UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended: September 30, 2019

Commission File Number: 1-10853

BB&T CORPORATION
(Exact name of registrant as specified in its charter)

North Carolina	**56-0939887**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 West Second Street	
Winston-Salem, North Carolina	**27101**
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	**(336) 733-2000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $5 par value	BBT	New York Stock Exchange
Depositary Shares each representing 1/1,000th interest in a share of Series F Non-Cumulative Perpetual Preferred Stock	BBT PrF	New York Stock Exchange
Depositary Shares each representing 1/1,000th interest in a share of Series G Non-Cumulative Perpetual Preferred Stock	BBT PrG	New York Stock Exchange
Depositary Shares each representing 1/1,000th interest in a share of Series H Non-Cumulative Perpetual Preferred Stock	BBT PrH	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

At September 30, 2019, 766,303,490 shares of the registrant's common stock, $5 par value, were outstanding.

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BB&T CORPORATION

FORM 10-Q

September 30, 2019

Glossary of Defined Terms

The following terms may be used throughout this Report, including the consolidated financial statements and related notes.

Term	Definition
ACL	Allowance for credit losses
AFS	Available-for-sale
Agency MBS	Mortgage-backed securities issued by a U.S. government agency or GSE
ALLL	Allowance for loan and lease losses
ARRC	Alternative Reference Rates Committee of the FRB and the Federal Reserve Bank of New York
AOCI	Accumulated other comprehensive income (loss)
Basel III	Global regulatory standards on bank capital adequacy and liquidity published by the BCBS
BB&T	BB&T Corporation and subsidiaries
BCBS	Basel Committee on Banking Supervision
BHC	Bank holding company
Branch Bank	Branch Banking and Trust Company
BU	Business Unit
CB-Commercial	Community Banking Commercial, an operating segment
CB-Retail	Community Banking Retail and Consumer Finance, an operating segment
CCAR	Comprehensive Capital Analysis and Review
CCRC	Culture and Conduct Risk Committee
CD	Certificate of deposit
CDI	Core deposit intangible assets
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CET1	Common equity Tier 1
CMO	Collateralized mortgage obligation
Company	BB&T Corporation and subsidiaries (interchangeable with "BB&T" above)
CRE	Commercial real estate
DIF	Deposit Insurance Fund administered by the FDIC
EGRRCPA	Economic Growth, Regulatory Relief, and Consumer Protection Act
EPS	Earnings per common share
EVE	Economic value of equity
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FHC	Financial Holding Company
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
FRB	Board of Governors of the Federal Reserve System
FS&CF	Financial Services and Commercial Finance, an operating segment
FTE	Full-time equivalent employee
GAAP	Accounting principles generally accepted in the United States of America
GNMA	Government National Mortgage Association
Grandbridge	Grandbridge Real Estate Capital, LLC
GSE	U.S. government-sponsored enterprise
HFI	Held for investment
HQLA	High-quality liquid assets
HTM	Held-to-maturity
IDI	Insured depository institution
IH	Insurance Holdings, an operating segment
IPV	Independent price verification
LCR	Liquidity Coverage Ratio
LHFS	Loans held for sale
LIBOR	London Interbank Offered Rate
MBS	Mortgage-backed securities
MRLCC	Market Risk, Liquidity and Capital Committee

Term	Definition
MRM	Model Risk Management
MSR	Mortgage servicing right
MSRB	Municipal Securities Rulemaking Board
N/A	Not applicable
NCCOB	North Carolina Office of the Commissioner of Banks
NIM	Net interest margin, computed on a TE basis
NM	Not meaningful
NPA	Nonperforming asset
NPL	Nonperforming loan
NYSE	NYSE Euronext, Inc.
OAS	Option adjusted spread
OCI	Other comprehensive income (loss)
OPEB	Other post-employment benefit
OREO	Other real estate owned
ORMC	Operational Risk Management Committee
OT&C	Other, Treasury and Corporate
OTTI	Other-than-temporary impairment
Parent Company	BB&T Corporation, the parent company of Branch Bank and other subsidiaries
PCI	Purchased credit impaired loans
Peer Group	Financial holding companies included in the industry peer group index
PSU	Performance share units
Re-REMICs	Re-securitizations of Real Estate Mortgage Investment Conduits
Regions Insurance	Regions Insurance Group, acquired by BB&T effective July 2, 2018
ROU Assets	Right-of-use assets
RSU	Restricted stock unit
RUFC	Reserve for unfunded lending commitments
SBIC	Small Business Investment Company
SEC	Securities and Exchange Commission
Short-Term Borrowings	Federal funds purchased, securities sold under repurchase agreements and other short-term borrowed funds with original maturities of less than one year
Simulation	Interest sensitivity simulation analysis
SunTrust	SunTrust Banks, Inc.
TBA	To be announced
TDR	Troubled debt restructuring
TE	Taxable-equivalent
Truist	Truist Financial Corporation
U.S.	United States of America
U.S. Treasury	United States Department of the Treasury
UPB	Unpaid principal balance
VaR	Value-at-risk
VIE	Variable interest entity

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, regarding the financial condition, results of operations, business plans and the future performance of BB&T that are based on the beliefs and assumptions of the management of BB&T and the information available to management at the time that these disclosures were prepared. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "plans," "projects," "may," "will," "should," "could," and other similar expressions are intended to identify these forward-looking statements. Such statements are subject to factors that could cause actual results to differ materially from anticipated results. Such factors include, but are not limited to, the following:

- risks, uncertainties and other factors relating to the merger of SunTrust with and into BB&T, including the ability to obtain regulatory approvals and meet other closing conditions to the merger, and delay in closing the merger;
- general economic or business conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, slower deposit and/or asset growth, and a deterioration in credit quality and/or a reduced demand for credit, insurance or other services;
- disruptions to the national or global financial markets, including the impact of a downgrade of U.S. government obligations by one of the credit ratings agencies, the economic instability and recessionary conditions in Europe;
- changes in the interest rate environment, including interest rate changes made by the Federal Reserve, the discontinuation of LIBOR as an interest rate benchmark, as well as cash flow reassessments may reduce net interest margin and/or the volumes and values of loans and deposits as well as the value of other financial assets and liabilities;
- competitive pressures among depository and other financial institutions may increase significantly;
- legislative, regulatory or accounting changes may adversely affect the businesses in which BB&T is engaged;
- local, state or federal taxing authorities may take tax positions that are adverse to BB&T;
- a reduction may occur in BB&T's credit ratings;
- adverse changes may occur in the securities markets;
- competitors of BB&T may have greater financial resources or develop products that enable them to compete more successfully than BB&T and may be subject to different regulatory standards than BB&T;
- cyber security risks could adversely affect BB&T's business and financial performance or reputation, and BB&T could be liable for financial losses incurred by third parties due to breaches of data shared between financial institutions;
- higher-than-expected costs related to information technology infrastructure or a failure to successfully implement future system enhancements could adversely impact BB&T's financial condition and results of operations and could result in significant additional costs to BB&T;
- natural or other disasters, including acts of terrorism, could have an adverse effect on BB&T, materially disrupting BB&T's operations or the ability or willingness of customers to access BB&T's products and services;
- costs related to the integration of the businesses of BB&T and its merger partners may be greater than expected;
- failure to execute on strategic or operational plans, including the ability to successfully complete and/or integrate mergers and acquisitions or fully achieve expected cost savings or revenue growth associated with mergers and acquisitions within the expected time frames could adversely impact financial condition and results of operations;
- significant litigation and regulatory proceedings could have a material adverse effect on BB&T;
- unfavorable resolution of legal proceedings or other claims and regulatory and other governmental investigations or other inquiries could result in negative publicity, protests, fines, penalties, restrictions on BB&T's operations or ability to expand its business and other negative consequences, all of which could cause reputational damage and adversely impact BB&T's financial conditions and results of operations;
- risks resulting from the extensive use of models;
- risk management measures may not be fully effective;
- fraud or misconduct by internal or external parties, which BB&T may not be able to prevent, detect or mitigate;
- deposit attrition, customer loss and/or revenue loss following completed mergers/acquisitions may exceed expectations; and
- widespread system outages, caused by the failure of critical internal systems or critical services provided by third parties, could adversely impact BB&T's financial condition and results of operations.

These and other risk factors are more fully described in this report and in BB&T's Annual Report on Form 10-K for the year ended December 31, 2018 under the sections entitled "Item 1A. Risk Factors" and from time to time, in other filings with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Actual results may differ materially from those expressed in or implied by any forward-looking statement. Except to the extent required by applicable law or regulation, BB&T undertakes no obligation to revise or update publicly any forward-looking statements for any reason. Readers should, however, consult any further disclosures of a forward-looking nature BB&T may make in any subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K.

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
BB&T CORPORATION AND SUBSIDIARIES

Unaudited (Dollars in millions, except per share data, shares in thousands)	September 30, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 2,027	$ 2,753
Interest-bearing deposits with banks	866	984
Cash equivalents	114	143
Restricted cash	11	107
AFS securities at fair value	35,997	25,038
HTM securities (fair value of $18,970 and $20,047 at September 30, 2019 and December 31, 2018, respectively)	18,768	20,552
LHFS at fair value	1,442	988
Loans and leases	149,413	149,013
ALLL	(1,573)	(1,558)
Loans and leases, net of ALLL	147,840	147,455
Premises and equipment	2,022	2,118
Goodwill	9,832	9,818
CDI and other intangible assets	678	758
MSRs at fair value	919	1,108
Other assets	16,234	13,875
Total assets	$ 236,750	$ 225,697
Liabilities		
Deposits	$ 162,280	$ 161,199
Short-term borrowings	10,405	5,178
Long-term debt	25,520	23,709
Accounts payable and other liabilities	6,242	5,433
Total liabilities	204,447	195,519
Commitments and contingencies (Note 14)		
Shareholders' Equity		
Preferred stock, $5 par, liquidation preference of $25,000 per share	3,057	3,053
Common stock, $5 par	3,832	3,817
Additional paid-in capital	6,931	6,849
Retained earnings	19,440	18,118
AOCI, net of deferred income taxes	(1,026)	(1,715)
Noncontrolling interests	69	56
Total shareholders' equity	32,303	30,178
Total liabilities and shareholders' equity	$ 236,750	$ 225,697
Common shares outstanding	766,303	763,326
Common shares authorized	2,000,000	2,000,000
Preferred shares outstanding	125	126
Preferred shares authorized	5,000	5,000

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
BB&T CORPORATION AND SUBSIDIARIES

Unaudited (Dollars in millions, except per share data, shares in thousands)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Interest Income				
Interest and fees on loans and leases	$ 1,886	$ 1,772	$ 5,611	$ 5,064
Interest and dividends on securities	315	283	917	868
Interest on other earning assets	17	14	69	52
Total interest income	2,218	2,069	6,597	5,984
Interest Expense				
Interest on deposits	271	172	797	438
Interest on short-term borrowings	54	29	136	72
Interest on long-term debt	193	181	578	497
Total interest expense	518	382	1,511	1,007
Net Interest Income	1,700	1,687	5,086	4,977
Provision for credit losses	117	135	444	420
Net Interest Income After Provision for Credit Losses	1,583	1,552	4,642	4,557
Noninterest Income				
Insurance income	487	448	1,563	1,365
Service charges on deposits	188	183	540	527
Investment banking and brokerage fees and commissions	130	116	372	338
Mortgage banking income	112	79	288	272
Trust and investment advisory revenues	71	71	209	215
Bankcard fees and merchant discounts	72	72	219	213
Checkcard fees	57	56	171	165
Operating lease income	36	37	106	110
Income from bank-owned life insurance	29	27	91	88
Other income	121	150	298	347
Securities gains (losses), net				
Gross realized gains	—	—	42	1
Gross realized losses	—	—	(42)	—
Total securities gains (losses), net	—	—	—	1
Total noninterest income	1,303	1,239	3,857	3,641
Noninterest Expense				
Personnel expense	1,161	1,104	3,368	3,217
Occupancy and equipment expense	186	189	557	570
Software expense	77	70	220	202
Outside IT services	28	33	87	97
Regulatory charges	20	37	57	116
Amortization of intangibles	29	33	93	97
Loan-related expense	26	28	81	83
Professional services	47	33	109	95
Merger-related and restructuring charges, net	34	18	137	70
Other expense	232	197	650	601
Total noninterest expense	1,840	1,742	5,359	5,148
Earnings				
Income before income taxes	1,046	1,049	3,140	3,050
Provision for income taxes	218	210	629	598
Net income	828	839	2,511	2,452
Noncontrolling interests	3	7	8	13
Dividends on preferred stock	90	43	177	130
Net income available to common shareholders	$ 735	$ 789	$ 2,326	$ 2,309
Basic EPS	$ 0.96	$ 1.02	$ 3.04	$ 2.98
Diluted EPS	0.95	1.01	3.00	2.94
Basic weighted average shares outstanding	766,167	771,562	765,428	775,642
Diluted weighted average shares outstanding	775,791	781,867	774,907	786,140

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

BB&T CORPORATION AND SUBSIDIARIES

Unaudited (Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	$ 828	$ 839	$ 2,511	$ 2,452
OCI, net of tax:				
Change in unrecognized net pension and postretirement costs	(38)	(12)	(2)	15
Change in unrealized net gains (losses) on cash flow hedges	13	20	(80)	124
Change in unrealized net gains (losses) on AFS securities	118	(155)	769	(522)
Other, net	—	1	2	(2)
Total OCI	93	(146)	689	(385)
Total comprehensive income	$ 921	$ 693	$ 3,200	$ 2,067
Income Tax Effect of Items Included in OCI:				
Change in unrecognized net pension and postretirement costs	$ (11)	$ (5)	$ —	$ 4
Change in unrealized net gains (losses) on cash flow hedges	4	6	(25)	40
Change in unrealized net gains (losses) on AFS securities	37	(48)	237	(163)
Other, net	(1)	—	—	1

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

BB&T CORPORATION AND SUBSIDIARIES

Unaudited (Dollars in millions, shares in thousands)	Shares of Common Stock	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	AOCI	Noncontrolling Interests	Total Shareholders' Equity
Balance, July 1, 2018	774,447	$ 3,053	$ 3,872	$ 7,364	$ 17,197	$ (1,706)	$ 52	$ 29,832
Net income	—	—	—	—	832	—	7	839
OCI	—	—	—	—	—	(146)	—	(146)
Issued in connection with equity awards, net	108	—	1	—	—	—	—	1
Repurchase of common stock	(3,935)	—	(20)	(180)	—	—	—	(200)
Cash dividends declared on common stock	—	—	—	—	(313)	—	—	(313)
Cash dividends declared on preferred stock	—	—	—	—	(43)	—	—	(43)
Equity-based compensation expense	—	—	—	37	—	—	—	37
Balance, September 30, 2018	770,620	$ 3,053	$ 3,853	$ 7,221	$ 17,673	$ (1,852)	$ 59	$ 30,007
Balance, July 1, 2019	766,010	$ 3,053	$ 3,830	$ 6,889	$ 19,050	$ (1,119)	$ 61	$ 31,764
Net income	—	—	—	—	825	—	3	828
OCI	—	—	—	—	—	93	—	93
Issued in connection with equity awards, net	368	—	2	6	—	—	—	8
Issued in connection with preferred stock offerings	—	1,683	—	—	—	—	—	1,683
Repurchase of common stock	(75)	—	—	(3)	—	—	—	(3)
Redemption of preferred stock	—	(1,679)	—	—	(46)	—	—	(1,725)
Cash dividends declared on common stock	—	—	—	—	(345)	—	—	(345)
Cash dividends declared on preferred stock	—	—	—	—	(44)	—	—	(44)
Equity-based compensation expense	—	—	—	39	—	—	—	39
Other, net	—	—	—	—	—	—	5	5
Balance, September 30, 2019	766,303	$ 3,057	$ 3,832	$ 6,931	$ 19,440	$ (1,026)	$ 69	$ 32,303
Balance, January 1, 2018	782,006	$ 3,053	$ 3,910	$ 7,893	$ 16,259	$ (1,467)	$ 47	$ 29,695
Net income	—	—	—	—	2,439	—	13	2,452
OCI	—	—	—	—	—	(385)	—	(385)
Issued in connection with equity awards, net	4,163	—	21	(22)	—	—	—	(1)
Repurchase of common stock	(15,549)	—	(78)	(752)	—	—	—	(830)
Cash dividends declared on common stock	—	—	—	—	(895)	—	—	(895)
Cash dividends declared on preferred stock	—	—	—	—	(130)	—	—	(130)
Equity-based compensation expense	—	—	—	113	—	—	—	113
Other, net	—	—	—	(11)	—	—	(1)	(12)
Balance, September 30, 2018	770,620	$ 3,053	$ 3,853	$ 7,221	$ 17,673	$ (1,852)	$ 59	$ 30,007
Balance, January 1, 2019	763,326	$ 3,053	$ 3,817	$ 6,849	$ 18,118	$ (1,715)	$ 56	$ 30,178
Net income	—	—	—	—	2,503	—	8	2,511
OCI	—	—	—	—	—	689	—	689
Issued in connection with equity awards, net	3,052	—	15	(37)	—	—	—	(22)
Issued in connection with preferred stock offerings	—	1,683	—	—	—	—	—	1,683
Repurchase of common stock	(75)	—	—	(3)	—	—	—	(3)
Redemption of preferred stock	—	(1,679)	—	—	(46)	—	—	(1,725)
Cash dividends declared on common stock	—	—	—	—	(964)	—	—	(964)
Cash dividends declared on preferred stock	—	—	—	—	(131)	—	—	(131)
Equity-based compensation expense	—	—	—	119	—	—	—	119
Other, net	—	—	—	3	(40)	—	5	(32)
Balance, September 30, 2019	766,303	$ 3,057	$ 3,832	$ 6,931	$ 19,440	$ (1,026)	$ 69	$ 32,303

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
BB&T CORPORATION AND SUBSIDIARIES

Unaudited Nine Months Ended September 30, (Dollars in millions)	2019	2018
Cash Flows From Operating Activities:		
Net income	$ 2,511	$ 2,452
Adjustments to reconcile net income to net cash from operating activities:		
Provision for credit losses	444	420
Depreciation	324	316
Amortization of intangibles	93	97
Equity-based compensation expense	119	113
(Gain) loss on securities, net	—	(1)
Net change in operating assets and liabilities:		
LHFS	(531)	77
Trading and equity securities	(104)	(503)
Other assets, accounts payable and other liabilities	(1,458)	221
Other, net	566	(214)
Net cash from operating activities	1,964	2,978
Cash Flows From Investing Activities:		
Proceeds from sales of AFS securities	4,255	294
Proceeds from maturities, calls and paydowns of AFS securities	3,051	2,919
Purchases of AFS securities	(17,220)	(3,630)
Proceeds from maturities, calls and paydowns of HTM securities	1,762	1,919
Purchases of HTM securities	—	(39)
Originations and purchases of loans and leases, net of sales and principal collected	(1,060)	(3,657)
Other, net	(188)	(539)
Net cash from investing activities	(9,400)	(2,733)
Cash Flows From Financing Activities:		
Net change in deposits	1,096	(2,806)
Net change in short-term borrowings	5,317	4,714
Proceeds from issuance of long-term debt	5,653	1,770
Repayment of long-term debt	(4,259)	(1,845)
Repurchase of common stock	(3)	(830)
Net proceeds from preferred stock issued	1,683	—
Redemption of preferred stock	(1,725)	—
Cash dividends paid on common stock	(964)	(895)
Cash dividends paid on preferred stock	(131)	(130)
Other, net	(200)	(153)
Net cash from financing activities	6,467	(175)
Net Change in Cash, Cash Equivalents and Restricted Cash	(969)	70
Cash, Cash Equivalents and Restricted Cash, January 1	3,987	3,083
Cash, Cash Equivalents and Restricted Cash, September 30	$ 3,018	$ 3,153
Supplemental Disclosure of Cash Flow Information:		
Net cash paid (received) during the period for:		
Interest expense	$ 1,486	$ 948
Income taxes	409	(34)

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1. Basis of Presentation

General

See the Glossary of Defined Terms at the beginning of this Report for terms used herein. These consolidated financial statements and notes are presented in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes necessary for a complete presentation of financial position, results of operations and cash flow activity required in accordance with GAAP. In the opinion of management, all normal recurring adjustments necessary for a fair statement of the consolidated financial position and consolidated results of operations have been made. The year-end consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The information contained in the financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2018 should be referred to in connection with these unaudited interim consolidated financial statements.

Reclassifications

Certain amounts reported in prior periods' consolidated financial statements have been reclassified to conform to the current presentation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change include the determination of the ACL, determination of fair value for financial instruments, valuation of MSRs, goodwill, intangible assets and other purchase accounting related adjustments, benefit plan obligations and expenses, and tax assets, liabilities and expense.

Leases - Lessee

BB&T has operating and finance leases for data centers, corporate offices, branches, retail centers, and certain equipment. BB&T determines if an arrangement is a lease at inception. Operating leases with an original lease term in excess of one year are included in other assets and accounts payable and other liabilities in the Consolidated Balance Sheets. Finance leases are included in premises and equipment and long-term debt in the Consolidated Balance Sheets.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating and finance lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. BB&T uses an implicit interest rate in determining the present value of lease payments when readily determinable, and a collateralized incremental borrowing rate when an implicit rate is not available. Lease terms consider options to extend or terminate based on the determination of whether such renewal or termination options are deemed reasonably certain. Rent expense and rental income on operating leases is generally recorded using the straight-line method over the appropriate lease terms.

