BB&T CORP
Form 10-K
February 28, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the fiscal year ended:

December 31, 2007

Commission File Number: 1-10853

BB&T CORPORATION

(Exact name of Registrant as specified in its Charter)

North Carolina	**56-0939887**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**

200 West Second Street	
Winston-Salem, North Carolina	**27101**
(Address of principal executive offices)	**(Zip Code)**

(336) 733-2000

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	**Name of each exchange on which registered**
Common Stock, $5 par value	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO þ

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 þ NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by references in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO þ

At January 31, 2008, the Corporation had 546,214,815 shares of its Common Stock, $5 par value, outstanding. The aggregate market value of voting stock held by nonaffiliates of the Corporation is approximately $22.1 billion (based on the closing price of such stock as of June 30, 2007.)

Table of Contents

CROSS REFERENCE INDEX

Table of Contents

*   For information regarding executive officers, refer to Executive Officers of BB&T in Part I hereof. The other information required by Item 10 is incorporated herein by reference to the information that appears under the headings Proposal 1-Election of Directors , Corporate Governance Matters and Section 16(a) Beneficial Ownership Reporting Compliance in the Registrant s Proxy Statement for the 2008 Annual Meeting of Shareholders.

The information required by Item 11 is incorporated herein by reference to the information that appears under the headings Compensation Discussion and Analysis , Compensation of Executive Officers , Compensation Committee Report on Executive Compensation , Compensation Committee Interlocks and Insider Participation , and Compensation of Directors in the Registrant s Proxy Statement for the 2008 Annual Meeting of Shareholders.

For information required by Item 201(d) of regulation S-K refer to Equity Compensation Plan Information in Part I hereof. The other information required by Item 12 is incorporated herein by reference to the information that appears under the headings Security Ownership in the Registrant s Proxy Statement for the 2008 Annual Meeting of Shareholders.

The information required by Item 13 is incorporated herein by reference to the information that appears under the headings Corporate Governance Matters and Transactions with Executive Officers and Directors in the Registrant s Proxy Statement for the 2008 Annual Meeting of Shareholders.

The information required by Item 14 is incorporated herein by reference to the information that appears under the headings Fees to Auditors and Corporate Governance Matters in the Registrant s Proxy Statement for the 2008 Annual Meeting of Shareholders.

Table of Contents

OVERVIEW AND DESCRIPTION OF BUSINESS

General

BB&T Corporation (BB&T , the Company or the Corporation), is a financial holding company headquartered in Winston-Salem, North Carolina. BB&T conducts its business operations primarily through its commercial bank subsidiary, Branch Banking and Trust Company (Branch Bank), which has offices in North Carolina, South Carolina, Virginia, Maryland, Georgia, West Virginia, Tennessee, Kentucky, Alabama, Florida, Indiana and Washington, D.C. In addition, BB&T s operations consist of several nonbank subsidiaries, which offer financial services products. Substantially all of the loans by BB&T s bank and nonbank subsidiaries are to businesses and individuals in these market areas.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements with respect to the financial condition, results of operations and businesses of BB&T. These forward-looking statements involve certain risks and uncertainties and 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. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following:

- general economic or business conditions, either nationally or regionally, may be less favorable than expected, resulting in, among other things, a deterioration in credit quality and/or a reduced demand for credit or other services;
- changes in the interest rate environment may reduce net interest margins and/or the volumes and values of loans made or held as well as the value of other financial assets held;
- competitive pressures among depository and other financial institutions may increase significantly;
- legislative or regulatory changes, including changes in accounting standards, 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;
- adverse changes may occur in the securities markets;
- competitors of BB&T may have greater financial resources and develop products that enable them to compete more successfully than BB&T;
- costs or difficulties related to the integration of the businesses of BB&T and its merger partners may be greater than expected;

- expected cost savings associated with completed mergers may not be fully realized or realized within the expected time frames; and

- deposit attrition, customer loss or revenue loss following completed mergers may be greater than expected.

Risk Factors Relating to BB&T s Business

Changes in national and local economic conditions could lead to higher loan charge-offs and reduce BB&T s net income and growth.

BB&T s business is subject to periodic fluctuations based on national and local economic conditions. These fluctuations are not predictable, cannot be controlled, and may have a material adverse impact on the Company s operations and financial condition even if other favorable events occur. BB&T s banking operations are locally oriented and community-based. Accordingly, the Company expects to continue to be dependent upon local business conditions as well as conditions in the local residential and commercial real estate markets it serves. For example, an increase in unemployment, a decrease in real estate values or increases in interest rates, as well as

Table of Contents

other factors, could weaken the economies of the communities BB&T serves. Weakness in BB&T s market area could depress the Company s earnings and consequently the financial condition of the Company because:

- customers may not want or need BB&T s products or services;
- borrowers may not be able to repay their loans;
- the value of the collateral securing loans to borrowers may decline; and
- the quality of BB&T s loan portfolio may decline.

