you relative to energy. I appreciate that BB&T's portfolio is below your peers in terms of your loan exposure, but in terms of how you're thinking about the trend in non-performing or criticized assets relative to losses, how do you think about provisioning against a prolonged period of low oil prices? How does that dove-tail with the idea of losses because the collateral you hold against those exposures being a lot lower than potential provisions?

Clarke Starnes (Chief Risk Officer):

That's a good question, Matt. Obviously, just like everyone else, we are monitoring the oil and gas exposure daily and redoing our price decks and looking at the sensitivities and stressing accordingly. We're going down right now to at $20 or below in our stress case. So my biggest concern is that while we believe even down pretty low, we've got very strong asset coverage and our PV9s look good. So I don't think even at low rates, we fundamentally have a lot of loss exposure.

I'm more concerned about this time around, there's a lot of layered bond debt behind the senior secured lenders. Traditionally that was not the case. So what could happen this time if it stayed down long and low, it could cause a lot of non-accrual risk as you try to work through all that layered debt. That could cause you to have to work through and consider discounts or losses beyond the collateral coverage you'd normally see.

So we're trying to think about all of that and take a conservative view of loss given default, even if we've got good collateral on coverage view right now. We're trying to make sure we stay ahead of that. I think our 5% reserve, given the quality of our portfolio, is very, very prudent and takes those kinds of things into consideration.

Matt Burnell (Analyst - Wells Fargo Securities LLC):

Just so we're clear, Clarke, what's your expectation if oil does stay at the $20 level, of potential additional losses or if you want to think about it this way, reserving?

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Clarke Starnes (Chief Risk Officer):

The true answer is no one really knows, it's all an estimate. Everybody has different opinions. But we have done work in our sensitivity and in our allowance process and even down to a $20 level that aggregate basis we have asset coverage. Even if you look at the cash flows and discount back, we think it would not be material. Certainly, if it continues to stay down, we would have to put more on the watch list, potentially move some to non-accrual and a provision accordingly. But even with all that, we don't think it's a material number at this time.

Kelly King (Chairman & CEO):

Keep in mind, when you're doing reserve-based lending, the fact that price goes down doesn't mean that oil automatically evaporated. The oil's still there. The gas is still there. So while you may have an extended period of time at lower prices, the cash flow and payoff the loan, the odds of losses in that kind of scenario is still extremely low.

Matt Burnell (Analyst - Wells Fargo Securities LLC):

Okay. Thanks for your color, guys.

Operator:

Erika Najarian with Bank of America .

Erika Najarian (Analyst - BofA Merrill Lynch):

My first question dove-tails a little bit on the capital planning question. Kelly, clearly the earnings outlook for the industry, particularly those that don't have your scale, have been ratcheted lower even in these past couple of weeks. I'm wondering what your appetite is in terms of taking advantage of that lower earnings outlook and the decline in stock prices as you think about more acquisitions in 2016.

Kelly King (Chairman & CEO):

Well, Erika, I think your question is insightful. I think the longer the challenging environment persists, particularly in some spaces, maybe like in the energy space, it's certainly putting disproportionate amount of pressure on certain companies. To the extent that it lasts a while, it certainly could cause them to re-evaluate their strategic thinking going forward. So we remain, from a long-term point of view, committed to our acquisition strategy. Recall that it is to grow on an average basis 5% to 10% of our assets.

That's an area you could see the probability increase of potential partners that might be interested. So it always comes down to two things -- well, three things. It comes down to a cultural fit -- we only talk to people that our culture will fit. Then it comes down to their willingness to combine and then it's just mathematics. So to the extent that they are more challenged and that changes their appetite to consider our strategic combination and to the extent that our performance does better and our price does better, that would enhance the possibility of us being able to do combinations.

Erika Najarian (Analyst - BofA Merrill Lynch):

Got it. Just my second question is for Daryl. I just wanted to make sure I understood, the 56% to 57% efficiency ratio guide was for 1Q. I guess the follow-up to that is a lot of investors are now starting to strip further interest rate increases out of their model. You don't seem to be as pessimistic. But could you deliver continued improvement in your core efficiency if the Fed is indeed one and done?