Lease agreements that contain non-lease components are generally accounted for as a single lease component. Variable costs, such as maintenance expenses, property and sales taxes, association dues and index based rate increases, are expensed as they are incurred.

Leases - Lessor

BB&T's commercial lease portfolio consists of dealer-based financing of equipment for small businesses and commercial equipment leasing. The fair market value of the leased asset is generally equal to the original capitalized cost. Assets under operating leases are included in other assets in the Consolidated Balance Sheets. Depreciation expense for assets under operating leases is generally recorded using the straight-line method over the appropriate lease terms in other expense in the Consolidated Statements of Income.

Changes in Accounting Principles and Effects of New Accounting Pronouncements

Standard/ Adoption Date	Description	Effects on the Financial Statements
Standards Adopted During the Current Year		
Leases *Jan 1, 2019*	Requires lessees to recognize assets and liabilities related to certain operating leases on the balance sheet, requires additional disclosures by lessees, and contains targeted changes to accounting by lessors.	BB&T established ROU assets of $860 million and lease liabilities of $997 million. The net impact to equity was a reduction of $40 million. There was no material impact to its Consolidated Statements of Income. BB&T adopted the guidance on a prospective basis and did not reassess whether any expired or existing contract contains a lease, the classification of leases or the initial direct costs.
Standards Not Yet Adopted		
Credit Losses *Jan 1, 2020*	Replaces the incurred loss impairment methodology with an expected credit loss methodology and requires consideration of a broader range of information to determine credit loss estimates. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses. Purchased credit deteriorated loans will receive an allowance for expected credit losses. Any credit impairment on AFS debt securities for which the fair value is less than cost will be recorded through an allowance for expected credit losses. The standard also requires expanded disclosures related to credit losses and asset quality.	BB&T's CECL implementation efforts are continuing to focus on model validation, developing new disclosures, establishing formal policies and procedures and other governance and control documentation. BB&T performed comprehensive parallel testing of its CECL models during the third quarter of 2019. The results of this testing preliminarily indicate the potential for an increase in the ACL that ranges from approximately 30% to 50%. However, the magnitude of the increase is highly dependent on existing and forecasted economic conditions at the adoption date. This estimate does not incorporate the anticipated impact of the merger with SunTrust, which is expected to be consummated during the fourth quarter of 2019.

NOTE 2. Business Combinations

On February 7, 2019, BB&T and SunTrust announced that both companies' Boards of Directors unanimously approved an agreement to combine in an all-stock merger-of-equals. Upon closing, each SunTrust share will be exchanged for 1.295 shares of BB&T stock. On July 10, 2019, BB&T received regulatory approval from the NCCOB for the pending merger-of-equals with SunTrust. The merger is expected to close in the fourth quarter of 2019, subject to satisfaction of closing conditions, including receipt of remaining regulatory approvals. The merger is subject to a break-up fee of approximately $1.1 billion, payable in customary circumstances. On July 30, 2019, BB&T and SunTrust shareholders approved the merger. In addition, BB&T's shareholders approved Truist Financial Corporation to be the name of the new combined company.

NOTE 3. Securities

The following tables summarize AFS and HTM securities:

September 30, 2019 (Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities:				
U.S. Treasury	$ 1,142	$ 1	$ 5	$ 1,138
GSE	251	4	1	254
Agency MBS	33,457	283	133	33,607
States and political subdivisions	564	35	6	593
Non-agency MBS	197	177	—	374
Other	31	—	—	31
Total AFS securities	$ 35,642	$ 500	$ 145	$ 35,997
HTM securities:				
U.S. Treasury	$ 1,100	$ 5	$ —	$ 1,105
GSE	2,200	36	—	2,236
Agency MBS	15,467	185	24	15,628
States and political subdivisions	1	—	—	1
Total HTM securities	$ 18,768	$ 226	$ 24	$ 18,970

December 31, 2018 (Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AFS securities:				
U.S. Treasury	$ 3,503	$ 22	$ 84	$ 3,441
GSE	209	—	9	200
Agency MBS	20,927	15	787	20,155
States and political subdivisions	694	25	18	701
Non-agency MBS	321	184	—	505
Other	35	1	—	36
Total AFS securities	$ 25,689	$ 247	$ 898	$ 25,038
HTM securities:				
U.S. Treasury	$ 1,099	$ —	$ 6	$ 1,093
GSE	2,199	4	43	2,160
Agency MBS	17,248	27	487	16,788
States and political subdivisions	5	—	—	5
Other	1	—	—	1
Total HTM securities	$ 20,552	$ 31	$ 536	$ 20,047

Certain securities issued by FNMA and FHLMC exceeded 10% of shareholders' equity at September 30, 2019. The FNMA investments had total amortized cost and fair value of $16.5 billion and $16.6 billion respectively. The FHLMC investments had total amortized cost and fair value of $12.4 billion.

The amortized cost and estimated fair value of the securities portfolio by contractual maturity are shown in the following table. The expected life of MBS may differ from contractual maturities because borrowers have the right to prepay the underlying mortgage loans.

September 30, 2019 (Dollars in millions)	AFS Amortized Cost	AFS Fair Value	HTM Amortized Cost	HTM Fair Value
Due in one year or less	$ 255	$ 256	$ —	$ —
Due after one year through five years	1,178	1,174	3,300	3,342
Due after five years through ten years	258	272	529	530
Due after ten years	33,951	34,295	14,939	15,098
Total debt securities	$ 35,642	$ 35,997	$ 18,768	$ 18,970

The following tables present the fair values and gross unrealized losses of investments based on the length of time that individual securities have been in a continuous unrealized loss position:

September 30, 2019 (Dollars in millions)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
AFS securities:						
U.S. Treasury	$ 791	$ 5	$ —	$ —	$ 791	$ 5
GSE	46	—	78	1	124	1
Agency MBS	7,285	42	4,299	91	11,584	133
States and political subdivisions	79	1	144	5	223	6
Total	$ 8,201	$ 48	$ 4,521	$ 97	$ 12,722	$ 145
HTM securities:						
Agency MBS	$ 1,622	$ 9	$ 1,274	$ 15	$ 2,896	$ 24
Total	$ 1,622	$ 9	$ 1,274	$ 15	$ 2,896	$ 24

December 31, 2018 (Dollars in millions)	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or more Fair Value	12 months or more Unrealized Losses	Total Fair Value	Total Unrealized Losses
AFS securities:						
U.S. Treasury	$ 111	$ —	$ 2,121	$ 84	$ 2,232	$ 84
GSE	3	—	176	9	179	9
Agency MBS	322	2	18,478	785	18,800	787
States and political subdivisions	100	1	288	17	388	18
Total	$ 536	$ 3	$ 21,063	$ 895	$ 21,599	$ 898
HTM securities:						
U.S. Treasury	$ 698	$ 3	$ 395	$ 3	$ 1,093	$ 6
GSE	—	—	1,749	43	1,749	43
Agency MBS	264	3	14,976	484	15,240	487
Total	$ 962	$ 6	$ 17,120	$ 530	$ 18,082	$ 536

Substantially all of the unrealized losses on the securities portfolio were the result of changes in market interest rates compared to the date the securities were acquired rather than the credit quality of the issuers or underlying loans.

NOTE 4. Loans and ACL

During the third quarter of 2019, a residential mortgage loan portfolio totaling $4.3 billion was sold. The following tables present loans and leases HFI by aging category:

September 30, 2019 (Dollars in millions)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days Or More Past Due	Nonperforming	Total
Commercial:					
Commercial and industrial	$ 64,118	$ 34	$ —	$ 172	$ 64,324
CRE	20,854	1	—	29	20,884
Lease financing	2,353	1	—	2	2,356
Retail:					
Residential mortgage	27,412	432	347	106	28,297
Direct	11,346	54	7	56	11,463
Indirect	17,947	423	9	82	18,461
Revolving credit	3,194	31	16	—	3,241
PCI	347	16	24	—	387
Total	$ 147,571	$ 992	$ 403	$ 447	$ 149,413

December 31, 2018 (Dollars in millions)	Current	Accruing 30-89 Days Past Due	Accruing 90 Days Or More Past Due	Nonperforming	Total
Commercial:					
Commercial and industrial	$ 61,701	$ 34	$ —	$ 200	$ 61,935
CRE	20,990	5	—	65	21,060
Lease financing	2,014	1	—	3	2,018
Retail:					
Residential mortgage	30,413	456	405	119	31,393
Direct	11,463	61	7	53	11,584
Indirect	16,901	436	6	82	17,425
Revolving credit	3,090	28	14	—	3,132
PCI	413	23	30	—	466
Total	$ 146,985	$ 1,044	$ 462	$ 522	$ 149,013

The following table presents the carrying amount of loans by risk rating. PCI loans are excluded because their related ALLL is determined by loan pool performance and revolving credit loans are excluded as the loans are charged-off rather than reclassifying to nonperforming:

	September 30, 2019			December 31, 2018		
(Dollars in millions)	Commercial & Industrial	CRE	Lease Financing	Commercial & Industrial	CRE	Lease Financing
Commercial:						
Pass	$ 62,968	$ 20,491	$ 2,344	$ 60,655	$ 20,712	$ 2,012
Special mention	332	59	1	216	61	—
Substandard-performing	852	305	9	864	222	3
Nonperforming	172	29	2	200	65	3
Total	$ 64,324	$ 20,884	$ 2,356	$ 61,935	$ 21,060	$ 2,018
	Residential Mortgage	Direct	Indirect	Residential Mortgage	Direct	Indirect
Retail:						
Performing	$ 28,191	$ 11,407	$ 18,379	$ 31,274	$ 11,531	$ 17,343
Nonperforming	106	56	82	119	53	82
Total	$ 28,297	$ 11,463	$ 18,461	$ 31,393	$ 11,584	$ 17,425

The following tables present activity in the ACL:

(Dollars in millions)	Balance at Jul 1, 2018	Charge-Offs	Recoveries	Provision (Benefit)	Balance at Sep 30, 2018
Commercial:					
Commercial and industrial	$ 535	$ (28)	$ 13	$ 21	$ 541
CRE	191	—	1	(1)	191
Lease financing	10	(1)	—	1	10
Retail:					
Residential mortgage	221	(4)	—	8	225
Direct	97	(17)	6	11	97
Indirect	353	(94)	15	79	353
Revolving credit	105	(20)	4	22	111
PCI	18	(2)	—	(6)	10
ALLL	1,530	(166)	39	135	1,538
RUFC	110	—	—	—	110
ACL	$ 1,640	$ (166)	$ 39	$ 135	$ 1,648

(Dollars in millions)	Balance at Jul 1, 2019	Charge-Offs	Recoveries	Provision (Benefit)	Balance at Sep 30, 2019
Commercial:					
Commercial and industrial	$ 574	$ (28)	$ 5	$ 25	$ 576
CRE	201	(2)	3	(6)	196
Lease financing	10	(1)	1	—	10
Retail:					
Residential mortgage	224	(3)	—	(22)	199
Direct	99	(22)	6	17	100
Indirect	359	(106)	15	94	362
Revolving credit	120	(27)	6	23	122
PCI	8	—	—	—	8
ALLL	1,595	(189)	36	131	1,573
RUFC	94	—	—	(14)	80
ACL	$ 1,689	$ (189)	$ 36	$ 117	$ 1,653

(Dollars in millions)	Balance at Jan 1, 2018	Charge-Offs	Recoveries	Provision (Benefit)	Balance at Sep 30, 2018
Commercial:					
Commercial and industrial	$ 522	$ (74)	$ 32	$ 61	$ 541
CRE	160	(8)	4	35	191
Lease financing	9	(3)	1	3	10
Retail:					
Residential mortgage	209	(13)	1	28	225
Direct	106	(53)	18	26	97
Indirect	348	(283)	47	241	353
Revolving credit	108	(62)	14	51	111
PCI	28	(2)	—	(16)	10
ALLL	1,490	(498)	117	429	1,538
RUFC	119	—	—	(9)	110
ACL	$ 1,609	$ (498)	$ 117	$ 420	$ 1,648

(Dollars in millions)	Balance at Jan 1, 2019	Charge-Offs	Recoveries	Provision (Benefit)	Balance at Sep 30, 2019
Commercial:					
Commercial and industrial	$ 546	$ (67)	$ 19	$ 78	$ 576
CRE	190	(28)	7	27	196
Lease financing	11	(2)	1	—	10
Retail:					
Residential mortgage	232	(13)	1	(21)	199
Direct	97	(62)	19	46	100
Indirect	356	(306)	51	261	362
Revolving credit	117	(78)	16	67	122
PCI	9	—	—	(1)	8
ALLL	1,558	(556)	114	457	1,573
RUFC	93	—	—	(13)	80
ACL	$ 1,651	$ (556)	$ 114	$ 444	$ 1,653

The following table provides a summary of loans that are collectively evaluated for impairment:

	September 30, 2019		December 31, 2018	
(Dollars in millions)	Recorded Investment	Related ALLL	Recorded Investment	Related ALLL
Commercial:				
Commercial and industrial	$ 64,050	$ 551	$ 61,629	$ 521
CRE	20,834	192	20,960	181
Lease financing	2,354	10	2,015	11
Retail:				
Residential mortgage	27,542	143	30,539	164
Direct	11,400	96	11,517	92
Indirect	18,110	299	17,099	299
Revolving credit	3,210	110	3,104	106
PCI	387	8	466	9
Total	$ 147,887	$ 1,409	$ 147,329	$ 1,383

The following tables set forth certain information regarding impaired loans, excluding PCI and LHFS, that were individually evaluated for impairment:

As of / For The Nine Months Ended September 30, 2019 (Dollars in millions)	UPB	Recorded Investment Without an ALLL	Recorded Investment With an ALLL	Related ALLL	Average Recorded Investment	Interest Income Recognized
Commercial:						
Commercial and industrial	$ 286	$ 76	$ 198	$ 25	$ 302	$ 5
CRE	51	8	42	4	85	1
Lease financing	2	—	2	—	2	—
Retail:						
Residential mortgage	803	118	637	56	824	26
Direct	79	26	37	4	65	3
Indirect	361	5	346	63	333	39
Revolving credit	31	—	31	12	29	1
Total	$ 1,613	$ 233	$ 1,293	$ 164	$ 1,640	$ 75

As of / For The Year Ended December 31, 2018 (Dollars in millions)	UPB	Recorded Investment Without an ALLL	Recorded Investment With an ALLL	Related ALLL	Average Recorded Investment	Interest Income Recognized
Commercial:						
Commercial and industrial	$ 318	$ 95	$ 211	$ 25	$ 343	$ 6
CRE	102	29	71	9	97	2
Lease financing	3	—	3	—	6	—
Retail:						
Residential mortgage	904	122	732	68	841	34
Direct	86	26	41	5	72	4
Indirect	335	6	320	57	306	46
Revolving credit	28	—	28	11	29	1
Total	$ 1,776	$ 278	$ 1,406	$ 175	$ 1,694	$ 93

The following table presents a summary of TDRs, all of which are considered impaired:

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
Performing TDRs:		
Commercial:		
Commercial and industrial	$ 69	$ 65
CRE	7	10
Retail:		
Residential mortgage	570	656
Direct	52	55
Indirect	328	305
Revolving credit	31	28
Total performing TDRs	1,057	1,119
Nonperforming TDRs (also included in NPL disclosures)	115	176
Total TDRs	$ 1,172	$ 1,295
ALLL attributable to TDRs	$ 138	$ 146

The primary reason loan modifications were classified as TDRs is summarized below. Balances represent the recorded investment at the end of the quarter in which the modification was made. Rate modifications consist of TDRs made with below market interest rates, including those that also have modifications of loan structures.

Three Months Ended September 30, (Dollars in millions)	2019			2018		
	Type of Modification		ALLL Impact	Type of Modification		ALLL Impact
	Rate	Structure		Rate	Structure	
Newly designated TDRs:						
Commercial:						
Commercial and industrial	$ 2	$ 5	$ —	$ 39	$ 3	$ —
CRE	—	—	—	—	1	—
Retail:						
Residential mortgage	51	7	3	53	7	3
Direct	2	1	—	2	1	—
Indirect	61	1	7	52	1	6
Revolving credit	6	—	1	4	—	1
Re-modification of previously designated TDRs	12	2	—	13	1	—

Nine Months Ended September 30, (Dollars in millions)	2019			2018		
	Type of Modification		ALLL Impact	Type of Modification		ALLL Impact
	Rate	Structure		Rate	Structure	
Newly designated TDRs:						
Commercial:						
Commercial and industrial	$ 52	$ 11	$ 2	$ 69	$ 46	$ —
CRE	1	1	—	27	3	—
Retail:						
Residential mortgage	173	21	10	193	22	12
Direct	7	3	—	6	2	—
Indirect	159	3	19	139	3	16
Revolving credit	17	—	3	13	—	3
Re-modification of previously designated TDRs	49	18	—	65	11	—

Charge-offs and forgiveness of principal and interest for TDRs were immaterial for all periods presented.

The pre-default balance for modifications that had been classified as TDRs during the previous 12 months that experienced a payment default was $19 million and $19 million for the three months ended September 30, 2019 and 2018, respectively, and $58 million and $55 million for the nine months ended September 30, 2019 and 2018, respectively. Payment default is defined as movement of the TDR to nonperforming status, foreclosure or charge-off, whichever occurs first.

Unearned income, discounts and net deferred loan fees and costs were immaterial for all periods presented. Residential mortgage loans in the process of foreclosure were $227 million at September 30, 2019 and $253 million at December 31, 2018.

NOTE 5. Other Assets and Liabilities

Lessee Operating and Finance Leases

Operating lease costs were $48 million and $146 million for the three and nine months ended September 30, 2019, respectively.

The following table presents additional information on operating and finance leases:

September 30, 2019 (Dollars in millions)	Operating Leases	Finance Leases
ROU assets	$ 841	$ 17
Maturities of lease liabilities:		
2019	$ 32	$ 2
2020	209	7
2021	180	6
2022	154	5
2023	123	3
2024	97	2
Thereafter	312	3
Total lease payments	1,107	28
Less: imputed interest	139	5
Total lease liabilities	$ 968	$ 23
Weighted average remaining term	7.6 years	4.9 years
Weighted average discount rate	3.1%	7.2%

Lessor Operating Leases

The following tables present a summary of assets under operating leases and activity related to assets under operating leases. These tables exclude subleases on assets included in premises and equipment.

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
Assets held under operating leases	$ 1,381	$ 1,378
Accumulated depreciation	(403)	(374)
Net	$ 978	$ 1,004

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2019	2018	2019	2018
Depreciation expense for assets under operating leases	$ 35	$ 30	$ 93	$ 90

The residual value of assets no longer under operating leases was immaterial.

NOTE 6. Goodwill and Other Intangible Assets

The following table, which excludes fully amortized intangibles, presents information for identifiable intangible assets:

	September 30, 2019			December 31, 2018		
(Dollars in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
CDI	$ 436	$ (322)	$ 114	$ 605	$ (460)	$ 145
Other, primarily customer relationship intangibles	1,324	(760)	564	1,329	(716)	613
Total	$ 1,760	$ (1,082)	$ 678	$ 1,934	$ (1,176)	$ 758

NOTE 7. Loan Servicing

Residential Mortgage Banking Activities

The following tables summarize residential mortgage banking activities:

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
UPB of residential mortgage loan servicing portfolio	$ 116,269	$ 118,605
UPB of residential mortgage loans serviced for others, primarily agency conforming fixed rate	87,147	87,270
Mortgage loans sold with recourse	369	419
Maximum recourse exposure from mortgage loans sold with recourse liability	200	223
Indemnification, recourse and repurchase reserves	27	24

As of / For the Nine Months Ended September 30, (Dollars in millions)	2019	2018
UPB of residential mortgage loans sold from LHFS	$ 11,108	$ 8,436
Pre-tax gains recognized on mortgage loans sold and held for sale	90	98
Servicing fees recognized from mortgage loans serviced for others	187	191
Approximate weighted average servicing fee on the outstanding balance of residential mortgage loans serviced for others	0.28%	0.28%
Weighted average interest rate on mortgage loans serviced for others	4.09	4.03

The following table presents a roll forward of the carrying value of residential MSRs recorded at fair value:

Nine Months Ended September 30, (Dollars in millions)	2019	2018
Residential MSRs, carrying value, January 1	$ 957	$ 914
Additions	101	96
Change in fair value due to changes in valuation inputs or assumptions:		
Prepayment speeds	(213)	47
OAS	36	70
Servicing costs	—	—
Realization of expected net servicing cash flows, passage of time and other	(105)	(104)
Residential MSRs, carrying value, September 30	$ 776	$ 1,023
Gains (losses) on derivative financial instruments used to mitigate the income statement effect of changes in residential MSR fair value	$ 211	$ (119)

The sensitivity of the fair value of the residential MSRs to changes in key assumptions is presented in the following table:

	September 30, 2019			December 31, 2018		
	Range		Weighted	Range		Weighted
(Dollars in millions)	Min	Max	Average	Min	Max	Average
Prepayment speed	10.7%	16.6%	15.4%	9.1%	10.5%	9.9%
Effect on fair value of a 10% increase			$ (41)			$ (34)
Effect on fair value of a 20% increase			(78)			(66)
OAS	5.3%	7.9%	6.0%	6.6%	8.3%	7.0%
Effect on fair value of a 10% increase			$ (16)			$ (24)
Effect on fair value of a 20% increase			(30)			(47)
Composition of loans serviced for others:						
Fixed-rate residential mortgage loans			99.3%			99.2%
Adjustable-rate residential mortgage loans			0.7			0.8
Total			100.0%			100.0%
Weighted average life			4.5 years			6.1 years

The sensitivity calculations above are hypothetical and should not be considered to be predictive of future performance. As indicated, changes in fair value based on adverse changes in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in the above table, the effect of an adverse variation in one assumption on the fair value of the MSRs is calculated without changing any other assumption; while in reality, changes in one factor may result in changes in another, which may magnify or counteract the effect of the change.