Any of the latter three scenarios could require the Company to charge off a higher percentage of loans and/or increase provisions for credit losses, which would reduce the Company s net income. For an analysis of the Company s recent charge-off experience, please refer to the Asset Quality and Credit Risk Management section in Management s Discussion and Analysis of Financial Condition and Results of Operations herein.

Weakness in the markets for residential or commercial real estate, including the secondary residential mortgage loan markets, could reduce BB&T s net income and profitability.

During 2007, softening residential housing markets, increasing delinquency and default rates, and increasingly volatile and constrained secondary credit markets began affecting the mortgage industry generally. BB&T s financial results may be adversely affected by changes in real estate values. Decreases in real estate values could adversely affect the value of property used as collateral for loans and investments. If poor economic conditions result in decreased demand for real estate loans, the Company s net income and profits may decrease.

The declines in home prices in many markets across the U.S., along with the reduced availability of mortgage credit, also may result in increases in delinquencies and losses in BB&T s portfolio of loans related to residential real estate construction and development. Further declines in home prices coupled with an economic recession and associated rises in unemployment levels could drive losses beyond that which is provided for in BB&T s allowance for loan losses. In that event, BB&T s earnings could be adversely affected.

Additionally, recent weakness in the secondary market for residential lending could have an adverse impact upon the Company s profitability. Significant ongoing disruptions in the secondary market for residential mortgage loans have limited the market for and liquidity of most mortgage loans other than conforming Fannie Mae and Freddie Mac loans. The effects of ongoing mortgage market challenges, combined with the ongoing correction in residential real estate market prices and reduced levels of home sales, could result in further price reductions in single family home values, adversely affecting the value of collateral securing mortgage loans held, mortgage loan originations and gains on sale of mortgage loans. Continued declines in real estate values and home sales volumes, and financial stress on borrowers as a result of job losses, or other factors, could have further adverse effects on borrowers that result in higher delinquencies and greater charge-offs in future periods, which would adversely affect BB&T s financial condition or results of operations.

Changes in interest rates may have an adverse effect on BB&T s profitability.

BB&T s earnings and financial condition are dependent to a large degree upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest rate spreads, meaning the difference between interest rates earned on loans and investments and the interest rates paid on deposits and borrowings, could adversely affect BB&T s earnings and financial condition. The Company cannot predict with certainty or control changes in interest rates. Regional and local economic conditions and the policies of regulatory authorities, including monetary policies of the Federal Reserve Board, affect interest income and interest expense. The Company has ongoing policies and procedures designed to manage the risks associated with changes in market interest rates. However, changes in interest rates still may have an adverse effect on BB&T s profitability.

BB&T faces significant operational risk.

BB&T is exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. Negative public opinion can result from BB&T s actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions and from actions taken by

Table of Contents

government regulators and community organizations in response to those activities. Negative public opinion can adversely affect BB&T s ability to attract and keep customers and can expose it to litigation and regulatory action.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. BB&T s necessary dependence upon automated systems to record and process its transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. BB&T may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control (for example, computer viruses or electrical or telecommunications outages), which may give rise to disruption of service to customers and to financial loss or liability. BB&T is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as is BB&T) and to the risk that BB&T s (or its vendors) business continuity and data security systems prove to be inadequate.

BB&T s liquidity could be impaired by an inability to access the capital markets or an unforeseen outflow of cash.

Liquidity is essential to BB&T s businesses. Due to circumstances that BB&T may be unable to control, such as a general market disruption or an operational problem that affects third parties or BB&T, BB&T s liquidity could be impaired by an inability to access the capital markets or an unforeseen outflow of cash. BB&T s credit ratings are important to its liquidity. A reduction in BB&T s credit ratings could adversely affect its liquidity and competitive position, increase its borrowing costs, limit its access to the capital markets or trigger unfavorable contractual obligations.

BB&T s accounting policies and methods are key to how the Company reports its financial condition and results of operations. Application of these policies and methods may require management to make estimates about matters that are uncertain.

BB&T s accounting policies and methods are fundamental to how the Company records and reports its financial condition and results of operations. The Company s management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management s judgment of the most appropriate manner to report its financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in the Company reporting materially different amounts than would have been reported under a different alternative. Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements describes the Company s significant accounting policies. These accounting policies are critical to presenting the Company s financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions. For additional information regarding the more critical accounting policies, please refer to the Critical Accounting Policies section in Management s Discussion and Analysis of Financial Condition and Results of Operations herein.

Differences in interpretation of tax laws and regulations may adversely impact BB&T s financial statements.