Daryl Bible (CFO):

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So Erika, in my opening comments, we said that our efficiency ratio throughout 2016 would continue to improve and by the fourth quarter of 2016 we would have an efficiency in the range of 56% to 57%. When we put together our operating plan for 2016 a couple months ago, we were very conservative. It looks like we were, at least based upon the futures now, on target.

But we've only embedded the December rate hike that we got in the plan until we get to the fourth quarter of 2016 and then I think in the November, December time frame we have another rate. So we basically have interest rates flat for 10 months of the year in 2016. We didn't have any more rate increases factored in when we came up with our operating plan and with these efficiency targets.

Erika Najarian (Analyst - BofA Merrill Lynch):

Got it. Sorry, I missed that. Thank you.

Daryl Bible (CFO):

You're welcome.

Operator:

Michael Rose with Raymond James.

Michael Rose (Analyst - Raymond James & Associates Inc.):

Actually, Erika just asked my questions. Thanks.

Operator:

We will go next to Ken Usdin with Jefferies.

Amanda Larson (Analyst - Jefferies & Co.):

Hi, this is Amanda Larson on for Ken. Is your outlook for NII to grow 12% to 14% year-over-year in 2016 factoring in the forward curve, is that still intact, given the expedited [MPBC] closure versus your expectations last year?

Daryl Bible (CFO):

Big picture wise, I would tell you that excluding acquisitions, both the benefit we get from Susquehanna and National Penn, we feel very good that we can grow NII year-over-year for 2015 and 2016. That number is probably in the $150 million to $200 million range. With the acquisitions that the NII grow significantly more than that, just because we have a bigger balance sheet, higher earning assets. But this is the first year in a long time where we basically feel core is stabilized and potentially starting go up. We're going to grow our loan book. We're going to grow organic core NII in 2016.

Amanda Larson (Analyst - Jefferies & Co.):

Thank you.

Operator:

Marty Mosby with Vining Sparks.

Marty Mosby (Analyst - Vining Sparks):

Daryl, I wanted to ask you about the deposit beta assumptions that you've incorporated into your asset

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sensitivity estimates?

Daryl Bible (CFO):

Okay. They really haven't changed for a couple years. So when we show our sensitivities, Marty, in an up $200 million scenario we have all of our deposit betas averaging around 60%. What we have seen to date -- so we've had a rate rise increase in December. We've had -- we're projecting an outlook of positive margin in the first quarter of a couple basis points. It's really dependent on how successful we are and what the market does on how deposit rates change. I think we feel very good up to the 3 basis points in margin. We'll see if it's any better than that, depending on deposit lag.

Marty Mosby (Analyst - Vining Sparks):

Your 60%, the actual performance so far hasn't been anywhere close to that. So when you're looking at this estimate, if you bring that down, how far do these numbers go up if you assume a 10% or 20% deposit beta?

Daryl Bible (CFO):

I would say -- I can give you a range and kind of bracket it because it's probably in between the range. I would say that our margin will be up 2 to 3 in the lower end and maybe double that, 4 to 6 on the higher end depending on how we have to adjust deposit prices. The retail deposit rates are pretty static. Commercial has been inching up a little bit.

But it really depends on how things play out. It's probably not going to be the same deposit beta for all the rate increases. We're going to have lower deposit betas in the first couple rate increases, as rates continue to rise you're going to have probably faster deposit beta. So it's going to be very fluid and very dynamic going forward.

Marty Mosby (Analyst - Vining Sparks):

So 2 to 3 times better performance if the deposit beta, especially on the first couple of rate rises is much better than what was incorporated here. Then the other thing I was going to ask as a follow-up is, what really matters then is the asset yields and how they can go up. I was looking at the -- what would be prime or LIBOR-based lending that you can see right on the income statement, construction lending or revolving credit.

Those rates went up like you would expect even with only two weeks of the rate rise. The one line item that you can't really see very well is C&I which is the one that really matters. How much of those loans are embedded there or tied to LIBOR or prime and would be impacted by the short-term rates?