Commercial Mortgage Banking Activities

The following table summarizes commercial mortgage banking activities for the periods presented:

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
UPB of CRE mortgages serviced for others	$ 27,951	$ 27,761
CRE mortgages serviced for others covered by recourse provisions	4,748	4,699
Maximum recourse exposure from CRE mortgages sold with recourse liability	1,331	1,317
Recorded reserves related to recourse exposure	6	6
CRE mortgages originated during the year-to-date period	5,505	7,072
Commercial MSRs at fair value	143	151

NOTE 8. Deposits

The composition of deposits is presented in the following table:

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
Noninterest-bearing deposits	$ 52,667	$ 53,025
Interest checking	27,723	28,130
Money market and savings	64,454	63,467
Time deposits	16,526	16,577
Foreign office deposits - interest-bearing	910	—
Total deposits	$ 162,280	$ 161,199
Time deposits greater than $250,000	$ 5,215	$ 5,713

NOTE 9. Long-Term Debt

The following table presents a summary of long-term debt:

	Sep 30, 2019						Dec 31, 2018
			Stated Rate				
(Dollars in millions)	Maturity		Min	Max	Effective Rate	Carrying Amount	Carrying Amount
BB&T Corporation:							
Fixed rate senior notes	2020 to	2025	2.05%	5.38%	2.69%	$ 12,844	$ 10,408
Floating rate senior notes	2020	2022	2.46	3.02	2.77	1,948	2,398
Fixed rate subordinated notes	2019	2029	3.88	5.25	2.32	1,603	903
Branch Bank:							
Fixed rate senior notes	2020	2022	2.10	2.85	2.43	3,456	4,895
Floating rate senior notes	2020	2020	2.35	2.75	2.68	900	1,149
Fixed rate subordinated notes	2025	2029	2.64	3.80	2.78	2,961	2,075
FHLB advances (1)	2019	2034	—	5.50	1.65	1,640	1,749
Other long-term debt						168	132
Total long-term debt						$ 25,520	$ 23,709

(1) FHLB advances had a weighted average maturity of 4.1 years at September 30, 2019.

The effective rates above reflect the impact of fair value hedges and debt issuance costs. Subordinated notes with a remaining maturity of one year or greater qualify under the risk-based capital guidelines as Tier 2 supplementary capital, subject to certain limitations.

NOTE 10. Shareholders' Equity

Preferred Stock

On July 29, 2019, BB&T issued $1.7 billion of series N non-cumulative perpetual preferred stock with a stated dividend rate of 4.800% per annum for net proceeds of $1.7 billion. Dividends, if declared by the Board of Directors, are payable on the first day of March and September of each year, commencing on March 1, 2020. The dividend rate will reset on September 1, 2024, and on each following fifth anniversary of the reset date to the five-year U.S. Treasury rate plus 3.003%. BB&T issued depositary shares, each of which represents a fractional ownership interest in a share of the 68,000 shares of the Company's series N preferred stock. The preferred stock has no stated maturity and redemption is solely at the option of the Company in whole, but not in part, upon the occurrence of a regulatory capital treatment event, as defined. In addition, the preferred stock may be redeemed in whole or in part, on any dividend payment date after September 1, 2024.

During the third quarter of 2019, BB&T redeemed all outstanding 23,000 shares of series D and 46,000 shares of series E non-cumulative perpetual preferred stock, and the corresponding depositary shares representing fractional interests in each series for $1.7 billion. Regular dividends on the redeemed shares were paid during the third quarter of 2019. In connection with the redemptions, net income available to common shareholders was reduced by $46 million to recognize the difference in the redemption price and the carrying value.

Dividends

The following table presents the dividends declared related to common stock. For information related to preferred stock dividends, see Note 9. Shareholders' Equity of the Annual Report on Form 10-K for the year ended December 31, 2018.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash dividends declared per share	$ 0.450	$ 0.405	$ 1.260	$ 1.155

Equity-Based Compensation Plans

The following table presents the activity related to awards of RSUs, PSUs and restricted shares:

(Shares in thousands)	Units/Shares	Wtd. Avg. Grant Date Fair Value
Nonvested at January 1, 2019	12,060	$ 38.03
Granted	3,919	44.39
Vested	(3,394)	35.27
Forfeited	(345)	42.43
Nonvested at September 30, 2019	12,240	40.70

NOTE 11. AOCI

AOCI includes the after-tax change in unrecognized net costs related to defined benefit pension and OPEB plans, and unrealized gains and losses on cash flow hedges and AFS securities.

Three Months Ended (Dollars in millions)	Pension and OPEB Costs	Cash Flow Hedges	AFS Securities	Other, net	Total
AOCI balance, July 1, 2018	$ (977)	$ 12	$ (723)	$ (18)	$ (1,706)
OCI before reclassifications, net of tax	(27)	20	(162)	1	(168)
Amounts reclassified from AOCI:					
Before tax	19	—	9	—	28
Tax effect	4	—	2	—	6
Amounts reclassified, net of tax	15	—	7	—	22
Total OCI, net of tax	(12)	20	(155)	1	(146)
AOCI balance, September 30, 2018	$ (989)	$ 32	$ (878)	$ (17)	$ (1,852)
AOCI balance, July 1, 2019	$ (1,128)	$ (124)	$ 151	$ (18)	$ (1,119)
OCI before reclassifications, net of tax	(58)	3	116	—	61
Amounts reclassified from AOCI:					
Before tax	27	14	2	—	43
Tax effect	7	4	—	—	11
Amounts reclassified, net of tax	20	10	2	—	32
Total OCI, net of tax	(38)	13	118	—	93
AOCI balance, September 30, 2019	$ (1,166)	$ (111)	$ 269	$ (18)	$ (1,026)

Nine Months Ended September 30, 2019 and 2018 (Dollars in millions)	Pension and OPEB Costs	Cash Flow Hedges	AFS Securities	Other, net	Total
AOCI balance, January 1, 2018	$ (1,004)	$ (92)	$ (356)	$ (15)	$ (1,467)
OCI before reclassifications, net of tax	(27)	113	(544)	(3)	(461)
Amounts reclassified from AOCI:					
Before tax	55	14	29	1	99
Tax effect	13	3	7	—	23
Amounts reclassified, net of tax	42	11	22	1	76
Total OCI, net of tax	15	124	(522)	(2)	(385)
AOCI balance, September 30, 2018	(989)	32	(878)	(17)	(1,852)
AOCI balance, January 1, 2019	$ (1,164)	$ (31)	$ (500)	$ (20)	$ (1,715)
OCI before reclassifications, net of tax	(58)	(88)	776	2	632
Amounts reclassified from AOCI:					
Before tax	74	11	(10)	—	75
Tax effect	18	3	(3)	—	18
Amounts reclassified, net of tax	56	8	(7)	—	57
Total OCI, net of tax	(2)	(80)	769	2	689
AOCI balance, September 30, 2019	$ (1,166)	$ (111)	$ 269	$ (18)	$ (1,026)
Primary income statement location of amounts reclassified from AOCI	Other expense	Net interest income	Net interest income	Net interest income	

NOTE 12. Income Taxes

The effective tax rates for the three months ended September 30, 2019 and 2018 were 20.8% and 20.0%, respectively.

The effective tax rates for the nine months ended September 30, 2019 and 2018 were 20.0% and 19.6%, respectively.

NOTE 13. Benefit Plans

The components of net periodic benefit cost for defined benefit pension plans are summarized in the following table:

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location	2019	2018	2019	2018
Service cost	Personnel expense	$ 52	$ 59	$ 161	$ 179
Interest cost	Other expense	58	50	169	150
Estimated return on plan assets	Other expense	(116)	(112)	(343)	(336)
Amortization and other	Other expense	29	21	80	60
Net periodic benefit cost		$ 23	$ 18	$ 67	$ 53

BB&T makes contributions to the qualified pension plan in amounts between the minimum required for funding and the maximum deductible for federal income tax purposes. Discretionary contributions totaling $876 million were made during the nine months ended September 30, 2019. There are no required contributions for the remainder of 2019, though BB&T may elect to make additional discretionary contributions.

NOTE 14. Commitments and Contingencies

The following table summarizes certain commitments and contingencies. Refer to Note 15. Fair Value Disclosures for additional disclosures related to off-balance sheet financial instruments.

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
Investments in affordable housing projects:		
Carrying amount	$ 2,179	$ 2,088
Amount of future funding commitments included in carrying amount	864	919
Lending exposure	402	460
Tax credits subject to recapture	537	523
Private equity and certain other equity method investments:		
Carrying amount	544	458
Amount of future funding commitments not included in carrying amount	322	331

Legal Proceedings

The nature of BB&T's business ordinarily results in a certain amount of claims, litigation, investigations and legal and administrative cases and proceedings, all of which are considered incidental to the normal conduct of business. BB&T believes it has meritorious defenses to the claims asserted against it in its currently outstanding legal proceedings and, with respect to such legal proceedings, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of BB&T and its shareholders.

On at least a quarterly basis, liabilities and contingencies in connection with outstanding legal proceedings are assessed utilizing the latest information available. For those matters where it is probable that BB&T will incur a loss and the amount of the loss can be reasonably estimated, and is more than nominal, a liability is recorded in the consolidated financial statements. These legal reserves may be increased or decreased to reflect any relevant developments on at least a quarterly basis. For other matters, where a loss is not probable or the amount of the loss is not estimable, legal reserves are not accrued. While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of counsel and available insurance coverage, management believes that the established legal reserves are adequate and the liabilities arising from legal proceedings will not have a material adverse effect on the consolidated financial position, consolidated results of operations or consolidated cash flows. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the consolidated financial position, consolidated results of operations or consolidated cash flows of BB&T.

Following the announcement of the proposed merger with SunTrust, six civil actions were filed challenging, among other things, the adequacy of the disclosures contained in the preliminary proxy statement/prospectus filed with the SEC in connection with the proposed transaction. Five of these suits were filed by purported SunTrust stockholders against SunTrust and its board of directors, with one suit also asserting a claim against BB&T. The sixth suit was filed by a purported BB&T stockholder against BB&T and its board of directors. Following discussions, SunTrust and BB&T reached agreement with plaintiffs to resolve these actions by making certain supplemental disclosures in the joint proxy statement/prospectus filed with the SEC in connection with the proposed transaction, which became definitive on June 19, 2019. To date, one of the suits filed by purported SunTrust stockholders has been dismissed with prejudice, and the suit filed by a purported BB&T stockholder has been discontinued with prejudice. Plaintiffs in the four remaining suits have similarly agreed to dismiss their actions in their entirety, with prejudice as to the named plaintiffs only and without prejudice to all other members of the putative class.

Pledged Assets

Certain assets were pledged to secure municipal deposits, securities sold under agreements to repurchase, borrowings and borrowing capacity, subject to any applicable asset discount, at the FHLB and FRB as well as for other purposes as required or permitted by law. The following table provides the total carrying amount of pledged assets by asset type, of which the majority are pursuant to agreements that do not permit the other party to sell or repledge the collateral, excluding assets related to employee benefit plans:

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
Pledged securities	$ 11,881	$ 13,237
Pledged loans	74,458	77,847

NOTE 15. Fair Value Disclosures

The following tables present fair value information for assets and liabilities measured at fair value on a recurring basis:

September 30, 2019 (Dollars in millions)	Total	Level 1	Level 2	Level 3	Netting Adjustments (1)
Assets:					
AFS securities:					
U.S. Treasury	$ 1,138	$ —	$ 1,138	$ —	$ —
GSE	254	—	254	—	—
Agency MBS	33,607	—	33,607	—	—
States and political subdivisions	593	—	593	—	—
Non-agency MBS	374	—	—	374	—
Other	31	—	31	—	—
Total AFS securities	35,997	—	35,623	374	—
LHFS	1,442	—	1,442	—	—
MSRs	919	—	—	919	—
Other assets:					
Trading and equity securities	871	464	407	—	—
Derivative assets	680	—	892	20	(232)
Private equity investments	467	—	—	467	—
Total assets	$ 40,376	$ 464	$ 38,364	$ 1,780	$ (232)
Liabilities:					
Derivative liabilities	$ 39	$ 1	$ 150	$ 16	$ (128)
Securities sold short	113	—	113	—	—
Total liabilities	$ 152	$ 1	$ 263	$ 16	$ (128)

December 31, 2018 (Dollars in millions)	Total	Level 1	Level 2	Level 3	Netting Adjustments (1)
Assets:					
AFS securities:					
U.S. Treasury	$ 3,441	$ —	$ 3,441	$ —	$ —
GSE	200	—	200	—	—
Agency MBS	20,155	—	20,155	—	—
States and political subdivisions	701	—	701	—	—
Non-agency MBS	505	—	114	391	—
Other	36	—	36	—	—
Total AFS securities	25,038	—	24,647	391	—
LHFS	988	—	988	—	—
MSRs	1,108	—	—	1,108	—
Other assets:					
Trading and equity securities	767	374	390	3	—
Derivative assets	246	—	234	12	—
Private equity investments	393	—	—	393	—
Total assets	$ 28,540	$ 374	$ 26,259	$ 1,907	$ —
Liabilities:					
Derivative liabilities	$ 247	$ 1	$ 246	$ —	$ —
Securities sold short	145	—	145	—	—
Total liabilities	$ 392	$ 1	$ 391	$ —	$ —

(1) Refer to Note 16. Derivative Financial Instruments for additional discussion on netting adjustments.

Accounting standards define fair value as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants, with a three level valuation input hierarchy. The following discussion focuses on the valuation techniques and significant inputs for Level 2 and Level 3 assets and liabilities.

A third-party pricing service is generally utilized in determining the fair value of the securities portfolio. Management independently evaluates the fair values provided by the pricing service through comparisons to other external pricing sources, review of additional information provided by the pricing service and other third party sources for selected securities and back-testing to compare the price realized on any security sales to the daily pricing information received from the pricing service. Fair value measurements are derived from market-based pricing matrices that were developed using observable inputs that include benchmark yields, benchmark securities, reported trades, offers, bids, issuer spreads and broker quotes. As described by security type below, additional inputs may be used, or some inputs may not be applicable. In the event that market observable data was not available, which would generally occur due to the lack of an active market for a given security, the valuation of the security would be subjective and may involve substantial judgment by management.

U.S. Treasury securities: Treasury securities are valued using quoted prices in active over-the-counter markets.

GSE securities and agency MBS: GSE pass-through securities are valued using market-based pricing matrices that reference observable inputs including benchmark TBA security pricing and yield curves that were estimated based on U.S. Treasury yields and certain floating rate indices. The pricing matrices for these securities may also give consideration to pool-specific data supplied directly by the GSE. GSE CMOs are valued using market-based pricing matrices that are based on observable inputs including offers, bids, reported trades, dealer quotes and market research reports, the characteristics of a specific tranche, market convention prepayment speeds and benchmark yield curves as described above.

States and political subdivisions: These securities are valued using market-based pricing matrices that reference observable inputs including MSRB reported trades, issuer spreads, material event notices and benchmark yield curves.

Non-agency MBS: Pricing matrices for these securities are based on observable inputs including offers, bids, reported trades, dealer quotes and market research reports, the characteristics of a specific tranche, market convention prepayment speeds and benchmark yield curves as described above. Non-agency MBS include investments in Re-REMIC trusts that primarily hold non-agency MBS, which are valued based on broker pricing models that use baseline securities yields and tranche-level yield adjustments to discount cash flows modeled using market convention prepayment speed and default assumptions.

Other securities: These securities consist primarily of corporate bonds. These securities are valued based on a review of quoted market prices for assets as well as through the various other inputs discussed previously.

LHFS: Certain mortgage loans are originated to be sold to investors, which are carried at fair value. The fair value is primarily based on quoted market prices for securities backed by similar types of loans. The changes in fair value of these assets are largely driven by changes in interest rates subsequent to loan funding and changes in the fair value of servicing associated with the mortgage LHFS.

MSRs: Residential MSRs are valued using an OAS valuation model to project cash flows over multiple interest rate scenarios, which are discounted at risk-adjusted rates. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. Fair value estimates and assumptions are compared to industry surveys, recent market activity, actual portfolio experience and, when available, other observable market data. Commercial MSRs are valued using a cash flow valuation model that calculates the present value of estimated future net servicing cash flows. BB&T considers actual and expected loan prepayment rates, discount rates, servicing costs and other economic factors that are determined based on current market conditions.

Trading and equity securities: Trading and equity securities primarily consist of exchange traded equity securities, and debt securities issued by the U.S. Treasury, GSEs, or states and political subdivisions. The valuation techniques for debt securities are more fully discussed above.

Derivative assets and liabilities: The fair values of derivatives are determined based on quoted market prices and internal pricing models that use market observable data. The fair values of interest rate lock commitments, which are related to mortgage loan commitments and are categorized as Level 3, are based on quoted market prices adjusted for commitments that are not expected to fund and include the value attributable to the net servicing fees.

Private equity investments: In many cases there are no observable market values for these investments and therefore management must estimate the fair value based on a comparison of the operating performance of the company to multiples in the marketplace for similar entities. This analysis requires significant judgment, and actual values in a sale could differ materially from those estimated.

Securities sold short: Securities sold short represent debt securities sold short that are entered into as a hedging strategy for the purposes of supporting institutional and retail client trading activities.

Activity for Level 3 assets and liabilities is summarized below:

Three Months Ended (Dollars in millions)	Trading and Equity Securities	Non-agency MBS	MSRs	Net Derivatives	Private Equity Investments
Balance at July 1, 2018	$ —	$ 425	$ 1,143	$ 4	$ 399
Total realized and unrealized gains (losses):					
Included in earnings	—	2	36	6	35
Included in unrealized net holding gains (losses) in OCI	—	(7)	—	—	—
Purchases	1	—	—	—	18
Issuances	—	—	42	5	—
Sales	(1)	—	—	—	(7)
Settlements	—	(13)	(42)	(16)	(18)
Balance at September 30, 2018	$ —	$ 407	$ 1,179	$ (1)	$ 427
Balance at July 1, 2019	$ —	$ 382	$ 970	$ 7	$ 449
Total realized and unrealized gains (losses):					
Included in earnings	—	15	(79)	53	6
Included in unrealized net holding gains (losses) in OCI	—	(8)	—	—	—
Purchases	4	—	—	(1)	34
Issuances	—	—	69	30	—
Sales	(4)	—	—	—	(1)
Settlements	—	(15)	(41)	(85)	(21)
Balance at September 30, 2019	$ —	$ 374	$ 919	$ 4	$ 467
Change in unrealized gains (losses) included in earnings for the period, attributable to assets and liabilities still held at September 30, 2019	$ —	$ 6	$ (79)	$ 13	$ 4

Nine Months Ended September 30, 2019 and 2018 (Dollars in millions)	Trading and Equity Securities	Non-agency MBS	MSRs	Net Derivatives	Private Equity Investments
Balance at January 1, 2018	$ —	$ 432	$ 1,056	$ 3	$ 404
Total realized and unrealized gains (losses):					
Included in earnings	—	8	127	7	46
Included in unrealized net holding gains (losses) in OCI	—	7	—	—	—
Purchases	2	—	—	—	45
Issuances	—	—	125	11	—
Sales	(2)	—	—	—	(31)
Settlements	—	(40)	(129)	(22)	(37)
Balance at September 30, 2018	$ —	$ 407	$ 1,179	$ (1)	$ 427
Balance at January 1, 2019	$ 3	$ 391	$ 1,108	$ 12	$ 393
Total realized and unrealized gains (losses):					
Included in earnings	—	10	(184)	74	30
Included in unrealized net holding gains (losses) in OCI	—	4	—	—	—
Purchases	19	—	—	(1)	102
Issuances	—	—	121	64	—
Sales	(22)	—	—	—	(35)
Settlements	—	(31)	(126)	(135)	(23)
Transfers into Level 3	—	—	—	(10)	—
Balance at September 30, 2019	$ —	$ 374	$ 919	$ 4	$ 467
Change in unrealized gains (losses) included in earnings for the period, attributable to assets and liabilities still held at September 30, 2019	$ —	$ 9	$ (184)	$ 13	$ 8
Primary income statement location of realized gains (losses) included in earnings	Interest income	Interest income	Mortgage banking income	Mortgage banking income	Other income

The non-agency MBS categorized as Level 3 represent ownership interests in various tranches of Re-REMIC trusts. These securities are valued at a discount, which is unobservable in the market, to the fair value of the underlying securities owned by the trusts. The Re-REMIC tranches do not have an active market and therefore are categorized as Level 3. At September 30, 2019, the fair value of Re-REMIC non-agency MBS represented a discount of 24.0% to the fair value of the underlying securities owned by the Re-REMIC trusts.

The majority of private equity investments are in SBIC qualified funds, which primarily focus on equity and subordinated debt investments in privately-held middle market companies. The majority of these VIE investments are not redeemable and distributions are received as the underlying assets of the funds liquidate. The timing of distributions, which are expected to occur on various dates on an approximately ratable basis through 2029, is uncertain and dependent on various events such as recapitalizations, refinance transactions and ownership changes among others. As of September 30, 2019, restrictions on the ability to sell the investments include, but are not limited to, consent of a majority member or general partner approval for transfer of ownership. These investments are spread over numerous privately-held middle market companies, and thus the sensitivity to a change in fair value for any single investment is limited. The significant unobservable inputs for these investments are EBITDA multiples that ranged from 6x to 13x, with a weighted average of 8x, at September 30, 2019.