Local, state or federal tax authorities may interpret tax laws and regulations differently than BB&T and challenge tax positions that BB&T has taken on its tax returns. This may result in the disallowance of deductions or differences in the timing of deductions and result in the payment of additional taxes, interest or penalties that could materially affect BB&T s performance.

Changes in accounting standards could materially impact BB&T s financial statements.

From time to time the Financial Accounting Standards Board FASB changes the financial accounting and reporting standards that govern the preparation of BB&T s financial statements. These changes can be hard to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in changes to previously reported financial results, or a cumulative charge to retained earnings.

Table of Contents

BB&T may not be able to successfully integrate bank or nonbank mergers and acquisitions.

Difficulties may arise in the integration of the business and operations of bank holding companies, banks and other nonbank entities the Company acquires and, as a result, the Company may not be able to achieve the cost savings and synergies that it expects will result from such transactions. Achieving cost savings is dependent on consolidating certain operational and functional areas, eliminating duplicative positions and terminating certain agreements for outside services. Additional operational savings are dependent upon the integration of the acquired or merged entity s businesses with BB&T or one of BB&T s subsidiaries, the conversion of core operating systems, data systems and products and the standardization of business practices. Complications or difficulties in the conversion of the core operating systems, data systems and products may result in the loss of customers, damage to BB&T s reputation within the financial services industry, operational problems, one-time costs currently not anticipated or reduced cost savings resulting from such mergers or acquisitions. Annual cost savings in each such transaction may be materially less than anticipated if the holding company, bank merger or nonbank merger or acquisition is delayed unexpectedly, the integration of operations is delayed beyond what is anticipated or the conversion to a single data system is not accomplished on a timely basis.

Difficulty in integrating an acquired company may cause the Company not to realize expected revenue increases, cost savings, increases in geographic or product presence and/or other projected benefits from the acquisition. The integration could result in higher than expected deposit attrition, loss of key employees, disruption of BB&T s businesses or the businesses of the acquired company, or otherwise adversely affect the Company s ability to maintain relationships with customers and employees or achieve the anticipated benefits of the acquisition. Also, the negative effect of any divestitures required by regulatory authorities in acquisitions or business combinations may be greater than expected.

BB&T may not receive the regulatory approvals required to complete a bank merger.

BB&T must generally receive federal regulatory approval before it can acquire a bank or bank holding company. In determining whether to approve a proposed bank acquisition, federal bank regulators will consider, among other factors, the effect of the acquisition on competition, financial condition and future prospects including current and projected capital ratios and levels, the competence, experience and integrity of management and record of compliance with laws and regulations, the convenience and needs of the communities to be served, including the acquiring institution s record of compliance under the Community Reinvestment Act and the effectiveness of the acquiring institution in combating money laundering activities. In addition, BB&T cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. In specific cases the Company may be required to sell banks or branches, or take other actions as a condition to receiving regulatory approval.

BB&T may experience significant competition in its market area, which may reduce the Company s customer base.

There is intense competition among commercial banks in BB&T s market area. In addition, BB&T competes with other providers of financial services, such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, commercial finance and leasing companies, the mutual funds industry, full-service brokerage firms and discount brokerage firms, some of which are subject to less extensive regulations than BB&T is with respect to the products and services they provide. Some of BB&T s larger competitors, including certain national banks that have a significant presence in the Company s market area, have greater resources than BB&T, may have higher lending limits and may offer products and services not offered by BB&T.

BB&T also experiences competition from a variety of institutions outside of the Company s market area. Some of these institutions conduct business primarily over the Internet and may thus be able to realize certain cost savings and offer products and services at more favorable rates and with greater convenience to the customer.

Changes in banking laws could have a material adverse effect on BB&T.

BB&T is extensively regulated under federal and state banking laws and regulations that are intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole. In addition, the Company is subject to changes in federal and state laws as well as changes in banking and credit

Table of Contents

regulations, and governmental economic and monetary policies. BB&T cannot predict whether any of these changes may adversely and materially affect the Company. The current regulatory environment for financial institutions entails significant potential increases in compliance requirements and associated costs, including those related to consumer credit, with a focus on mortgage lending. For example, the North Carolina legislature in 2007 passed a number of bills that impose additional requirements, limitations and liabilities on mortgage loan brokers, originators and servicers. Generally, these enactments cover banks as well as state-licensed mortgage lenders. The legislatures of other states, such as Georgia, Maryland and South Carolina, may enact similar legislation in the future.

Federal and state banking regulators also possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums and limitations on BB&T s activities that could have a material adverse effect on the Company s business and profitability. For a further discussion regarding other uncertainties arising from how the Company is regulated and supervised, please refer to the Regulatory Considerations section herein.

Significant litigation could have a material adverse effect on BB&T.

BB&T faces legal risks in its businesses, and the volume of claims and amount of damages and penalties claimed in litigation and regulatory proceedings against financial institutions remain high. Substantial legal liability or significant regulatory action against BB&T could have material adverse financial effects or cause significant reputational harm to BB&T, which in turn could seriously harm BB&T s business prospects.