Daryl Bible (CFO):

Yes. So we have about $70 billion of loans that are tied to LIBOR and prime. I think it's about $50 billion LIBOR and about $20 billion in prime. You are right in that the majority of the LIBOR does move fairly quickly. Some of it immediate, some first of the month. The prime tends to move first of the month or quarterly, so there's a little bit of lag. So even though rates rose in the middle of December, we still have not received the full benefit of all of our assets repricing. We're in the middle of January. It probably takes a good full two months, maybe three months before all the assets are going to be positively impacted.

Marty Mosby (Analyst - Vining Sparks):

All right, thanks.

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We do have time for one more question. We will go next to Nancy Bush with NAB Research.

Nancy Bush (Analyst - NAB Research):

I have a funding question. It kind of tags onto Marty's question. In past cycles, you guys have been big issuers of CDs. Some of your funding has been more CD dependent in past years and then you sort of backed away from CDs. What's the sort of CD philosophy going into the rate rise cycle? It seems that you are already doing some CD specials in some markets. I just wanted to see how your CD funding philosophy may have changed.

Kelly King (Chairman & CEO):

Nancy, as well as you know our Company -- you'll recall that our Company was built with a lot of mergers of small Community Banks and thrifts that had a huge portion of their funding from CDs. So as we layer in these acquisitions, we're constantly in a process of rationalizing those deposit structures because a good portion of those CD portfolios that we inherit each time are really, really price sensitive portfolios. As we bring the pricing more in line with our normal pricing, a fair amount of those CD portfolios tend to exit.

So that's why you've seen a kind of relative decline in CD financing over the last few years. You'll see some more of that as we think through Susquehanna, National Penn; although, the price variation for them is not as different as it had been in some of our acquisitions in the past. We think CDs are a necessary and important part of our ongoing funding structure. There's a portion of that portfolio that is kind of core bread and butter, fully committed clients that we always keep. We're willing to pay a little more to keep those because they're long-term, stable uses of our services.

On the other hand, you always have the one's that are single-service clients. They're shopping 15 banks and going to the one that has the highest basis point CD. We don't tend to keep those. So I suspect as rates go up, you will see our CD portfolio increase some but it won't be as dramatic as you may think because we are growing our DDA and other funding sources at a very fast pace. So we intentionally and not as CD dependent as we've been in the past. It depends on the Company. But with our variety of funding sources I don't think CD financing for us in the future will be what it was in the past.

Nancy Bush (Analyst - NAB Research):

Okay. If I could also ask, Daryl, if you could just -- I missed the summary of the energy portfolio or what may be dependent on energy. Could you just give us the numbers again, please, from a total perspective.

Daryl Bible (CFO):

Sure. We have $1.4 billion in outstanding and energy loans and our allowance that we have allocated to energy is approximately 5%.

Nancy Bush (Analyst - NAB Research):

Are those energy loans primarily Texas-centric? Is this sort of one of the characteristics of going into Texas? Or are they distributed in other geographies as well?

Clarke Starnes (Chief Risk Officer):

Nancy, this is Clarke. They're originated out of a specialty group out of Houston, but they're all over the country in all the different energy bases.

Kelly King (Chairman & CEO):

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Nancy, in case you missed that, ours -- it's a very conservative portfolio. 67% is upstream, 30% is midstream and only 3% is support services. We also have no delinquencies, no losses and no non-accruals.

Nancy Bush (Analyst - NAB Research):

Percentage investment grade, if you have that?

Kelly King (Chairman & CEO):

75% of our portfolio, if I recall, are either in upstream or investment grade portfolios.

Daryl Bible (CFO):

That's right. So it's a high majority is near investment grade or investment grade.

Nancy Bush (Analyst - NAB Research):

Okay. All right. Thank you.

Operator:

This concludes our Q&A session. I will turn the call back to our moderators for any additional or closing remarks.

Alan Greer (EVP of Investor Relations):

Okay. Thank you everyone for joining us. We have no further commentary at this time. This concludes our call. Thank you. I hope you have a good day.

Operator:

This does conclude today's conference call.

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