The following table details the fair value and UPB of LHFS that were elected to be carried at fair value:

	September 30, 2019			December 31, 2018		
(Dollars in millions)	Fair Value	UPB	Difference	Fair Value	UPB	Difference
LHFS at fair value	$ 1,442	$ 1,430	$ 12	$ 988	$ 975	$ 13

Excluding government guaranteed, LHFS that were nonperforming or 90 days or more past due and still accruing interest were not material at September 30, 2019.

The following table provides information about certain assets measured at fair value on a nonrecurring basis, which are primarily collateral dependent and may be subject to liquidity adjustments. The carrying values represent end of period values, which approximate the fair value measurements that occurred on the various measurement dates throughout the period. The valuation adjustments represent the amounts recorded during the period regardless of whether the asset is still held at period end. These assets are considered to be Level 3 assets (excludes PCI).

As of / For The Nine Months Ended September 30, (Dollars in millions)	2019 Carrying Value	2019 Valuation Adjustments	2018 Carrying Value	2018 Valuation Adjustments
Impaired loans	$ 98	$ (21)	$ 185	$ (31)
Foreclosed real estate	33	(180)	39	(171)

For financial instruments not recorded at fair value, estimates of fair value are based on relevant market data and information about the instrument. Values obtained relate to one trading unit without regard to any premium or discount that may result from concentrations of ownership, possible tax ramifications, estimated transaction costs that may result from bulk sales or the relationship between various instruments.

An active market does not exist for certain financial instruments. Fair value estimates for these instruments are based on current economic conditions, currency and interest rate risk characteristics, loss experience and other factors. Many of these estimates involve uncertainties and matters of significant judgment and cannot be determined with precision. Therefore, the fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the instrument. In addition, changes in assumptions could significantly affect these fair value estimates. The following assumptions were used to estimate the fair value of these financial instruments.

Cash and cash equivalents and restricted cash: For these short-term instruments, the carrying amounts are a reasonable estimate of fair values.

HTM securities: The fair values of HTM securities are based on a market approach using observable inputs such as benchmark yields and securities, TBA prices, reported trades, issuer spreads, current bids and offers, monthly payment information and collateral performance.

Loans receivable: The fair values for loans are estimated using discounted cash flow analyses, applying interest rates currently being offered for loans with similar terms and credit quality, which are deemed to be indicative of orderly transactions in the current market. For commercial loans and leases, discount rates may be adjusted to address additional credit risk on lower risk grade instruments. For residential mortgage and other consumer loans, internal prepayment risk models are used to adjust contractual cash flows. Loans are aggregated into pools of similar terms and credit quality and discounted using a LIBOR based rate. The carrying amounts of accrued interest approximate fair values.

Deposit liabilities: The fair values for demand deposits are equal to the amount payable on demand. Fair values for CDs are estimated using a discounted cash flow calculation that applies current interest rates to aggregate expected maturities. BB&T has developed long-term relationships with its deposit customers, commonly referred to as CDIs, that have not been considered in the determination of the deposit liabilities' fair value.

Short-term borrowings: The carrying amounts of short-term borrowings, excluding securities sold short, approximate their fair values.

Long-term debt: The fair values of long-term debt instruments are estimated based on quoted market prices for the instrument if available, or for similar instruments if not available, or by using discounted cash flow analyses, based on current incremental borrowing rates for similar types of instruments.

Contractual commitments: The fair values of commitments are estimated using the fees charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The fair values of guarantees and letters of credit are estimated based on the counterparties' creditworthiness and average default rates for loan products with similar risks. These respective fair value measurements are categorized within Level 3 of the fair value hierarchy. Retail lending and revolving credit commitments have an immaterial fair value as BB&T typically has the ability to cancel such commitments.

Financial assets and liabilities not recorded at fair value are summarized below:

		September 30, 2019		December 31, 2018	
(Dollars in millions)	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
HTM securities	Level 2	$ 18,768	$ 18,970	$ 20,552	$ 20,047
Loans and leases HFI, net of ALLL	Level 3	147,840	148,172	147,455	145,591
Financial liabilities:					
Time deposits	Level 2	16,526	16,587	16,577	16,617
Long-term debt	Level 2	25,520	25,861	23,709	23,723

The following is a summary of selected information pertaining to off-balance sheet financial instruments:

	September 30, 2019		December 31, 2018	
(Dollars in millions)	Notional/ Contract Amount	Fair Value	Notional/ Contract Amount	Fair Value
Commitments to extend, originate or purchase credit	$ 76,603	$ 299	$ 72,435	$ 280
Residential mortgage loans sold with recourse	369	3	419	3
CRE mortgages serviced for others covered by recourse provisions	4,748	6	4,699	6
Letters of credit	2,139	13	2,389	18

NOTE 16. Derivative Financial Instruments

The following table provides a summary of derivative strategies and the related accounting treatment:

	Cash Flow Hedges	Fair Value Hedges	Derivatives Not Designated as Hedges
Risk exposure	Variability in cash flows of interest payments on floating rate business loans, overnight funding and various LIBOR funding instruments.	Changes in value on fixed rate long-term debt, CDs, FHLB advances, loans and state and political subdivision securities due to changes in interest rates.	Risk associated with an asset or liability, including mortgage banking operations and MSRs, or for client needs. Includes exposure to changes in market rates and conditions subsequent to the interest rate lock and funding date for mortgage loans originated for sale.
Risk management objective	Hedge the variability in the interest payments and receipts on future cash flows for forecasted transactions related to the first unhedged payments and receipts of variable interest.	Convert the fixed rate paid or received to a floating rate, primarily through the use of swaps.	For interest rate lock commitment derivatives and LHFS, use mortgage-based derivatives such as forward commitments and options to mitigate market risk. For MSRs, mitigate the income statement effect of changes in the fair value of the MSRs. For client swaps, hedges are executed with dealer counterparties to offset market risk.
Treatment during the hedge period	Changes in value of the hedging instruments are recognized in AOCI until the related cash flows from the hedged item are recognized in earnings.	Changes in value of both the hedging instruments and the assets or liabilities being hedged are recognized in the income statement line item associated with the instrument being hedged.	Entire change in fair value recognized in current period income.
Treatment if hedge ceases to be highly effective or is terminated	Hedge is dedesignated. Changes in value recorded in AOCI before dedesignation are amortized to yield over the period the forecasted hedged transactions impact earnings.	If hedged item remains outstanding, the basis adjustment that resulted from hedging is amortized into earnings over the lesser of the designated hedged period or the maturity date of the instrument, and cash flows from terminations are reported in the same category as the cash flows from the hedged item.	Not applicable
Treatment if transaction is no longer probable of occurring during forecast period or within a short period thereafter	Hedge accounting ceases and any gain or loss in AOCI is reported in earnings immediately.	Not applicable	Not applicable

Impact of Derivatives on the Consolidated Balance Sheets

In the second quarter of 2019, BB&T began applying the offsetting provisions for contracts that are covered by legally enforceable master netting agreements. Application of these provisions was not material to BB&T's consolidated financial statements. Gross amounts are presented in the December 31, 2018 consolidated balance sheet. The following table presents the notional amount and estimated fair value of derivative instruments:

		September 30, 2019			December 31, 2018		
		Notional Amount	Fair Value		Notional Amount	Fair Value	
(Dollars in millions)	Hedged Item or Transaction		Gain	Loss		Gain	Loss
Cash flow hedges:							
Interest rate contracts:							
Pay fixed swaps	3 mo. LIBOR funding	$ —	$ —	$ —	$ 6,500	$ —	$ —
Fair value hedges:							
Interest rate contracts:							
Receive fixed swaps	Long-term debt	17,934	195	(29)	12,908	5	(74)
Options	Long-term debt	4,785	—	(3)	4,785	—	(2)
Pay fixed swaps	Commercial loans	44	—	—	505	2	—
Pay fixed swaps	Municipal securities	—	—	—	259	—	—
Total		22,763	195	(32)	18,457	7	(76)
Not designated as hedges:							
Client-related and other risk management:							
Interest rate contracts:							
Receive fixed swaps		14,210	657	(1)	11,577	128	(98)
Pay fixed swaps		13,512	—	(84)	11,523	19	(32)
Other		1,336	3	(3)	1,143	2	(3)
Forward commitments		6,171	7	(16)	2,883	11	(13)
Foreign exchange contracts		651	4	(2)	529	5	(2)
Total		35,880	671	(106)	27,655	165	(148)
Mortgage banking:							
Interest rate contracts:							
Interest rate lock commitments		2,376	20	(5)	702	12	—
When issued securities, forward rate agreements and forward commitments		3,183	6	(16)	1,753	2	(20)
Other		75	—	(1)	271	2	(1)
Total		5,634	26	(22)	2,726	16	(21)
MSRs:							
Interest rate contracts:							
Receive fixed swaps		3,338	—	—	4,328	—	—
Pay fixed swaps		2,245	—	—	3,224	—	—
Options		884	17	—	3,155	48	(2)
When issued securities, forward rate agreements and forward commitments		1,199	3	(7)	1,590	10	—
Other		157	—	—	103	—	—
Total		7,823	20	(7)	12,400	58	(2)
Total derivatives not designated as hedges		49,337	717	(135)	42,781	239	(171)
Total derivatives		$ 72,100	912	(167)	$ 67,738	246	(247)
Gross amounts in the Consolidated Balance Sheets:							
Amounts subject to master netting arrangements			(49)	49		(47)	47
Cash collateral (received) posted for amounts subject to master netting arrangements			(183)	79		(53)	82
Net amount			$ 680	$ (39)		$ 146	$ (118)
Derivative instruments under master netting agreements			$ 233	$ (137)		$ 102	$ (131)
Derivative instruments not under master netting agreements			679	(30)		144	(116)
Total derivatives			$ 912	$ (167)		$ 246	$ (247)

The following table presents additional information for fair value hedging relationships:

(Dollars in millions)	September 30, 2019			December 31, 2018		
		Hedge Basis Adjustment			Hedge Basis Adjustment	
	Hedged Asset / Liability Basis	Items Currently Designated	Items No Longer Designated	Hedged Asset / Liability Basis	Items Currently Designated	Items No Longer Designated
AFS securities	$ 474	$ —	$ 66	$ 493	$ 5	$ 54
Loans and leases	559	3	15	562	—	(3)
Long-term debt	20,750	347	(8)	15,397	(98)	12

Impact of Derivatives on the Consolidated Statements of Income and Comprehensive Income

No portion of the change in fair value of derivatives designated as hedges has been excluded from effectiveness testing.

The following table summarizes amounts related to cash flow hedges, which consist of interest rate contracts:

(Dollars in millions)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Pre-tax gain (loss) recognized in OCI:				
Deposits	$ 1	$ 6	$ (42)	$ 35
Short-term borrowings	—	2	2	4
Long-term debt	2	18	(76)	111
Total	$ 3	$ 26	(116)	$ 150
Pre-tax gain (loss) reclassified from AOCI into interest expense:				
Deposits	$ (1)	1	—	(2)
Short-term borrowings	(5)	—	(4)	—
Long-term debt	(8)	(1)	(7)	(12)
Total	$ (14)	$ —	$ (11)	$ (14)

The following table summarizes the impact on net interest income related to fair value hedges, which consist of interest rate contracts:

(Dollars in millions)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
AFS securities:				
Amounts related to interest settlements	$ —	$ —	$ —	$ (4)
Recognized on derivatives	1	4	(16)	20
Recognized on hedged items	(3)	(6)	10	(22)
Net income (expense) recognized	(2)	(2)	(6)	$ (6)
Loans and leases:				
Amounts related to interest settlements	—	—	—	(1)
Recognized on derivatives	—	4	(22)	10
Recognized on hedged items	(1)	(4)	21	(10)
Net income (expense) recognized	(1)	—	(1)	(1)
Long-term debt:				
Amounts related to interest settlements	(17)	(13)	(55)	(12)
Recognized on derivatives	35	(50)	343	(293)
Recognized on hedged items	(30)	62	(326)	329
Net income (expense) recognized	(12)	(1)	(38)	24
Net income (expense) recognized, total	$ (15)	$ (3)	$ (45)	$ 17

The following table presents pre-tax gain (loss) recognized in income for derivative instruments not designated as hedges:

(Dollars in millions)		Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Client-related and other risk management:					
Interest rate contracts	Other noninterest income	$ 33	$ 11	$ 59	$ 36
Foreign exchange contracts	Other noninterest income	7	1	8	14
Equity	Other noninterest income	(2)	—	(2)	—
Mortgage banking:					
Interest rate contracts	Mortgage banking income	10	7	5	3
MSRs:					
Interest rate contracts	Mortgage banking income	84	(36)	221	(126)
Total		$ 132	$ (17)	$ 291	$ (73)

The following table presents information about BB&T's cash flow and fair value hedges:

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
Cash flow hedges:		
Net unrecognized after-tax gain (loss) on active hedges recorded in AOCI	$ —	$ (18)
Net unrecognized after-tax gain (loss) on terminated hedges recorded in AOCI (to be recognized in earnings through 2022)	(111)	(13)
Estimated portion of net after-tax gain (loss) on active and terminated hedges to be reclassified from AOCI into earnings during the next 12 months	(41)	4
Maximum time period over which BB&T is hedging a portion of the variability in future cash flows for forecasted transactions excluding those transactions relating to the payment of variable interest on existing instruments	N/A	4 years
Fair value hedges:		
Unrecognized pre-tax net gain (loss) on terminated hedges (to be recognized as interest primarily through 2029)	(90)	(39)
Portion of pre-tax net gain (loss) on terminated hedges to be recognized as a change in interest during the next 12 months	(10)	15

Derivatives Credit Risk – Dealer Counterparties

Credit risk related to derivatives arises when amounts receivable from a counterparty exceed those payable to the same counterparty. The risk of loss is addressed by subjecting dealer counterparties to credit reviews and approvals similar to those used in making loans or other extensions of credit and by requiring collateral. Dealer counterparties operate under agreements to provide cash collateral when unsecured loss positions exceed minimal limits.

Derivative contracts with dealer counterparties settle on a monthly, quarterly or semiannual basis, with daily movement of collateral between counterparties required within established netting agreements. BB&T only transacts with dealer counterparties with strong credit standings.

Derivatives Credit Risk – Central Clearing Parties

With the exception of the central clearing party used for TBA transactions that does not post variation margin to BB&T, central clearing parties exchange cash on a daily basis to settle changes in exposure. Certain derivatives are cleared through central clearing parties that require initial margin collateral. Initial margin collateral requirements are established on varying bases, with such amounts generally designed to offset the risk of non-payment. Initial margin is generally calculated by applying the maximum loss experienced in value over a specified time horizon to the portfolio of existing trades.

Derivatives Credit Risk – Risk Participation Agreements

BB&T has entered into risk participation agreements to share the credit exposure with other financial institutions on client-related interest rate derivative contracts. These amounts are included with other client-related and other risk management interest rate contracts in the table presenting the impact of derivatives on the consolidated balance sheets. The following table presents additional information related to interest rate derivative risk participation agreements:

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
Notional amount	$ 819	$ 446
Maximum exposure assuming all underlying third party customers referenced in the interest rate contracts defaulted in a zero LIBOR rate environment	52	26

The following table summarizes collateral positions with counterparties:

(Dollars in millions)	Sep 30, 2019	Dec 31, 2018
Dealer counterparties:		
Cash collateral received from dealer counterparties	$ 186	$ 56
Derivatives in a net gain position secured by collateral received	184	55
Unsecured positions in a net gain with dealer counterparties after collateral postings	1	2
Cash collateral posted to dealer counterparties	75	75
Derivatives in a net loss position secured by collateral received	74	76
Additional collateral that would have been posted had BB&T's credit ratings dropped below investment grade	—	1
Central clearing parties:		
Cash collateral, including initial margin, posted to central clearing parties	17	17
Derivatives in a net loss position	15	8
Securities pledged to central clearing parties	155	124

NOTE 17. Computation of EPS

Basic and diluted EPS calculations are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions, except per share data, shares in thousands)	2019	2018	2019	2018
Net income available to common shareholders	$ 735	$ 789	$ 2,326	$ 2,309
Weighted average number of common shares	766,167	771,562	765,428	775,642
Effect of dilutive outstanding equity-based awards	9,624	10,305	9,479	10,498
Weighted average number of diluted common shares	775,791	781,867	774,907	786,140
Basic EPS	$ 0.96	$ 1.02	$ 3.04	$ 2.98
Diluted EPS	$ 0.95	$ 1.01	$ 3.00	$ 2.94
Anti-dilutive awards	—	61	—	80

NOTE 18. Operating Segments

BB&T's business segment structure aligns with how management reviews performance and makes decisions by client, segment and business unit. There are four major reportable business segments: CB-Retail, CB-Commercial, FS&CF and IH. In addition, there is an OT&C segment. For additional information, see Note 19. Operating Segments of the Annual Report on Form 10-K for the year ended December 31, 2018.

The following table presents results by segment:

Three Months Ended September 30, (Dollars in millions)	CB-Retail		CB-Commercial		FS&CF	
	2019	2018	2019	2018	2019	2018
Net interest income (expense)	$ 871	$ 880	$ 519	$ 513	$ 196	$ 171
Net intersegment interest income (expense)	141	76	69	58	18	26
Segment net interest income	1,012	956	588	571	214	197
Allocated provision for credit losses	115	121	12	18	3	5
Segment net interest income after provision	897	835	576	553	211	192
Noninterest income	372	347	116	110	351	308
Noninterest expense	681	657	259	262	327	312
Income (loss) before income taxes	588	525	433	401	235	188
Provision (benefit) for income taxes	142	129	95	90	50	39
Segment net income (loss)	$ 446	$ 396	$ 338	$ 311	$ 185	$ 149

	IH		OT&C (1)		Total	
	2019	2018	2019	2018	2019	2018
Net interest income (expense)	$ 39	$ 32	$ 75	$ 91	$ 1,700	$ 1,687
Net intersegment interest income (expense)	(11)	(9)	(217)	(151)	—	—
Segment net interest income	28	23	(142)	(60)	1,700	1,687
Allocated provision for credit losses	2	1	(15)	(10)	117	135
Segment net interest income after provision	26	22	(127)	(50)	1,583	1,552
Noninterest income	491	452	(27)	22	1,303	1,239
Noninterest expense	435	416	138	95	1,840	1,742
Income (loss) before income taxes	82	58	(292)	(123)	1,046	1,049
Provision (benefit) for income taxes	21	15	(90)	(63)	218	210
Segment net income (loss)	$ 61	$ 43	$ (202)	$ (60)	$ 828	$ 839

Nine Months Ended September 30, (Dollars in millions)	CB-Retail		CB-Commercial		FS&CF	
	2019	2018	2019	2018	2019	2018
Net interest income (expense)	$ 2,564	$ 2,570	$ 1,596	$ 1,467	$ 582	$ 499
Net intersegment interest income (expense)	376	194	160	182	52	64
Segment net interest income	2,940	2,764	1,756	1,649	634	563
Allocated provision for credit losses	368	354	70	97	18	(3)
Segment net interest income after provision	2,572	2,410	1,686	1,552	616	566
Noninterest income	1,081	1,042	339	325	964	912
Noninterest expense	1,981	1,978	765	769	935	924
Income (loss) before income taxes	1,672	1,474	1,260	1,108	645	554
Provision (benefit) for income taxes	403	362	275	249	135	116
Segment net income (loss)	$ 1,269	$ 1,112	$ 985	$ 859	$ 510	$ 438
Identifiable assets (period end)	$ 72,843	$ 73,117	$ 56,489	$ 56,687	$ 32,754	$ 30,586

	IH		OT&C (1)		Total	
	2019	2018	2019	2018	2019	2018
Net interest income (expense)	$ 108	$ 87	$ 236	$ 354	$ 5,086	$ 4,977
Net intersegment interest income (expense)	(32)	(23)	(556)	(417)	—	—
Segment net interest income	76	64	(320)	(63)	5,086	4,977
Allocated provision for credit losses	7	2	(19)	(30)	444	420
Segment net interest income after provision	69	62	(301)	(33)	4,642	4,557
Noninterest income	1,576	1,375	(103)	(13)	3,857	3,641
Noninterest expense	1,296	1,199	382	278	5,359	5,148
Income (loss) before income taxes	349	238	(786)	(324)	3,140	3,050
Provision (benefit) for income taxes	89	61	(273)	(190)	629	598
Segment net income (loss)	$ 260	$ 177	$ (513)	$ (134)	$ 2,511	$ 2,452
Identifiable assets (period end)	$ 6,744	$ 6,455	$ 67,920	$ 56,040	$236,750	$222,885

(1) Includes financial data from business units below the quantitative and qualitative thresholds requiring disclosure.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BB&T is a financial holding company organized under the laws of North Carolina. BB&T conducts operations through its principal bank subsidiary, Branch Bank, and its nonbank subsidiaries.

Regulatory Considerations

The extensive regulatory framework applicable to financial institutions is intended primarily for the protection of depositors, the DIF and the stability of the financial system, rather than for the protection of shareholders and creditors. In addition to banking laws, regulations and regulatory agencies, BB&T is subject to various other laws, regulations, supervision and examination by other regulatory agencies, all of which affect the operations and management of BB&T and its ability to make distributions to shareholders. Refer to BB&T's Annual Report on Form 10-K for the year ended December 31, 2018 for additional disclosures with respect to significant laws and regulations affecting BB&T.

In April 2019, the FRB terminated its cease and desist order related to BB&T's anti-money laundering program. No money laundering activity was identified and no financial penalty was levied in relation to this order.

In July 2019, the federal bank regulatory agencies issued a final rule that reduces regulatory burden by simplifying the capital treatment for mortgage servicing rights, certain deferred tax assets, investments in the capital instruments of unconsolidated financial institutions and minority interest. The final rule applies to non-advanced approaches banking organizations and is effective April 1, 2020.

In July 2019, the FDIC amended the rules related to recordkeeping requirements and timely deposit insurance determination to allow covered IDIs an optional one year extension of the original compliance deadline to April 1, 2021. The rule requires IDIs with two million or more deposit accounts to maintain complete and accurate data on each depositor's ownership interest by right and capacity and to develop the capability to calculate the insured and uninsured amounts for each deposit owner by ownership right and capacity.

In October 2019, the federal bank regulatory agencies issued a final rule that will tailor rules for large banking companies based on risk profile. The final rule creates five broad categories of firms, with each category having a specific set of tailored regulatory requirements. Under the final rule, firms with between $250 billion and $700 billion in assets, and less than $75 billion in certain other risk-related exposures, will be permitted to exclude AOCI from the calculation of regulatory capital and will no longer be subject to the advanced approaches calculation for risk-based capital. Additionally, these firms will be subject to a reduced daily LCR and NSFR and will only be required to report company run stress tests every other year. The rule will be effective 60 days after publication in the federal register.

Executive Overview

Overview of Significant Events and Financial Results

On February 7, 2019, BB&T entered into an agreement and plan of merger, by and between BB&T and SunTrust, pursuant to which SunTrust will merge with and into BB&T, with BB&T as the surviving entity in the merger. Immediately following the merger, SunTrust's wholly owned subsidiary, SunTrust Bank, will merge with and into Branch Bank, with Branch Bank as the surviving entity. Under the terms of the merger agreement, shareholders of SunTrust will receive 1.295 shares of BB&T common stock for each share of SunTrust common stock. The merger agreement was unanimously approved by both companies' Boards of Directors. The merger is expected to close in the fourth quarter of 2019, subject to satisfaction of closing conditions, including receipt of remaining regulatory approvals. The merger is subject to a mutual break-up fee of approximately $1.1 billion, payable in customary circumstances. Merger-of-equals significant milestones and updates include:

- On July 10, 2019, BB&T received regulatory approval from the NCCOB for the pending merger-of-equals with SunTrust. Management is continuing to work with regulators on the remaining approvals.
- On July 16, 2019, BB&T and SunTrust announced the Truist Bank Community Benefits Plan under which the combined company will lend or invest $60 billion to low and moderate-income borrowers and communities over a three-year period from 2020 to 2022.
- Management agreed on a one-time bonus to be paid to certain associates of Truist following the closing of the merger. The estimated bonus payments total approximately $70 million.
- On July 24, 2019, the U.S. House Committee on Financial Services held a hearing on the merger. BB&T and SunTrust executives delivered testimony and responded to questions from Committee members.
- On July 30, 2019, BB&T and SunTrust shareholders approved the merger. In addition, BB&T's shareholders approved Truist Financial Corporation to be the name of the combined company.
- In September 2019, BB&T and SunTrust named approximately 75% of Truist leadership roles, finalized a vast majority of key technology ecosystem decisions and completed a legal day one readiness testing exercise for key workstreams.

Consolidated net income available to common shareholders for the third quarter of 2019 was $735 million. On a diluted per common share basis, earnings for the third quarter of 2019 were $0.95, a decrease of $0.06 compared to the third quarter of 2018.

Results for the third quarter of 2019, included $34 million ($26 million after-tax) of merger-related and restructuring charges and $52 million ($40 million after-tax) of incremental operating expenses related to the merger of equals with SunTrust. In addition, results included an after-tax reduction in net income available to common shareholders of $46 million from the redemption of preferred stock, partially offset by a $15 million after-tax impact from the sale of $4.3 billion of residential mortgage loans. Results for the third quarter of 2018 included $18 million ($13 million after-tax) of merger-related and restructuring charges primarily related to facilities optimization activities and the Regions Insurance acquisition.

BB&T's results of operations for the third quarter of 2019 produced an annualized return on average assets of 1.41% and an annualized return on average common shareholders' equity of 10.04%, compared to ratios for the same quarter of the prior year of 1.49% and 11.69%, respectively.

Total revenues on a TE basis were $3.0 billion for the third quarter of 2019, an increase of $73 million compared to the same period in 2018, which reflects an increase of $9 million in TE net interest income and an increase of $64 million in noninterest income.

The provision for credit losses was $117 million compared to $135 million for the third quarter of 2018. The decrease in the provision for credit losses was primarily due to the residential mortgage loan sale in the current quarter and a decrease in the reserve for unfunded commitments. Net charge-offs were 0.41% of average loans and leases on an annualized basis for the third quarter of 2019, up six basis points compared to the third quarter of 2018.

Noninterest income for the third quarter of 2019 increased $64 million compared to the earlier quarter primarily due to increases in insurance income, mortgage banking income, and investment banking and brokerages fees and commissions. These increases were partially offset by a decrease in other income.

Noninterest expense for the third quarter of 2019 was up $98 million compared to the earlier quarter. Excluding merger-related and restructuring charges and incremental operating expenses related to the merger, noninterest expense was up $30 million.

The provision for income taxes was $218 million for the third quarter of 2019, compared to $210 million for the earlier quarter. This produced an effective tax rate for the third quarter of 2019 of 20.8%, compared to 20.0% for the earlier quarter.

BB&T issued $1.7 billion of preferred stock during the quarter and redeemed a similar amount from two higher-cost issuances. In connection with the redemptions, net income available to common shareholders was reduced by $46 million to recognize the difference in the redemption price and the carrying value.

BB&T declared common dividends of $0.450 per share during the third quarter of 2019, which resulted in a dividend payout ratio of 46.9%. As previously communicated, BB&T has suspended its share repurchase program due to the merger-of-equals.

Analysis of Results of Operations

Net Interest Income and NIM

Third Quarter 2019 compared to Third Quarter 2018

Net interest income on a TE basis was $1.7 billion for the third quarter of 2019, an increase of $9 million compared to the same period in 2018. Interest income increased $145 million, which reflects higher rates and loan growth. Interest expense increased $136 million primarily due to higher funding costs reflecting the impact of rate increases.

Net interest margin was 3.37%, down ten basis points compared to the earlier quarter. Average earning assets increased $7.2 billion. The increase in average earning assets reflects a $4.6 billion increase in average total loans and leases and a $2.6 billion increase in average securities. Average interest-bearing liabilities increased $7.1 billion compared to the earlier quarter. Average interest-bearing deposits increased $6.4 billion and average short-term borrowings increased $2.3 billion, while average long-term debt decreased $1.6 billion. The yield on the total loan portfolio for the third quarter of 2019 was 4.98%, up 15 basis points compared to the earlier quarter, reflecting the impact of rate increases. The yield on the average securities portfolio was 2.60%, up 13 basis points compared to the earlier period.

The average cost of total deposits was 0.67%, up 24 basis points compared to the earlier quarter. The average cost of interest-bearing deposits was 0.99%, up 33 basis points compared to the earlier quarter. The average rate on long-term debt was 3.42%, up 43 basis points compared to the earlier quarter. The average rate on short-term borrowings was 2.55%, up 61 basis points compared to the earlier quarter. The higher rates on interest-bearing liabilities reflect the impact of rate increases.

Nine Months of 2019 compared to Nine Months of 2018

Net interest income on a TE basis was $5.2 billion for the nine months ended September 30, 2019, an increase of $108 million compared to the same period in 2018. Interest income increased $612 million, which reflects higher rates and loan growth. Interest expense increased $504 million primarily due to higher funding costs reflecting the impact of rate increases.

Net interest margin was 3.43% for the nine months ended September 30, 2019, down two basis points compared to the same period of 2018. The yield for the total loan portfolio for the nine months ended September 30, 2019 was 5.03%, up 33 basis points compared to the corresponding period of 2018. The increase was primarily due to rate increases. The yield on the average securities portfolio for the nine months ended September 30, 2019 was 2.61%, up 13 basis points compared to the same period of 2018.

The average cost of total deposits for the nine months ended September 30, 2019 was 0.66%, up 29 basis points compared to the prior year. The average cost of interest-bearing deposits for the nine months ended September 30, 2019 was 0.99%, up 42 basis points compared to the prior year. The average rate on short-term borrowings was 2.44% for the nine months ended September 30, 2019, up 72 basis points compared to the same period in 2018. The average rate on long-term debt for the nine months ended September 30, 2019 was 3.35%, up 57 basis points compared to the same period in 2018. The higher rates on interest-bearing liabilities reflect the impact of rate increases.

The major components of net interest income and the related annualized yields and rates as well as the variances between the periods caused by changes in interest rates versus changes in volumes are summarized below.

Table 1-1: TE Net Interest Income and Rate / Volume Analysis (1)

Three Months Ended September 30, (Dollars in millions)	Average Balances (6)		Annualized Yield/ Rate		Income/Expense		Incr. (Decr.)	Change due to	
	2019	2018	2019	2018	2019	2018		Rate	Volume
Assets									
Total securities, at amortized cost: (2)									
U.S. Treasury	$ 2,240	$ 3,561	2.04%	1.80%	$ 11	$ 15	$ (4)	$ 2	$ (6)
GSE	2,449	2,399	2.25	2.23	14	13	1	—	1
Agency MBS	43,415	39,111	2.57	2.45	279	239	40	12	28
States and political subdivisions	566	849	3.44	3.50	5	10	(5)	—	(5)
Non-agency MBS	198	340	18.77	11.32	9	8	1	5	(4)
Other	32	39	3.67	3.79	—	1	(1)	—	(1)
Total securities	48,900	46,299	2.60	2.47	318	286	32	19	13
Other earning assets (3)	2,466	2,412	2.67	2.52	17	15	2	2	—
Loans and leases, net of unearned income: (4)(5)									
Commercial and industrial	63,768	59,900	4.18	4.04	671	612	59	21	38
CRE	20,767	21,496	4.88	4.80	256	260	(4)	4	(8)
Lease financing	2,260	1,941	3.17	3.04	18	17	1	—	1
Residential mortgage	28,410	30,500	4.02	4.08	285	313	(28)	(5)	(23)
Direct	11,468	11,613	5.75	5.34	166	155	11	13	(2)
Indirect	18,362	17,282	8.04	7.56	372	335	37	19	18
Revolving credit	3,218	2,947	9.61	9.47	78	63	15	2	13
PCI	411	518	24.23	20.14	25	26	(1)	5	(6)
Total loans and leases HFI	148,664	146,197	5.00	4.83	1,871	1,781	90	59	31
LHFS	3,378	1,292	4.16	4.28	35	14	21	—	21
Total loans and leases	152,042	147,489	4.98	4.83	1,906	1,795	111	59	52
Total earning assets	203,408	196,200	4.38	4.24	2,241	2,096	145	80	65
Nonearning assets	29,012	26,474							
Total assets	$ 232,420	$ 222,674							
Liabilities and Shareholders' Equity									
Interest-bearing deposits:									
Interest-checking	$ 27,664	$ 26,655	0.67	0.45	47	28	19	18	1
Money market and savings	64,920	62,957	0.95	0.68	156	109	47	44	3
Time deposits	16,643	13,353	1.62	0.98	67	34	33	24	9
Foreign office deposits - interest-bearing	265	132	2.13	1.93	1	1	—	—	—
Total interest-bearing deposits (7)	109,492	103,097	0.99	0.66	271	172	99	86	13
Short-term borrowings	8,307	6,023	2.55	1.94	54	29	25	11	14
Long-term debt	22,608	24,211	3.42	2.99	193	181	12	25	(13)
Total interest-bearing liabilities	140,407	133,331	1.47	1.14	518	382	136	122	14
Noninterest-bearing deposits (7)	52,500	54,174							
Other liabilities	6,769	5,282							
Shareholders' equity	32,744	29,887							
Total liabilities and shareholders' equity	$ 232,420	$ 222,674							
Average interest-rate spread			2.91%	3.10%					
NIM/net interest income			3.37%	3.47%	$ 1,723	$ 1,714	$ 9	$ (42)	$ 51
Taxable-equivalent adjustment					$ 23	$ 27			

(1) Yields are stated on a TE basis utilizing the marginal income tax rates. The change in interest not solely due to changes in rate or volume has been allocated on a pro-rata basis based on the absolute dollar amount of each.
(2) Total securities include AFS and HTM securities.
(3) Includes cash equivalents, interest-bearing deposits with banks, trading securities, FHLB stock and other earning assets.
(4) Loan fees, which are not material for any of the periods shown, are included for rate calculation purposes.
(5) NPLs are included in the average balances.
(6) Excludes basis adjustments for fair value hedges.
(7) Total deposit costs were 0.67% and 0.43% for the three months ended September 30, 2019 and 2018, respectively.

Table 1-2: TE Net Interest Income and Rate / Volume Analysis (1)

Nine Months Ended September 30, (Dollars in millions)	Average Balances (6) 2019	Average Balances (6) 2018	Annualized Yield/Rate 2019	Annualized Yield/Rate 2018	Income/Expense 2019	Income/Expense 2018	Incr. (Decr.)	Change due to Rate	Change due to Volume
Assets									
Total securities, at amortized cost: (2)									
U.S. Treasury	$ 2,731	$ 3,546	2.03%	1.79%	$ 41	$ 47	$ (6)	$ 6	$ (12)
GSE	2,436	2,390	2.25	2.23	41	40	1	—	1
Agency MBS	41,202	39,894	2.57	2.44	795	728	67	42	25
States and political subdivisions	583	1,036	3.85	3.71	17	29	(12)	1	(13)
Non-agency MBS	271	356	14.34	12.06	29	32	(3)	5	(8)
Other	34	43	3.83	3.05	1	1	—	—	—
Total securities	47,257	47,265	2.61	2.48	924	877	47	54	(7)
Other earning assets (3)	2,612	2,287	3.57	3.09	70	53	17	9	8
Loans and leases, net of unearned income: (4)(5)									
Commercial and industrial	62,576	59,363	4.28	3.89	2,006	1,729	277	180	97
CRE	20,806	21,480	4.99	4.64	777	746	31	55	(24)
Lease financing	2,135	1,892	3.26	3.03	52	43	9	3	6
Residential mortgage	30,604	29,538	4.05	4.03	930	893	37	4	33
Direct	11,489	11,694	5.77	5.11	495	446	49	57	(8)
Indirect	17,863	17,002	7.98	7.45	1,066	950	116	68	48
Revolving credit	3,160	2,859	9.50	9.19	225	197	28	7	21
PCI	433	569	21.20	19.40	69	82	(13)	7	(20)
Total loans and leases HFI	149,066	144,397	5.04	4.71	5,620	5,086	534	381	153
LHFS	1,742	1,332	4.17	4.01	54	40	14	2	12
Total loans and leases	150,808	145,729	5.03	4.70	5,674	5,126	548	383	165
Total earning assets	200,677	195,281	4.44	4.14	6,668	6,056	612	446	166
Nonearning assets	28,429	26,536							
Total assets	$ 229,106	$ 221,817							
Liabilities and Shareholders' Equity									
Interest-bearing deposits:									
Interest-checking	$ 27,665	$ 26,962	0.64	0.41	132	82	50	48	2
Money market and savings	63,885	62,256	0.98	0.56	469	262	207	200	7
Time deposits	16,256	13,720	1.57	0.84	190	87	103	85	18
Foreign office deposits - interest-bearing	355	577	2.36	1.60	6	7	(1)	3	(4)
Total interest-bearing deposits (7)	108,161	103,515	0.99	0.57	797	438	359	336	23
Short-term borrowings	7,443	5,609	2.44	1.72	136	72	64	36	28
Long-term debt	23,027	23,845	3.35	2.78	578	497	81	99	(18)
Total interest-bearing liabilities	138,631	132,969	1.46	1.01	1,511	1,007	504	471	33
Noninterest-bearing deposits (7)	52,489	53,847							
Other liabilities	6,449	5,333							
Shareholders' equity	31,537	29,668							
Total liabilities and shareholders' equity	$ 229,106	$ 221,817							
Average interest-rate spread			2.98%	3.13%					
NIM/net interest income			3.43%	3.45%	$ 5,157	$ 5,049	$ 108	$ (25)	$ 133
Taxable-equivalent adjustment					$ 71	$ 72			

(1) Yields are stated on a TE basis utilizing the marginal income tax rates. The change in interest not solely due to changes in rate or volume has been allocated on a pro-rata basis based on the absolute dollar amount of each.
(2) Total securities include AFS and HTM securities.
(3) Includes cash equivalents, interest-bearing deposits with banks, trading securities, FHLB stock and other earning assets.
(4) Loan fees, which are not material for any of the periods shown, are included for rate calculation purposes.
(5) NPLs are included in the average balances.
(6) Excludes basis adjustments for fair value hedges.
(7) Total deposit costs were 0.66% and 0.37% for the nine months ended September 30, 2019 and 2018, respectively.

Provision for Credit Losses

Third Quarter 2019 compared to Third Quarter 2018

The provision for credit losses was $117 million compared to $135 million for the earlier quarter. The decrease in the provision for credit losses was primarily due to the residential mortgage loan sale in the current quarter and a decrease in the reserve for unfunded commitments. The decrease in the reserve for unfunded commitments was due to the resolution of a commercial credit. Net charge-offs for the third quarter of 2019 totaled $153 million compared to $127 million in the earlier period.

Net charge-offs were 0.41% of average loans and leases on an annualized basis for the third quarter of 2019, up six basis points compared to the third quarter of 2018. The increase in net charge-offs was primarily related to indirect and direct loans, as well as revolving credit.

Nine Months of 2019 compared to Nine Months of 2018

The provision for credit losses totaled $444 million for the nine months ended September 30, 2019, compared to $420 million for 2018. Net charge-offs for the nine months ended September 30, 2019 were $442 million, compared to $381 million for the nine months ended September 30, 2018.

Net charge-offs were 0.40% of average loans and leases for the nine months ended September 30, 2019, compared to 0.35% of average loans and leases for 2018. The increase in net charge-offs was primarily related to CRE, indirect and revolving credit loans.

Noninterest Income

Noninterest income is a significant contributor to BB&T's financial results. Management focuses on diversifying its sources of revenue to further reduce BB&T's reliance on traditional spread-based interest income, as certain fee-based activities are a relatively stable revenue source during periods of changing interest rates.

Table 2: Noninterest Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2019	2018	% Change	2019	2018	% Change
Insurance income	$ 487	$ 448	8.7%	$ 1,563	$ 1,365	14.5%
Service charges on deposits	188	183	2.7	540	527	2.5
Investment banking and brokerage fees and commissions	130	116	12.1	372	338	10.1
Mortgage banking income	112	79	41.8	288	272	5.9
Trust and investment advisory revenues	71	71	—	209	215	(2.8)
Bankcard fees and merchant discounts	72	72	—	219	213	2.8
Checkcard fees	57	56	1.8	171	165	3.6
Operating lease income	36	37	(2.7)	106	110	(3.6)
Income from bank-owned life insurance	29	27	7.4	91	88	3.4
Securities gains (losses), net	—	—	—	—	1	NM
Other income	121	150	(19.3)	298	347	(14.1)
Total noninterest income	$ 1,303	$ 1,239	5.2	$ 3,857	$ 3,641	5.9

Third Quarter 2019 compared to Third Quarter 2018

Noninterest income for the third quarter of 2019 increased $64 million compared to the earlier quarter. Insurance income increased $39 million due to higher production. Mortgage banking income increased $33 million primarily due to higher production revenues from both residential and commercial mortgage banking businesses. Investment banking and brokerage fees and commissions increased $14 million due to higher managed account fees and higher investment banking transaction revenues. Other income decreased $29 million primarily due to a decrease in income from SBIC private equity investments.

Nine Months of 2019 compared to Nine Months of 2018

Noninterest income for the nine months ended September 30, 2019 was $3.9 billion, up $216 million compared to 2018. Insurance income was $1.6 billion, up $198 million compared to 2018 due to higher production levels and the acquisition of Regions Insurance. Investment banking and brokerage fees and commissions were $372 million, up $34 million compared to 2018 due to higher managed account fees and higher investment banking income. Mortgage banking income was $288 million, up $16 million compared to 2018 primarily due to an increase of $34 million for net mortgage servicing rights valuation adjustments, partially offset by lower production-related revenues due to lower sales volumes. Other income was $298 million, down $49 million compared to 2018 due to lower income from SBIC private equity investments and other sundry items.

Noninterest Expense

The following table provides a breakdown of BB&T's noninterest expense:

Table 3: Noninterest Expense

(Dollars in millions)	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	% Change	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018	% Change
Personnel expense	$ 1,161	$ 1,104	5.2%	$ 3,368	$ 3,217	4.7%
Occupancy and equipment expense	186	189	(1.6)	557	570	(2.3)
Software expense	77	70	10.0	220	202	8.9
Outside IT services	28	33	(15.2)	87	97	(10.3)
Regulatory charges	20	37	(45.9)	57	116	(50.9)
Amortization of intangibles	29	33	(12.1)	93	97	(4.1)
Loan-related expense	26	28	(7.1)	81	83	(2.4)
Professional services	47	33	42.4	109	95	14.7
Merger-related and restructuring charges, net	34	18	88.9	137	70	95.7
Other expense	232	197	17.8	650	601	8.2
Total noninterest expense	$ 1,840	$ 1,742	5.6	$ 5,359	$ 5,148	4.1

Third Quarter 2019 compared to Third Quarter 2018

Noninterest expense for the third quarter of 2019 was up $98 million compared to the earlier quarter. Merger-related and restructuring charges increased $16 million, as the current quarter included charges in connection with the announced merger-of-equals with SunTrust, whereas the earlier quarter included charges associated with facilities optimization and the Regions Insurance acquisition. The current quarter also included $52 million of incremental operating expenses related to the merger. Excluding these charges, noninterest expense was up $30 million, or 1.7% compared to the earlier quarter.

Personnel expense increased $57 million compared to the earlier quarter. Excluding an increase of $39 million in incremental operating expenses related to the merger, personnel expense increased $18 million compared to the earlier quarter. The remaining increase in personnel expense was primarily due to an increase in production-based incentive expense. Professional services expense increased $14 million primarily due to incremental operating expenses related to the merger. Regulatory charges decreased $17 million, primarily the result of the deposit insurance fund reaching the targeted level. Other expense increased $35 million due to higher non-service related pension expense, higher operating charge-offs, higher advertising and marketing expenses and other sundry items.

Nine Months of 2019 compared to Nine Months of 2018

Noninterest expense totaled $5.4 billion for the nine months ended September 30, 2019, an increase of $211 million, or 4.1%, from the same period in the prior year. Merger-related and restructuring expense was $137 million, an increase of $67 million, primarily due to the announced merger-of-equals with SunTrust. Additionally, the nine months ended September 30, 2019 included $63 million of incremental operating expenses related to the merger. Excluding these charges, noninterest expense was up $81 million or 1.6% compared to the earlier period.

Personnel expense was $3.4 billion for the nine months ended September 30, 2019, an increase of $151 million compared to the nine months ended September 30, 2018. Excluding $43 million of incremental operating expenses related to the merger, personnel expense increased $108 million, primarily due to higher production-based incentives, including the impact from the Regions Insurance acquisition and lower capitalized employee costs. The lower capitalized employee costs reflect efficiencies in the loan closing process. Regulatory charges decreased $59 million primarily as a result of the DIF reaching the targeted level. Other expense increased $49 million due to higher non-service related pension expense, higher operating charge-offs, higher advertising and marketing expenses and other sundry items.

Merger-Related and Restructuring Charges

The following table presents a summary of merger-related and restructuring charges and the related accruals:

Table 4: Merger-Related and Restructuring Accrual Activity

(Dollars in millions)	Accrual at Jul 1, 2019	Expense	Utilized	Accrual at Sep 30, 2019	Accrual at Jan 1, 2019	Expense	Utilized	Accrual at Sep 30, 2019
Severance and personnel-related	$ 8	$ 14	$ (10)	$ 12	$ 43	$ 35	$ (66)	$ 12
Occupancy and equipment (1)	—	1	(1)	—	—	13	(13)	—
Professional services	53	15	(6)	62	1	75	(14)	62
Other adjustments	1	4	(5)	—	—	14	(14)	—
Total	$ 62	$ 34	$ (22)	$ 74	$ 44	$ 137	$ (107)	$ 74

(1) Certain lease reserves are no longer required as a result of new lease accounting guidance adopted in the first quarter of 2019. See additional information in Note 1. Basis of Presentation.

Provision for Income Taxes

Third Quarter 2019 compared to Third Quarter 2018

The provision for income taxes was $218 million for the third quarter of 2019, compared to $210 million for the earlier quarter. This produced an effective tax rate for the third quarter of 2019 of 20.8%, compared to 20.0% for the earlier quarter.

Nine Months of 2019 compared to Nine Months of 2018

The provision for income taxes was $629 million for the nine months ended September 30, 2019, compared to $598 million for 2018. This produced an effective tax rate for the nine months ended September 30, 2019 of 20.0%, compared to 19.6% for 2018.

Segment Results

See Note 18. Operating Segments herein and Note 19. Operating Segments in BB&T's Annual Report on Form 10-K for the year ended December 31, 2018, for additional disclosures related to BB&T's reportable business segments. Fluctuations in noninterest income and noninterest expense incurred directly by the segments are more fully discussed in the Noninterest Income and Noninterest Expense sections above.

Table 5: Net Income by Reportable Segment

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2019	2018	% Change	2019	2018	% Change
Community Banking Retail and Consumer Finance	$ 446	$ 396	12.6%	$ 1,269	$ 1,112	14.1%
Community Banking Commercial	338	311	8.7	985	859	14.7
Financial Services and Commercial Finance	185	149	24.2	510	438	16.4
Insurance Holdings	61	43	41.9	260	177	46.9
Other, Treasury & Corporate	(202)	(60)	NM	(513)	(134)	NM
BB&T Corporation	$ 828	$ 839	(1.3)	$ 2,511	$ 2,452	2.4

Third Quarter 2019 compared to Third Quarter 2018

Community Banking Retail and Consumer Finance

CB-Retail serves retail clients by offering a variety of loan and deposit products, payment services, bankcard products and other financial services by connecting clients to a wide range of financial products and services. CB-Retail includes Dealer Retail Services, which originates loans on an indirect basis to consumers for the purchase of automobiles, boats and recreational vehicles. Additionally, CB-Retail includes specialty finance lending, small equipment leasing and other products for consumers. CB-Retail also includes Residential Mortgage Banking, which originates and purchases mortgage loans to either hold for investment or sell to third parties. BB&T generally retains the servicing rights to loans sold. Mortgage products include fixed and adjustable-rate government guaranteed and conventional loans used for the purpose of constructing, purchasing or refinancing residential properties. Substantially all of the properties are owner-occupied. Residential Mortgage Banking also includes Mortgage Warehouse Lending, which provides short-term lending solutions to finance first-lien residential mortgages held-for-sale by independent mortgage companies.

CB-Retail net income was $446 million for the third quarter of 2019, an increase of $50 million compared to the earlier quarter. Segment net interest income increased $56 million primarily due to average loan growth and higher funding spreads on deposits, partially offset by lower credit spreads on loans. Noninterest income increased $25 million primarily due to an increase in mortgage banking income primarily resulting from an increase in saleable lock volume and portfolio sales. The allocated provision for credit losses decreased $6 million primarily due to the impact of the residential mortgage portfolio sale in the current quarter, partially offset by higher net charge-offs and incurred loss estimates in the current quarter. Noninterest expense increased $24 million primarily due to higher allocated corporate expense.

CB-Retail average loans and leases held for investment increased $83 million, or 0.1%, compared to the earlier quarter. The increase was primarily driven by increases in average indirect lending of $1.1 billion, or 6.3%, and average mortgage warehouse lending of $938 million, or 61.3%, partially offset by a decline in average residential mortgage loans of $2.1 billion, or 6.8%, due to the residential mortgage portfolio sale.

CB-Retail average total deposits increased $481 million, or 0.6%, compared to the earlier quarter. The increase was primarily driven by growth in average money market and savings of $1.0 billion, or 2.9%, and average noninterest-bearing deposits of $513 million, or 3.0%, partially offset by a decline in interest checking of $1.2 billion, or 7.8%.

Community Banking Commercial

CB-Commercial serves large, medium and small business clients by offering a variety of loan and deposit products and connecting clients to the combined organization's broad array of financial services. CB-Commercial includes CRE lending, commercial and industrial lending, corporate banking, asset-based lending, dealer inventory financing, tax-exempt financing, cash management and treasury services, and commercial deposit products.

CB-Commercial net income was $338 million for the third quarter of 2019, an increase of $27 million compared to the earlier quarter. Segment net interest income increased $17 million primarily driven by higher funding spreads, partially offset by lower credit spreads on loans and declines in average loans. Noninterest income increased compared to the earlier quarter primarily due to higher referral fees and service charges on deposits in the current quarter. The allocated provision for credit losses decreased primarily due to lower incurred loss estimates, partially offset by higher net charge-offs. Noninterest expense decreased primarily due to lower allocated corporate expenses, partially offset by lower credits for capitalized employee costs.

CB-Commercial average loans and leases held for investment decreased $335 million, or 0.6%, compared to the earlier quarter. Average commercial real estate loans declined $612 million, or 3.1%, partially offset by increases in average commercial and industrial loans of $318 million, or 1.0%. Average total deposits increased $737 million, or 1.2%, compared to the earlier quarter driven by an increase in interest checking of $1.6 billion, or 19.4%, and average money market and savings of $955 million, or 6.0%, partially offset by a decline in noninterest-bearing deposits of $1.8 billion, or 5.3%.

Financial Services and Commercial Finance

FS&CF provides personal trust administration, estate planning, investment counseling, wealth management, asset management, corporate retirement services, capital markets and corporate banking services, specialty finance and corporate trust services to individuals, corporations, institutions, foundations and government entities. In addition, the segment includes BB&T Securities, a full-service brokerage and investment banking firm, which offers clients a variety of investment services, including discount brokerage services, equities, annuities, mutual funds and government bonds. The Corporate Banking Division originates and services large corporate relationships, syndicated lending relationships and client derivatives while the specialty finance products offered by FS&CF include equipment finance, tax-exempt financing for local governments and special-purpose entities, and full-service commercial mortgage banking lending.

FS&CF net income was $185 million for the third quarter of 2019, an increase of $36 million compared to the earlier quarter. Segment net interest income increased $17 million primarily driven by average loan growth and higher funding spreads, partially offset by lower credit spreads on loans. Noninterest income increased $43 million primarily due to client derivatives, an increase in investment banking and brokerage fees and commissions related to an increase in managed account fees; and higher commercial mortgage banking income. Noninterest expense increased $15 million primarily due to higher performance-based incentives in the current quarter.

FS&CF average loans and leases held for investment increased $2.8 billion, or 10.3%, compared to the earlier quarter. The increase was primarily driven by growth in Corporate Banking loans of $2.2 billion, or 14.4%, and Equipment Finance loans and leases of $774 million, or 26.8%, partially offset by a decline in Governmental Finance loans of $311 million, or 6.1%.

FS&CF average total deposits increased $350 million, or 1.2%, compared to the earlier quarter primarily driven by growth in average total deposits for Wealth and Retirement Services of $677 million, or 4.2%, partially offset by declines in average total deposits for Corporate Banking of $465 million, or 5.4%.

Insurance Holdings

BB&T's insurance agency / brokerage network is the sixth largest in the world. IH provides property and casualty, employee benefits and life insurance to businesses and individuals. It also provides small business and corporate services, such as workers compensation and professional liability, as well as surety coverage and title insurance. In addition, IH includes commercial and retail insurance premium finance.

IH net income was $61 million for the third quarter of 2019, an increase of $18 million compared to the earlier quarter. Noninterest income increased $39 million primarily due to higher production. Noninterest expense increased $19 million primarily due to commissions on higher production and incremental operating expenses related to the merger.

Other, Treasury & Corporate

Net income in OT&C can vary due to the changing needs of the Corporation, including the size of the investment portfolio, the need for wholesale funding and income received from derivatives used to hedge the balance sheet.

OT&C generated a net loss of $202 million in the third quarter of 2019, compared to a net loss of $60 million in the earlier quarter. Segment net interest income decreased $82 million primarily due to increases in the net credit for funds provided to other operating segments and rates on long-term debt. Noninterest income decreased $49 million primarily due to a decrease in income from SBIC private equity investments and income related to assets for certain post-employment benefits. The allocated provision for credit losses decreased $5 million primarily due to the provision for unfunded commitments. Noninterest expense increased $43 million primarily due to higher merger-related charges and other sundry items. The benefit for income taxes increased $27 million primarily due to a higher pre-tax loss, partially offset by a higher tax benefit from discrete items in the earlier quarter.

Nine Months of 2019 compared to Nine Months of 2018

Community Banking Retail and Consumer Finance

CB-Retail net income was $1.3 billion for the nine months ended September 30, 2019, an increase of $157 million, or 14.1%, compared to the same period of the prior year. Segment net interest income increased $176 million primarily due to average loan growth and higher funding spreads, partially offset by lower credit spreads on loans. Noninterest income increased $39 million primarily due to an increase in mortgage banking income, service charges on deposits, and bankcard fees and merchant discounts. The allocated provision for credit losses increased $14 million primarily due to higher net charge-offs, partially offset by declines in average loan balances resulting from the residential mortgage portfolio sale. The allocated provision for income taxes increased $41 million due to higher pre-tax income.

CB-Retail average loans and leases HFI increased $2.5 billion, or 3.9%, compared to the earlier period. Average residential mortgage loans increased $1.1 billion, or 3.6%, average indirect retail loans increased $869 million, or 5.1%, average mortgage warehouse lending increased $424 million, or 31.2%, and average revolving credit increased $302 million, or 10.6%.

CB-Retail average total deposits increased $256 million, or 0.3%, compared to the earlier period. Average money market and savings increased $889 million, or 2.5%, and average noninterest-bearing deposits increased $455 million, or 2.7%, while average interest checking decreased $1.2 billion, or 7.6%.

Community Banking Commercial

CB-Commercial net income was $985 million for the nine months ended September 30, 2019, an increase of $126 million, or 14.7%, compared to the same period of the prior year. Segment net interest income increased $107 million driven primarily by higher funding spreads. Noninterest income increased $14 million primarily due to higher net referral fees. The allocated provision for credit losses decreased $27 million primarily due to a decrease in incurred loss estimates.

CB-Commercial average loans and leases HFI were essentially flat compared with the earlier period. Average commercial real estate loans decreased $648 million or 3.3%, while average commercial and industrial loans increased $622 million, or 1.9%.

CB-Commercial average total deposits increased $139 million, or 0.2%, compared to the earlier period. Average interest checking increased $805 million, or 9.4% and average money market and savings increased $758 million, or 4.9%, while average noninterest-bearing deposits declined $1.5 billion, or 4.4%.

Financial Services and Commercial Finance

FS&CF net income was $510 million for the nine months ended September 30, 2019, an increase of $72 million, or 16.4%, compared to the same period of the prior year. Segment net interest income increased $71 million primarily due to higher average loan growth. Noninterest income increased $52 million primarily due to higher revenue from client derivatives and managed account fees, investment commissions, and investment banking transactions, partially offset by declines in commercial mortgage banking income primarily due to a decline in revenue from net commercial mortgage servicing rights. The allocated provision for credit losses increased $21 million primarily due to reserve rate changes driven by overall credit improvement in the earlier period. Noninterest expense increased $11 million primarily due to higher personnel expense, partially offset by lower allocated corporate expenses.

FS&CF average loans and leases HFI increased $2.4 billion, or 9.0%, compared to the earlier period. Average loans and leases HFI for Corporate Banking and Equipment Finance increased $2.0 billion, or 13.2%, and $531 million, or 18.8%, respectively. FS&CF average total deposits increased $376 million, or 1.3%, compared to the earlier period primarily driven by growth in average total deposits for Wealth and Retirement Services of $469 million, or 2.9%.

Client invested assets totaled $173.1 billion as of September 30, 2019, an increase of $5.3 billion, or 3.2%, compared to the earlier period.

Insurance Holdings

IH net income was $260 million for the nine months ended September 30, 2019, an increase of $83 million, or 46.9%, compared to the same period of the prior year. Noninterest income increased $201 million due to organic growth and the acquisition of Regions Insurance, which contributed $78 million. Noninterest expense increased $97 million primarily due to the acquisition of Regions Insurance and commissions on higher production.

Other, Treasury & Corporate

OT&C generated a net loss of $513 million for the nine months ended September 30, 2019, compared to a net loss of $134 million for the earlier period. Segment net interest income decreased $257 million primarily due to an increase in the net credit for funds provided to other operating segments, an increased net cost for long-term debt and short-term borrowings, and a decline in volume for short-term borrowings, partially offset by increased spreads on securities. Noninterest income decreased $90 million primarily due to lower hedge and client derivative income, income related to assets for certain post-employment benefits and income from SBIC private equity investments. The allocated provision for credit losses increased $11 million primarily due to an increase in the provision for PCI loans as a result of an allowance release in the earlier period. Noninterest expense increased $104 million due to merger-related charges in the current period, as well as higher personnel expense resulting from capitalized employee costs allocated to the segments in the current period and other sundry items, which were partially offset by lower regulatory charges. The benefit for income taxes increased $83 million primarily due to an increase in pre-tax loss, partially offset by a lower tax benefit from discrete items compared to the earlier period.

Analysis of Financial Condition

Investment Activities

The securities portfolio totaled $54.8 billion at September 30, 2019, compared to $45.6 billion at December 31, 2018. The increase in the securities portfolio was primarily due to investing the proceeds from the sale of $4.3 billion in residential mortgage loans and an investment totaling approximately $5 billion in Agency MBS to increase HQLA securities in anticipation of the merger closing.

As of September 30, 2019, approximately 5.2% of the securities portfolio was variable rate, compared to 6.5% as of December 31, 2018. The effective duration of the securities portfolio was 4.1 years at September 30, 2019, compared to 4.8 years at December 31, 2018. The duration of the securities portfolio excludes certain non-agency MBS.

U.S. Treasury, GSE and Agency MBS represented 98.2% of the total securities portfolio as of September 30, 2019, compared to 97.3% as of prior year end.

In the fourth quarter of 2019, approximately $7.2 billion in Agency MBS was sold and reinvested in similar assets to improve the portfolio run rate and ensure the appropriate mix of HQLA to meet future LCR requirements in anticipation of the merger closing. The sale is expected to incur a pre-tax loss of approximately $95 million upon final settlement and the reinvested assets will have a payback period of approximately 2.6 years.

Lending Activities

Loans HFI totaled $149.4 billion at September 30, 2019, compared to $149.0 billion at December 31, 2018. Management continuously evaluates the composition of the loan portfolio taking into consideration the current and expected market conditions, interest rate environment and risk profiles to optimize profitability. Based upon this evaluation, management may decide to focus efforts on growing or decreasing exposures in certain portfolios through both organic changes and portfolio acquisitions or sales. In this regard, management made the strategic decision to sell $4.3 billion of residential mortgage loans during the third quarter of 2019. The sale resulted in a pre-tax benefit of $20 million for the quarter, which was composed of a $4 million gain on sale and a $16 million release from the allowance for loan losses.

Certain residential mortgage loans have an initial period where the borrower is only required to pay the periodic interest. After the interest-only period, the loan will require the payment of both interest and principal over the remaining term. The outstanding balances of variable rate residential mortgage loans in the interest-only phase were approximately $50 million and $64 million at September 30, 2019 and December 31, 2018, respectively. At September 30, 2019, approximately 100.0% of the interest-only balances will begin amortizing within the next three years compared to 95.9% at December 31, 2018.

The direct retail portfolio includes variable rate home equity lines and other lines of credit whose rate typically reset on a monthly basis. Home equity lines generally require interest-only payments during the first 15 years after origination. After this initial period, the outstanding balance begins amortizing and requires the payment of both interest and principal. The following table presents additional information over variable rate lines of credit:

Table 6: Variable Rate Lines of Credit

	Home Equity Lines		Other Lines of Credit	
(Dollars in millions)	Sep 30, 2019	Dec 31, 2018	Sep 30, 2019	Dec 31, 2018
Total variable rate lines	$ 6,672	$ 7,201	$ 1,080	$ 1,067
Amount in interest-only phase	5,384	5,730	978	949
Percent in interest-only phase that will begin amortizing within 3 years	11.1%	10.3%	13.4%	15.9%

The following table presents the most recent composition of average loans and leases:

Table 7: Composition of Average Loans and Leases

For the Three Months Ended (Dollars in millions)	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
Commercial:					
Commercial and industrial	$ 63,768	$ 62,563	$ 61,370	$ 60,553	$ 59,900
CRE	20,767	20,748	20,905	21,301	21,496
Lease financing	2,260	2,122	2,021	1,990	1,941
Retail:					
Residential mortgage	28,410	32,066	31,370	31,103	30,500
Direct	11,468	11,506	11,493	11,600	11,613
Indirect	18,362	17,879	17,337	17,436	17,282
Revolving credit	3,218	3,151	3,110	3,070	2,947
PCI	411	432	455	486	518
Total average loans and leases HFI	$ 148,664	$ 150,467	$ 148,061	$ 147,539	$ 146,197

Average loans held for investment for the third quarter of 2019 were $148.7 billion, down $1.8 billion or 4.8% annualized compared to the second quarter of 2019. Excluding the sale of $4.3 billion of residential mortgages in the third quarter, average loans held for investment increased 6.5% annualized compared to the second quarter of 2019.

Average commercial and industrial loans increased $1.2 billion driven by strong growth in mortgage warehouse lending, premium finance, corporate banking and equipment finance.

Average residential mortgage loans held for investment decreased $3.7 billion primarily due to the sale of $4.3 billion of residential mortgage loans. Excluding the sale, average residential mortgage loans increased 7.4% annualized compared to the prior quarter.

Average indirect retail loans increased $483 million. The increase was across all categories of indirect lending. Growth was led by power sports, recreational and automobile lending.

Asset Quality

The following tables summarize asset quality information for the past five quarters:

Table 8: Asset Quality

(Dollars in millions)	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
NPAs:					
NPLs:					
Commercial and industrial	$ 172	$ 193	$ 196	$ 200	$ 238
CRE	29	33	75	65	46
Lease financing	2	2	1	3	6
Residential mortgage	106	104	121	119	120
Direct	56	54	53	53	55
Indirect	82	75	80	82	72
Total NPLs HFI	447	461	526	522	537
Foreclosed real estate	33	36	33	35	39
Other foreclosed property	29	26	25	28	25
Total nonperforming assets (1)	$ 509	$ 523	$ 584	$ 585	$ 601
Performing TDRs:					
Commercial and industrial	$ 69	$ 84	$ 63	$ 65	$ 56
CRE	7	8	9	10	12
Residential mortgage	570	581	669	656	643
Direct	52	53	54	55	56
Indirect	328	315	306	305	295
Revolving credit	31	29	29	28	28
Total performing TDRs (2)(3)	$ 1,057	$ 1,070	$ 1,130	$ 1,119	$ 1,090
Loans 90 days or more past due and still accruing:					
Residential mortgage	$ 347	$ 350	$ 377	$ 405	$ 367
Direct	7	10	7	7	6
Indirect	9	7	5	6	6
Revolving credit	16	14	14	14	12
PCI	24	26	28	30	40
Total loans 90 days or more past due and still accruing	$ 403	$ 407	$ 431	$ 462	$ 431
Loans 30-89 days past due:					
Commercial and industrial	$ 34	$ 32	$ 36	$ 34	$ 35
CRE	1	3	3	5	4
Lease financing	1	5	3	1	1
Residential mortgage	432	480	478	456	510
Direct	54	58	67	61	59
Indirect	423	393	316	436	418
Revolving credit	31	28	27	28	27
PCI	16	17	18	23	21
Total loans 30-89 days past due	$ 992	$ 1,016	$ 948	$ 1,044	$ 1,075

Excludes loans held for sale.

(1) Sales of nonperforming loans totaled $42 million, $48 million, $30 million, $30 million and $20 million for the quarter ended September 30, 2019, June 30, 2019, March 31, 2019, December 31, 2018 and September 30, 2018, respectively.

(2) Excludes TDRs that are nonperforming totaling $115 million, $135 million, $178 million, $176 million and $176 million at September 30, 2019, June 30, 2019, March 31, 2019, December 31, 2018 and September 30, 2018, respectively. These amounts are included in total nonperforming assets.

(3) Sales of performing TDRs, which were primarily residential mortgage loans, totaled $39 million, $120 million, $33 million, $15 million and $34 million for the quarter ended September 30, 2019, June 30, 2019, March 31, 2019, December 31, 2018 and September 30, 2018, respectively.

Nonperforming assets totaled $509 million at September 30, 2019, down $14 million compared to June 30, 2019. Nonperforming loans and leases represented 0.30% of loans and leases held for investment, unchanged compared to June 30, 2019.

Performing TDRs were down $13 million during the third quarter primarily in commercial and industrial loans and residential mortgage loans, which was partially offset by an increase in indirect loans.

Loans 90 days or more past due and still accruing totaled $403 million at September 30, 2019, down slightly compared to the prior quarter. The ratio of loans 90 days or more past due and still accruing as a percentage of loans and leases was 0.27% at September 30, 2019, unchanged compared to the prior quarter. Excluding government guaranteed and PCI loans, the ratio of loans 90 days or more past due and still accruing as a percentage of loans and leases was 0.04% at September 30, 2019, also unchanged from the prior quarter.

Loans 30-89 days past due and still accruing totaled $992 million at September 30, 2019, down $24 million compared to the prior quarter, primarily due to a decline in residential mortgage loans, which was partially offset by an expected seasonal increase in indirect automobile lending.

Problem loans include NPLs and loans that are 90 days or more past due and still accruing as disclosed in Table 8. In addition, for the commercial portfolio segment, loans that are rated special mention or substandard performing are closely monitored by management as potential problem loans. Refer to Note 4. Loans and ACL herein for additional disclosures related to these potential problem loans.

Table 9: Asset Quality Ratios

As of / For the Three Months Ended	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
Loans 30-89 days past due and still accruing as a percentage of loans and leases HFI	0.66%	0.67%	0.64%	0.70%	0.73%
Loans 90 days or more past due and still accruing as a percentage of loans and leases HFI	0.27	0.27	0.29	0.31	0.29
NPLs as a percentage of loans and leases HFI	0.30	0.30	0.35	0.35	0.37
NPAs as a percentage of:					
Total assets	0.22	0.23	0.26	0.26	0.27
Loans and leases HFI plus foreclosed property	0.34	0.34	0.39	0.39	0.41
Net charge-offs as a percentage of average loans and leases HFI	0.41	0.38	0.40	0.38	0.35
ALLL as a percentage of loans and leases HFI	1.05	1.05	1.05	1.05	1.05
Ratio of ALLL to:					
Net charge-offs	2.59x	2.80x	2.62x	2.76x	3.05x
NPLs	3.52x	3.46x	2.97x	2.99x	2.86x
Loans 90 days or more past due and still accruing as a percentage of loans and leases HFI (1)	0.04%	0.04%	0.04%	0.04%	0.04%

Applicable ratios are annualized.

(1) This asset quality ratio has been adjusted to remove the impact of government guaranteed mortgage loans and PCI. Management believes the inclusion of such assets in this asset quality ratio results in distortion of this ratio such that it might not be reflective of asset collectability or might not be comparable to other periods presented or to other portfolios that do not have government guarantees or were not impacted by PCI accounting requirements.

The following table presents activity related to NPAs:

Table 10: Rollforward of NPAs

(Dollars in millions)	2019	2018
Balance, January 1	$ 585	$ 627
New NPAs	904	881
Advances and principal increases	127	336
Disposals of foreclosed assets (1)	(354)	(337)
Disposals of NPLs (2)	(120)	(65)
Charge-offs and losses	(215)	(180)
Payments	(312)	(542)
Transfers to performing status	(106)	(117)
Other, net	—	(2)
Ending balance, September 30	$ 509	$ 601

(1) Includes charge-offs and losses recorded upon sale of $165 million and $159 million for the nine months ended September 30, 2019 and 2018, respectively.

(2) Includes charge-offs and losses recorded upon sale of $20 million and $22 million for the nine months ended September 30, 2019 and 2018, respectively.

TDRs occur when a borrower is experiencing, or is expected to experience, financial difficulties in the near-term and a concession has been granted to the borrower. As a result, BB&T will work with the borrower to prevent further difficulties and ultimately improve the likelihood of recovery on the loan. To facilitate this process, a concessionary modification that would not otherwise be considered may be granted, resulting in classification of the loan as a TDR.

The following table provides a summary of performing TDR activity:

Table 11: Rollforward of Performing TDRs

(Dollars in millions)	2019	2018
Balance, January 1	$ 1,119	$ 1,043
Inflows	404	386
Payments and payoffs	(144)	(126)
Charge-offs	(48)	(47)
Transfers to nonperforming TDRs, net	(57)	(52)
Removal due to the passage of time	(17)	(29)
Non-concessionary re-modifications	(8)	(5)
Transferred to LHFS and/or sold	(192)	(80)
Balance, September 30	$ 1,057	$ 1,090

The following table provides further details regarding the payment status of TDRs outstanding at September 30, 2019:

Table 12: Payment Status of TDRs (1)

September 30, 2019 (Dollars in millions)	Current		Past Due 30-89 Days		Past Due 90 Days Or More		Total
Performing TDRs:							
Commercial:							
Commercial and industrial	$ 69	100.0%	$ —	—%	$ —	—%	$ 69
CRE	7	100.0	—	—	—	—	7
Retail:							
Residential mortgage	313	54.9	105	18.4	152	26.7	570
Direct	49	94.2	3	5.8	—	—	52
Indirect	270	82.3	58	17.7	—	—	328
Revolving credit	27	87.1	3	9.7	1	3.2	31
Total performing TDRs	735	69.5	169	16.0	153	14.5	1,057
Nonperforming TDRs	49	42.6	10	8.7	56	48.7	115
Total TDRs	$ 784	66.9	$ 179	15.3	$ 209	17.8	$ 1,172

(1) Past due performing TDRs are included in past due disclosures and nonperforming TDRs are included in NPL disclosures.

ACL

Activity related to the ACL is presented in the following tables:

Table 13: Activity in ACL

	For the Three Months Ended					For the Nine Months Ended	
(Dollars in millions)	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	2019	2018
Balance, beginning of period	$ 1,689	$ 1,659	$ 1,651	$ 1,648	$ 1,640	$ 1,651	$ 1,609
Provision for credit losses (excluding PCI loans)	117	172	156	147	141	445	436
Provision (benefit) for PCI loans	—	—	(1)	(1)	(6)	(1)	(16)
Charge-offs:							
Commercial and industrial	(28)	(22)	(17)	(18)	(28)	(67)	(74)
CRE	(2)	(18)	(8)	(5)	—	(28)	(8)
Lease financing	(1)	—	(1)	(1)	(1)	(2)	(3)
Residential mortgage	(3)	(5)	(5)	(8)	(4)	(13)	(13)
Direct	(22)	(22)	(18)	(18)	(17)	(62)	(53)
Indirect	(106)	(91)	(109)	(108)	(94)	(306)	(283)
Revolving credit	(27)	(25)	(26)	(22)	(20)	(78)	(62)
PCI	—	—	—	—	(2)	—	(2)
Total charge-offs	(189)	(183)	(184)	(180)	(166)	(556)	(498)
Recoveries:							
Commercial and industrial	5	8	6	7	13	19	32
CRE	3	3	1	4	1	7	4
Lease financing	1	—	—	—	—	1	1
Residential mortgage	—	—	1	1	—	1	1
Direct	6	7	6	5	6	19	18
Indirect	15	19	17	15	15	51	47
Revolving credit	6	4	6	5	4	16	14
Total recoveries	36	41	37	37	39	114	117
Net charge-offs	(153)	(142)	(147)	(143)	(127)	(442)	(381)
Balance, end of period	$ 1,653	$ 1,689	$ 1,659	$ 1,651	$ 1,648	$ 1,653	$ 1,648
ALLL (excluding PCI loans)	$ 1,565	$ 1,587	$ 1,553	$ 1,549	$ 1,528		
ALLL for PCI loans	8	8	8	9	10		
RUFC	80	94	98	93	110		
Total ACL	$ 1,653	$ 1,689	$ 1,659	$ 1,651	$ 1,648		

The ACL consists of the ALLL, which is presented separately on the Consolidated Balance Sheets, and the RUFC, which is included in other liabilities on the Consolidated Balance Sheets. The ACL totaled $1.7 billion at September 30, 2019, up $2 million compared to December 31, 2018.

Net charge-offs during the third quarter totaled $153 million, up $11 million compared to the prior quarter. As a percentage of average loans and leases, annualized net charge-offs were 0.41%, up three basis points compared to the prior quarter.

The allowance for loan and lease losses, excluding the allowance for PCI loans, was $1.6 billion, down $22 million compared to the prior quarter. The decrease in the allowance for loan and lease losses was primarily due to the sale of residential mortgage loans during the third quarter. As of September 30, 2019, the total allowance for loan and lease losses was 1.05% of loans and leases held for investment, unchanged compared to June 30, 2019.

The allowance for loan and lease losses was 3.52 times nonperforming loans and leases held for investment, compared to 3.46 times at June 30, 2019. At September 30, 2019, the allowance for loan and lease losses was 2.59 times annualized net charge-offs, compared to 2.80 times at June 30, 2019.

The following table presents an allocation of the ALLL at the periods shown. This allocation of the ALLL is calculated on an approximate basis and is not necessarily indicative of future losses or allocations. The entire amount of the allowance is available to absorb losses occurring in any category of loans and leases.

Table 14: Allocation of ALLL by Category

	September 30, 2019		December 31, 2018	
(Dollars in millions)	Amount	% Loans in each category	Amount	% Loans in each category
Commercial and industrial	$ 576	42.9%	$ 546	41.5%
CRE	196	14.0	190	14.1
Lease financing	10	1.6	11	1.4
Residential mortgage	199	18.9	232	21.1
Direct	100	7.7	97	7.8
Indirect	362	12.4	356	11.7
Revolving credit	122	2.2	117	2.1
PCI	8	0.3	9	0.3
Total ALLL	1,573	100.0%	1,558	100.0%
RUFC	80		93	
Total ACL	$ 1,653		$ 1,651	

BB&T monitors the performance of its home equity loans and lines secured by second liens similarly to other consumer loans and utilizes assumptions specific to these loans in determining the necessary ALLL. BB&T also receives notification when the first lien holder, whether BB&T or another financial institution, has initiated foreclosure proceedings against the borrower. When notified that the first lien is in the process of foreclosure, BB&T obtains valuations to determine if any additional charge-offs or reserves are warranted. These valuations are updated at least annually thereafter.

BB&T has limited ability to monitor the delinquency status of the first lien, unless the first lien is held or serviced by BB&T. As a result, using migration assumptions that are based on historical experience and adjusted for current trends, BB&T estimates the volume of second lien positions where the first lien is delinquent and adjusts the ALLL to reflect the increased risk of loss on these credits. Finally, BB&T also provides additional reserves for second lien positions when the estimated combined current loan to value ratio for the credit exceeds 100%. As of September 30, 2019, BB&T held or serviced the first lien on 29.4% of its second lien positions.

Funding Activities

Deposits

Deposits totaled $162.3 billion at September 30, 2019, an increase of $1.1 billion from December 31, 2018, primarily due to an increase in foreign office deposits.

The following table presents the most recent composition of average deposits:

Table 15: Composition of Average Deposits

Three Months Ended (Dollars in millions)	Sep 30, 2019	Jun 30, 2019	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018
Noninterest-bearing deposits	$ 52,500	$ 52,680	$ 52,283	$ 53,732	$ 54,174
Interest checking	27,664	27,708	27,622	26,921	26,655
Money market and savings	64,920	63,394	63,325	62,261	62,957
Time deposits	16,643	15,730	16,393	14,682	13,353
Foreign office deposits - interest-bearing	265	379	422	246	132
Total average deposits	$ 161,992	$ 159,891	$ 160,045	$ 157,842	$ 157,271

Average deposits for the third quarter were $162.0 billion, up $2.1 billion compared to the prior quarter. Average money market and savings deposits increased $1.5 billion and average time deposits increased $913 million primarily due to increases in commercial balances.

Noninterest-bearing deposits represented 32.4% of total average deposits for the third quarter, compared to 32.9% for the prior quarter and 34.4% for the same quarter a year ago. The cost of average total deposits was 0.67% for the third quarter, down one basis point compared to the prior quarter. The cost of average interest-bearing deposits was 0.99% for the third quarter, down three basis points compared to the prior quarter.

Borrowings

At September 30, 2019, short-term borrowings totaled $10.4 billion, an increase of $5.2 billion compared to December 31, 2018. Short-term borrowings fluctuate based on the Company's funding needs. Average short-term borrowings were $8.3 billion or 3.6% of total funding in the third quarter of 2019 as compared to $6.0 billion or 2.7% in the same period of 2018.

Long-term debt provides funding and, to a lesser extent, regulatory capital, and primarily consists of senior and subordinated notes issued by BB&T and Branch Bank. Long-term debt totaled $25.5 billion at September 30, 2019, an increase of $1.8 billion compared to December 31, 2018. The increase is primarily due to BB&T issuances of $3.5 billion of senior notes and $650 million of subordinated notes, and Branch Bank issuances of $750 million of subordinated notes; partially offset by the maturities of $1.8 billion of senior notes issued by Branch Bank and $1.6 billion of senior notes issued by BB&T. The average cost of long-term debt was 3.35% for the nine months ended September 30, 2019, up 57 basis points compared to the same period in 2018.

FHLB advances represented 6.4% of total outstanding long-term debt at September 30, 2019, compared to 7.4% at December 31, 2018. See Note 9. Long-Term Debt for additional disclosures.

Shareholders' Equity

Total shareholders' equity was $32.3 billion at September 30, 2019, an increase of $2.1 billion from December 31, 2018. BB&T issued $1.7 billion of preferred stock during the quarter and redeemed a similar amount from two higher-cost issuances. In connection with the redemptions, net income available to common shareholders was reduced by $46 million to recognize the difference in the redemption price and the carrying value. Other significant changes include net income of $2.5 billion and an increase in AOCI of $689 million, which was partially offset by a decrease of $1.1 billion for common and preferred dividends. BB&T's book value per common share at September 30, 2019 was $38.07, compared to $35.46 at December 31, 2018.

Risk Management

BB&T has a strong and consistent risk culture, based on established risk values, which promotes predictable and consistent performance within an environment of open communication and effective challenge. The strong culture influences all associates in the organization daily and helps them evaluate whether risks are acceptable or unacceptable while making decisions that balance quality, profitability and growth appropriately. BB&T's effective risk management framework establishes an environment which enables it to achieve superior performance relative to peers, ensures that BB&T is viewed among the safest of banks and assures the operational freedom to act on opportunities.

BB&T ensures that there is an appropriate return for the amount of risk taken, and that the expected return is in line with its strategic objectives and business plan. Risk-taking activities are evaluated and prioritized to identify those that present attractive risk-adjusted returns while preserving asset value. BB&T only undertakes risks that are understood and can be managed effectively. By managing risk well, BB&T ensures sufficient capital is available to maintain and grow core business operations in a safe and sound manner.

Regardless of financial gain or loss to the Company, associates are held accountable if they do not follow the established risk management policies and procedures. Compensation decisions take into account an associate's adherence to, and successful implementation of, BB&T's risk values. The compensation structure supports the Company's core values and sound risk management practices in an effort to promote judicious risk-taking behavior.

BB&T's risk culture encourages transparency and open dialogue between all levels in the performance of organizational functions, such as the development, marketing and implementation of a product or service.

For the merger of equals, BB&T and SunTrust are utilizing a comprehensive change risk management program to ensure appropriate management of the risks related to merging and integrating the two companies. The Board of Directors and Executive Management oversee the change risk management program to ensure key decisions are reviewed and appropriate oversight of integration risks occurs. The risk management organizations of BB&T and SunTrust are engaged in risk oversight of the merger integration planning. The risk oversight process provides comprehensive risk management reporting and assessments of the activities underway by the companies. The change risk teams, risk oversight teams and Executive Management collectively provide a comprehensive framework for the management, control and oversight of the merger to prepare for the integration.

On July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021. LIBOR in its current form may no longer be available after 2021, which could impact the products listed below. To prepare for the possible transition to an alternative reference rate, management has formed a cross-functional project team to address the LIBOR transition. The project team has performed an assessment to identify the potential risks related to the transition from LIBOR to a new index. The project provides regular reports to the Board of Directors and Risk Management Committee.

BB&T has LIBOR-based contracts that extend beyond 2021 included in loans and leases, securities, deposits, short-term borrowings, long-term debt and derivative financial instruments. The project team is reviewing contract fallback language for loans and leases and noted that certain contracts will need updated provisions for the transition and is coordinating with impacted lines of business to update LIBOR fallback language generally consistent with the ARRC recommendation. BB&T is continuing to evaluate the impact on these contracts and other financial instruments, systems implications, hedging strategies, and other related operational and market risks. Market risks associated are dependent on the alternative reference rates available and market conditions at transition. For a further discussion of the various risks associated with the potential cessation of LIBOR and the transition to alternative reference rates, refer to BB&T's Annual Report on Form 10-K for the year ended December, 31, 2018 under the section titled "Item 1A. Risk Factors."

The principal types of inherent risk include compliance, credit, liquidity, market, operational, cyber security, model, reputation and strategic risks. Refer to BB&T's Annual Report on Form 10-K for the year ended December 31, 2018 for disclosures related to each of these risks under the section titled "Risk Management."

Market Risk Management

The effective management of market risk is essential to achieving BB&T's strategic financial objectives. As a financial institution, BB&T's most significant market risk exposure is interest rate risk in its balance sheet; however, market risk also includes product liquidity risk, price risk and volatility risk in BB&T's BUs. The primary objectives of market risk management are to minimize any adverse effect that changes in market risk factors may have on net interest income, net income and capital and to offset the risk of price changes for certain assets recorded at fair value. At BB&T, market risk management also includes the enterprise-wide IPV function.

Interest Rate Market Risk (Other than Trading)

BB&T actively manages market risk associated with asset and liability portfolios with a focus on the strategic pricing of asset and liability accounts and management of appropriate maturity mixes of assets and liabilities. The goal of these activities is the development of appropriate maturity and repricing opportunities in BB&T's portfolios of assets and liabilities that will produce reasonably consistent net interest income during periods of changing interest rates. These portfolios are analyzed for proper fixed-rate and variable-rate mixes under various interest rate scenarios.

The asset/liability management process is designed to achieve relatively stable NIM and assure liquidity by coordinating the volumes, maturities or repricing opportunities of earning assets, deposits and borrowed funds. Among other things, this process gives consideration to prepayment trends related to securities, loans and leases and certain deposits that have no stated maturity. Prepayment assumptions are developed using a combination of market data and internal historical prepayment experience for residential mortgage-related loans and securities, and internal historical prepayment experience for client deposits with no stated maturity and loans that are not residential mortgage related. These assumptions are subject to monthly review and adjustment, and are modified as deemed necessary to reflect changes in interest rates relative to the reference rate of the underlying assets or liabilities. On a monthly basis, BB&T evaluates the accuracy of its Simulation model, which includes an evaluation of its prepayment assumptions, to ensure that all significant assumptions inherent in the model appropriately reflect changes in the interest rate environment and related trends in prepayment activity. It is the responsibility of the MRLCC to determine and achieve the most appropriate volume and mix of earning assets and interest-bearing liabilities, as well as to ensure an adequate level of liquidity and capital, within the context of corporate performance goals. The MRLCC also sets policy guidelines and establishes long-term strategies with respect to interest rate risk exposure and liquidity. The MRLCC meets regularly to review BB&T's interest rate risk and liquidity positions in relation to present and prospective market and business conditions, and adopts funding and balance sheet management strategies that are intended to ensure that the potential impacts on earnings and liquidity as a result of fluctuations in interest rates are within acceptable tolerance guidelines.

BB&T uses derivatives primarily to manage economic risk related to securities, commercial loans, MSRs and mortgage banking operations, long-term debt and other funding sources. BB&T also uses derivatives to facilitate transactions on behalf of its clients. As of September 30, 2019, BB&T had derivative financial instruments outstanding with notional amounts totaling $72.1 billion, with a net fair value of $641 million. See Note 16. Derivative Financial Instruments for additional disclosures.

The majority of BB&T's assets and liabilities are monetary in nature and, therefore, differ from most commercial and industrial companies that have significant investments in fixed assets or inventories. Fluctuations in interest rates and actions of the FRB to regulate the availability and cost of credit have a greater effect on a financial institution's profitability than do the effects of higher costs for goods and services. Through its balance sheet management function, which is monitored by the MRLCC, management believes that BB&T is positioned to respond to changing needs for liquidity, changes in interest rates and inflationary trends.

Management uses the Simulation to measure the sensitivity of projected earnings to changes in interest rates. The Simulation projects net interest income and interest rate risk for a rolling two-year period of time. The Simulation takes into account the current contractual agreements that BB&T has made with its customers on deposits, borrowings, loans, investments and commitments to enter into those transactions. Furthermore, the Simulation considers the impact of expected customer behavior. Management monitors BB&T's interest sensitivity by means of a model that incorporates the current volumes, average rates earned and paid, and scheduled maturities and payments of asset and liability portfolios, together with multiple scenarios that include projected prepayments, repricing opportunities and anticipated volume growth. Using this information, the model projects earnings based on projected portfolio balances under multiple interest rate scenarios. This level of detail is needed to simulate the effect that changes in interest rates and portfolio balances may have on the earnings of BB&T. This method is subject to the accuracy of the assumptions that underlie the process, but management believes that it provides a better illustration of the sensitivity of earnings to changes in interest rates than other analyses such as static or dynamic gap. In addition to the Simulation, BB&T uses EVE analysis to focus on projected changes in asset and liability values given potential changes in interest rates. This measure also allows BB&T to analyze interest rate risk that falls outside the analysis window contained in the Simulation. The EVE model is a discounted cash flow of the portfolio of assets, liabilities, and derivative instruments. The difference in the present value of assets minus the present value of liabilities is defined as the economic value of equity.

The asset/liability management process requires a number of key assumptions. Management determines the most likely outlook for the economy and interest rates by analyzing external factors, including published economic projections and data, the effects of likely monetary and fiscal policies, as well as any enacted or prospective regulatory changes. BB&T's current and prospective liquidity position, current balance sheet volumes and projected growth, accessibility of funds for short-term needs and capital maintenance are also considered. This data is combined with various interest rate scenarios to provide management with the information necessary to analyze interest sensitivity and to aid in the development of strategies to reach performance goals.

The following table shows the effect that the indicated changes in interest rates would have on net interest income as projected for the next twelve months assuming a gradual change in interest rates as described below. Key assumptions in the preparation of the table include prepayment speeds of mortgage-related and other assets, cash flows and maturities of derivative financial instruments, loan volumes and pricing, deposit beta, customer preferences and capital plans. The resulting change in net interest income reflects the level of interest rate sensitivity that income has in relation to the investment, loan and deposit portfolios.

Table 16: Interest Sensitivity Simulation Analysis

	Interest Rate Scenario		Annualized Hypothetical Percentage Change in Net Interest Income	
Linear Change in Prime Rate	Prime Rate			
	Sep 30, 2019	Sep 30, 2018	Sep 30, 2019	Sep 30, 2018
Up 200	7.00%	7.25%	(1.49)%	2.06%
Up 100	6.00	6.25	(0.56)	1.24
No Change	5.00	5.25	—	—
Down 25	4.75	5.00	(0.22)	N/A
Down 100	4.00	4.25	(1.58)	(3.13)

Rate sensitivity decreased from September 30, 2018, primarily driven by loan, deposit mix changes and the increase in HQLA securities. Rate sensitivity was more neutral at September 30, 2019 as the Consolidated Balance Sheet is in process of being repositioned in anticipation of the merger closing.

Management considers how the balance sheet and interest rate risk position could be impacted by changes in balance sheet mix. Liquidity in the banking industry has been very strong during the current economic cycle. Much of this liquidity increase has been due to a significant increase in noninterest-bearing demand deposits. Consistent with the industry, Branch Bank has seen a significant increase in this funding source. The behavior of these deposits is one of the most important assumptions used in determining the interest rate risk position of BB&T. A loss of these deposits in the future would reduce the asset sensitivity of BB&T's balance sheet as the Company increases interest-bearing funds to offset the loss of this advantageous funding source.

Beta represents the correlation between overall market interest rates and the rates paid by BB&T on interest-bearing deposits. BB&T applies an average deposit beta of approximately 60% to its non-maturity interest-bearing deposit accounts for determining its interest rate sensitivity. Non-maturity interest-bearing deposit accounts include interest checking accounts, savings accounts and money market accounts that do not have a contractual maturity. BB&T regularly conducts sensitivity on other key variables to determine the impact they could have on the interest rate risk position. This allows BB&T to evaluate the likely impact on its balance sheet management strategies due to a more extreme variation in a key assumption than expected.

The following table shows the results of BB&T's interest-rate sensitivity position assuming the loss of demand deposits and an associated increase in managed rate deposits under various scenarios. For purposes of this analysis, BB&T modeled the incremental beta for the replacement of the lost demand deposits at 100%.

Table 17: Deposit Mix Sensitivity Analysis

Linear Change in Rates	Base Scenario at September 30, 2019 (1)	Results Assuming a Decrease in Noninterest-Bearing Demand Deposits	
		$1 Billion	$5 Billion
Up 200 bps	(1.49)%	(1.70)%	(2.53)%
Up 100	(0.56)	(0.69)	(1.21)

(1) The base scenario is equal to the annualized hypothetical percentage change in net interest income at September 30, 2019 as presented in the preceding table.

The following table shows the effect that the indicated changes in interest rates would have on EVE. Key assumptions in the preparation of the table include prepayment speeds of mortgage-related and other assets, cash flows and maturities of derivative financial instruments, loan volumes and pricing and deposit sensitivity.

Table 18: EVE Simulation Analysis

Change in Interest Rates	EVE/Assets		Hypothetical Percentage Change in EVE	
	Sep 30, 2019	Sep 30, 2018	Sep 30, 2019	Sep 30, 2018
Up 100	11.1%	12.3%	3.2 %	(2.6)%
No Change	10.7	12.6	—	—
Down 25	10.5	N/A	(2.2)	N/A
Down 100	9.3	12.3	(13.2)	(2.6)

Market Risk from Trading Activities

BB&T also manages market risk from trading activities which consists of acting as a financial intermediary to provide its customers access to derivatives, foreign exchange and securities markets. Trading market risk is managed through the use of statistical and non-statistical risk measures and limits. BB&T utilizes a historical VaR methodology to measure and aggregate risks across its covered trading BUs. This methodology uses two years of historical data to estimate economic outcomes for a one-day time horizon at a 99% confidence level. The average 99% one-day VaR and the maximum daily VaR for the three months ended September 30, 2019 and 2018, respectively, were each less than $1 million. Market risk disclosures under Basel II.5 are available in the Additional Disclosures section of the Investor Relations site on BBT.com.

Liquidity

Liquidity represents the continuing ability to meet funding needs, including deposit withdrawals, timely repayment of borrowings and other liabilities, and funding of loan commitments. In addition to the level of liquid assets, such as cash, cash equivalents and AFS securities, many other factors affect the ability to meet liquidity needs, including access to a variety of funding sources, maintaining borrowing capacity in national money markets, growing core deposits, the repayment of loans and the ability to securitize or package loans for sale. BB&T also has the ability to utilize sources such as FHLB letters of credit to reduce the securities we have pledged.

BB&T monitors the ability to meet customer demand for funds under both normal and stressed market conditions. In considering its liquidity position, management evaluates BB&T's funding mix based on client core funding, client rate-sensitive funding and national markets funding. In addition, management also evaluates exposure to rate-sensitive funding sources that mature in one year or less. Management also measures liquidity needs against 30 days of stressed cash outflows for Branch Bank and BB&T. To ensure a strong liquidity position, management maintains a liquid asset buffer of cash on hand and highly liquid unpledged securities. BB&T follows the FRB's enhanced prudential standards for purposes of determining the liquid asset buffer. BB&T's policy is to use the greater of either 5% of total assets or a range of projected net cash outflows over a 30 day period. As of September 30, 2019 and December 31, 2018, BB&T's liquid asset buffer was 18.2% and 14.7%, respectively, of total assets.

BB&T is considered to be a "modified LCR" holding company. BB&T would be subject to full LCR requirements if its assets were to increase above $250 billion or if it were to be considered internationally active. As previously mentioned, in October 2019, the federal banking agencies adopted final rules for liquidity requirements that would amend the full LCR such that BHC's with assets between $250 billion and $700 billion, and less than $75 billion in certain other risk related exposures, would be subject to a reduced LCR. See additional disclosures in the "Regulatory Considerations" section.

BB&T produces LCR calculations to effectively manage the position of high-quality liquid assets and the balance sheet deposit mix to optimize BB&T's liquidity position. BB&T's preliminary modified average LCR was approximately 139% for the three months ended September 30, 2019, compared to the regulatory minimum for such entities of 100%, which puts BB&T in full compliance with the rule. The LCR can experience volatility due to issues like maturing debt rolling into the 30 day measurement period, or client inflows and outflows. The daily change in BB&T's modified LCR averaged less than 2% for the three months ended September 30, 2019 with a maximum daily change of 17% as the Consolidated Balance Sheet is in process of being repositioned in anticipation of the merger closing.

BB&T routinely evaluates the impact of becoming subject to the full LCR requirement. This includes an evaluation of the changes to the balance sheet and investment strategy that would be necessary to comply with the requirement. Management does not currently expect the required changes to have a material impact on BB&T's financial condition or results of operations.

Parent Company

The purpose of the Parent Company is to serve as the primary source of capital for the operating subsidiaries. The Parent Company's assets primarily consist of cash on deposit with Branch Bank, equity investments in subsidiaries, advances to subsidiaries, accounts receivable from subsidiaries, and other miscellaneous assets. The principal obligations of the Parent Company are payments on long-term debt. The main sources of funds for the Parent Company are dividends and management fees from subsidiary, repayments of advances to subsidiaries, and proceeds from the issuance of equity and long-term debt. The primary uses of funds by the Parent Company are for investments in subsidiaries, advances to subsidiaries, dividend payments to common and preferred shareholders, retirement of common stock and payments on long-term debt.

The primary source of funds used for Parent Company cash requirements was dividends received from subsidiaries. See Note 15. Parent Company Financial Information of the Annual Report on Form 10-K for the year ended December 31, 2018 for additional information regarding dividends from subsidiaries and debt transactions.

Liquidity at the Parent Company is more susceptible to market disruptions. BB&T prudently manages cash levels at the Parent Company to cover a minimum of one year of projected cash outflows which includes unfunded external commitments, debt service, common and preferred dividends and scheduled debt maturities without the benefit of any new cash infusions. Generally, BB&T maintains a significant buffer above the projected one year of cash outflows. In determining the buffer, BB&T considers cash requirements for common and preferred dividends, unfunded commitments to affiliates, being a source of strength to its banking subsidiary and being able to withstand sustained market disruptions that could limit access to the capital markets. At September 30, 2019 and December 31, 2018, the Parent Company had 32 months and 28 months, respectively, of cash on hand to satisfy projected contractual cash outflows, and 28 months and 19 months, respectively, taking into account common stock dividends.

Branch Bank

BB&T carefully manages liquidity risk at Branch Bank. Branch Bank's primary source of funding is customer deposits. Continued access to customer deposits is highly dependent on the confidence the public has in the stability of Branch Bank and its ability to return funds to the client when requested. BB&T maintains a strong focus on its reputation in the market to ensure continued access to client deposits. BB&T integrates its risk appetite into its overall risk management framework to ensure Branch Bank does not exceed its risk tolerance through its lending and other risk taking functions and thus risk becoming undercapitalized. BB&T believes that sufficient capital is paramount to maintaining the confidence of its depositors and other funds providers. BB&T has extensive capital management processes in place to ensure it maintains sufficient capital to absorb losses and maintain a highly capitalized position that will instill confidence in Branch Bank and allow continued access to deposits and other funding sources. Branch Bank monitors many liquidity metrics including funding concentrations, diversification, maturity distribution, contingent funding needs and ability to meet liquidity requirements under times of stress.

Branch Bank has several major sources of funding to meet its liquidity requirements, including access to capital markets through issuance of senior or subordinated bank notes and institutional CDs, access to the FHLB system, dealer repurchase agreements and repurchase agreements with commercial clients, access to the overnight and term Federal funds markets, use of a Cayman branch facility, access to retail brokered CDs and a borrower in custody program with the FRB for the discount window. At September 30, 2019, Branch Bank has approximately $89.1 billion of secured borrowing capacity, which represents approximately 4.0 times the amount of one year wholesale funding maturities.

Contractual Obligations, Commitments, Contingent Liabilities and Off-Balance Sheet Arrangements

Refer to BB&T's Annual Report on Form 10-K for the year ended December 31, 2018 for discussion with respect to BB&T's quantitative and qualitative disclosures about its fixed and determinable contractual obligations. Additional disclosures about BB&T's contractual obligations, commitments and derivative financial instruments are included in Note 14. Commitments and Contingencies, Note 15. Fair Value Disclosures and Note 16. Derivative Financial Instruments.

Capital

The maintenance of appropriate levels of capital is a management priority and is monitored on a regular basis. BB&T's principal goals related to the maintenance of capital are to provide adequate capital to support BB&T's risk profile consistent with the Board-approved risk appetite, provide financial flexibility to support future growth and client needs, comply with relevant laws, regulations, and supervisory guidance, achieve optimal credit ratings for BB&T and its subsidiaries and provide a competitive return to shareholders. Risk-based capital ratios, which include CET1 capital, Tier 1 capital and Total capital are calculated based on regulatory guidance related to the measurement of capital and risk-weighted assets.

BB&T regularly performs stress testing on its capital levels and is required to periodically submit the company's capital plans to the banking regulators. On February 5, 2019, the FRB notified banks with less than $250 billion in assets that they will not need to participate in the 2019 supervisory stress test.

Management regularly monitors the capital position of BB&T on both a consolidated and bank-level basis. In this regard, management's overriding policy is to maintain capital at levels that are in excess of internal capital targets, which are above the regulatory "well capitalized" levels. Management has implemented stressed capital ratio minimum targets to evaluate whether capital ratios calculated with planned capital actions are likely to remain above minimums specified by the FRB for the annual CCAR. Breaches of stressed minimum targets prompt a review of the planned capital actions included in BB&T's capital plan.

Table 19: Capital Requirements Under Basel III

	Minimum Capital	Well-Capitalized	Minimum Capital Plus Capital Conservation Buffer	BB&T Targets	
				Operating (1)	Stressed
CET1 capital to risk-weighted assets	4.5%	6.5%	7.0%	8.5%	6.0%
Tier 1 capital to risk-weighted assets	6.0	8.0	8.5	10.0	7.5
Total capital to risk-weighted assets	8.0	10.0	10.5	12.0	9.5
Leverage ratio	4.0	5.0	N/A	8.0	5.5

(1) BB&T's goal is to maintain capital levels above all regulatory minimums.

While nonrecurring events or management decisions may result in the Company temporarily falling below its operating minimum guidelines for one or more of these ratios, it is management's intent to return to these targeted operating minimums within a reasonable period of time through capital planning. Such temporary decreases below the operating minimums shown above are not considered an infringement of BB&T's overall capital policy, provided a return above the minimums is forecasted to occur within a reasonable time period.

BB&T's capital ratios are presented in the following table:

Table 20: Capital Ratios - BB&T Corporation

(Dollars in millions, except per share data, shares in thousands)	Sep 30, 2019	Dec 31, 2018
Risk-based:	*(preliminary)*	
CET1 capital to risk-weighted assets	10.6%	10.2%
Tier 1 capital to risk-weighted assets	12.2	11.8
Total capital to risk-weighted assets	14.7	13.8
Leverage ratio	10.3	9.9
Non-GAAP capital measure (1):		
Tangible common equity per common share	$ 24.66	$ 21.89
Calculation of tangible common equity (1):		
Total shareholders' equity	$ 32,303	$ 30,178
Less:		
Preferred stock	3,057	3,053
Noncontrolling interests	69	56
Intangible assets, net of deferred taxes	10,281	10,360
Tangible common equity	$ 18,896	$ 16,709
Risk-weighted assets	$ 187,623	$ 181,260
Common shares outstanding at end of period	766,303	763,326

(1) Tangible common equity and related measures are non-GAAP measures that exclude the impact of intangible assets, net of deferred taxes, and their related amortization. These measures are useful for evaluating the performance of a business consistently, whether acquired or developed internally. BB&T's management uses these measures to assess the quality of capital and returns relative to balance sheet risk and believes investors may find them useful in their analysis of the Corporation. These capital measures are not necessarily comparable to similar capital measures that may be presented by other companies.

Capital levels remained strong at September 30, 2019. BB&T declared common dividends of $0.450 per share during the third quarter of 2019, which resulted in dividend and total payout ratios of 46.9%. The Board of Directors approved an increase in the quarterly dividend of 11.1% at their July meeting. As previously communicated, BB&T has suspended its share repurchases under the 2018 Repurchase Plan due to the merger-of-equals.

Critical Accounting Policies

The accounting and reporting policies of BB&T are in accordance with GAAP and conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. BB&T's financial position and results of operations are affected by management's application of accounting policies, including estimates, assumptions and judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues and expenses. Different assumptions in the application of these policies could result in material changes in the consolidated financial position and/or consolidated results of operations and related disclosures. The more critical policies include accounting for the ACL, determining fair value of financial instruments, intangible assets, and costs and benefit obligations associated with pension and postretirement benefit plans. Understanding BB&T's accounting policies is fundamental to understanding the consolidated financial position and consolidated results of operations. The critical accounting policies are discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in BB&T's Annual Report on Form 10-K for the year ended December 31, 2018. Significant accounting policies and changes in accounting principles and effects of new accounting pronouncements are discussed in Note 1. Basis of Presentation in Form 10-K for the year ended December 31, 2018. Additional disclosures regarding the effects of new accounting pronouncements are included in the Note 1. Basis of Presentation included herein. There have been no other changes to the significant accounting policies during 2019.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the management of the Company, under the supervision and with the participation of the Company's CEO and CFO, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to the Legal Proceeding section in Note 14. Commitments and Contingencies, which is incorporated by reference into this item.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in BB&T's Annual Report on Form 10-K for the year ended December 31, 2018. Additional risks and uncertainties not currently known to BB&T or that management has deemed to be immaterial also may materially adversely affect BB&T's business, financial condition, and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 6. EXHIBITS

Exhibit No.	Description	Location
3(i)	Articles of Incorporation of the Registrant, as amended and restated April 30, 2014.	Incorporated herein by reference to Exhibit 3(i) of the Current Report on Form 8-K, filed May 2, 2014.
3(ii)	Articles of Amendment of the Registrant, dated as of March 4, 2016	Incorporated herein by reference to Exhibit 4.1 of the Current Report on Form 8-K, filed March 9, 2016.
3(iii)	Articles of Amendment of the Company with respect to 4.800% Series N Fixed Rate Reset Non-Cumulative Perpetual Preferred Stock filed July 24, 2019.	Incorporated herein by reference to Exhibit 4.1 of the Current Report on Form 8-K, filed July 29, 2019.
4.1	Deposit Agreement, dated as of July 29, 2019, between the Company and Computershare Inc. and Computershare Trust Company, N.A., jointly as depositary.	Incorporated herein by reference to Exhibit 4.2 of the Current Report on Form 8-K, filed July 29, 2019.
4.2	Form of Depositary Receipt.	Incorporated herein by reference to Exhibit 4.2 of the Current Report on Form 8-K, filed July 29, 2019.
11	Statement re computation of earnings per share.	Filed herewith as Computation of EPS note to the consolidated financial statements.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101.INS	XBRL Instance Document – the instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema.	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase.	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.	Filed herewith.
101.DEF	XBRL Taxonomy Definition Linkbase.	Filed herewith.
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits101).	Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BB&T CORPORATION
(Registrant)

Date: October 25, 2019

By: /s/ Daryl N. Bible
Daryl N. Bible
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: October 25, 2019

By: /s/ Cynthia B. Powell
Cynthia B. Powell
Executive Vice President and Corporate Controller
(Principal Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, Kelly S. King, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BB&T Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2019

/s/ Kelly S. King

Kelly S. King
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Daryl N. Bible, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BB&T Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2019

/s/ Daryl N. Bible

Daryl N. Bible
Senior Executive Vice President and
Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, Chief Executive Officer and Chief Financial Officer of BB&T Corporation (the "Company"), do hereby certify that:

1. The Quarterly Report on Form 10-Q for the fiscal period ended September 30, 2019 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2019

/s/ Kelly S. King

Kelly S. King
Chairman and Chief Executive Officer

/s/ Daryl N. Bible

Daryl N. Bible
Senior Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to BB&T Corporation and will be retained by BB&T Corporation and furnished to the Securities and Exchange Commission or its staff upon request.