BB&T s business could suffer if it fails to attract and retain skilled people.

BB&T s success depends, in large part, on its ability to attract and retain key people. Competition for the best people in the financial services industry is intense. The Company may not be able to hire the best people or retain them.

BB&T s stock price can be volatile.

BB&T s stock price can fluctuate widely in response to a variety of factors including:

- actual or anticipated variations in quarterly operating results;
- recommendations by securities analysts;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or the Company s competitors;

- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- operating and stock price performance of other companies that investors deem comparable to BB&T;
- news reports relating to trends, concerns and other issues in the financial services industry;
- changes in government regulations; and
- geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes, credit loss trends, or currency fluctuations could also cause BB&T s stock price to decrease regardless of the Company s operating results.

Operating Subsidiaries

At December 31, 2007, the principal operating subsidiaries of BB&T included the following:

- Branch Banking and Trust Company, Winston-Salem, North Carolina
- BB&T Bankcard Corporation, Columbus, Georgia

- Scott & Stringfellow, Inc., Richmond, Virginia
- Regional Acceptance Corporation, Greenville, North Carolina
- Sheffield Financial LLC, Clemmons, North Carolina
- MidAmerica Gift Certificate Company, Louisville, Kentucky
- BB&T Asset Management, Inc., Raleigh, North Carolina

Branch Bank, BB&T s largest subsidiary, was chartered in 1872 and is the oldest bank headquartered in North Carolina. Branch Bank provides a wide range of banking and trust services for retail and commercial clients in its geographic markets, including small and mid-size businesses, public agencies, local governments and individuals through 1,492 offices (as of December 31, 2007) located in North Carolina, South Carolina, Virginia, Maryland, Georgia, Kentucky, Florida, West Virginia, Tennessee, Washington D.C., Alabama and Indiana. Branch Bank s principal operating subsidiaries include:

- BB&T Equipment Finance Corporation, based in Charlotte, North Carolina, which provides loan and lease financing to commercial and small businesses;
- BB&T Investment Services, Inc., a registered broker-dealer located in Charlotte, North Carolina, which offers clients non-deposit investment alternatives, including discount brokerage services, equities, fixed-rate and variable-rate annuities, mutual funds and government and municipal bonds;
- BB&T Insurance Services, Inc., headquartered in Raleigh, North Carolina, which offers property and casualty, life, health, employee benefits, commercial general liability, surety, title and other insurance products through its agency network;
- Stanley, Hunt, DuPree & Rhine, Inc., with dual headquarters in Greensboro, North Carolina, and Greenville, South Carolina, which offers flexible benefit plans, and investment advisory, actuarial and benefit consulting services;
- Prime Rate Premium Finance Corporation, Inc., located in Florence, South Carolina, and its subsidiary AFCO Credit Corporation, headquartered in Pittsburgh, Pennsylvania which provide insurance premium financing to clients in the United States and Canada;
- Grandbridge Real Estate Capital, LLC, based in Charlotte, North Carolina, which specializes in arranging and servicing commercial mortgage loans;
- Lendmark Financial Services, Inc., located in Covington, Georgia, which offers alternative consumer loans to clients unable to meet BB&T s normal credit and mortgage loan underwriting guidelines;
- CRC Insurance Services, Inc., based in Birmingham, Alabama, which is a wholesale insurance broker authorized to do business nationwide; and

- McGriff, Seibels & Williams, Inc., based in Birmingham, Alabama, which is authorized to do business nationwide and specializes in providing insurance products on an agency basis to large commercial and energy clients, including many Fortune 500 companies.

BB&T Bankcard Corporation is a special purpose bank, which offers revolving credit products.

Major Nonbank Subsidiaries

BB&T also has a number of nonbank subsidiaries, including:

- Scott & Stringfellow, Inc., which is a registered investment banking and full-service brokerage firm that provides services in retail brokerage, equity and debt underwriting, investment advice, corporate finance and equity research; and facilitates the origination, trading and distribution of fixed-income securities and equity products in both the public and private capital markets. It also has a public finance department that provides investment banking, financial advisory services and debt underwriting services to a variety of regional taxable and tax-exempt issuers. Scott & Stringfellow s investment banking and corporate and public finance areas do business as BB&T Capital Markets;

- Regional Acceptance Corporation, which specializes in indirect financing for consumer purchases of primarily mid-model and late-model used automobiles;
- Sheffield Financial LLC, which specializes in loans to individuals and small commercial lawn care businesses across the country for the purchase of outdoor power equipment and power sport equipment;
- MidAmerica Gift Certificate Company, which specializes in the issuance and sale of retail gift certificates and giftcards through a nationwide network of authorized mall agents; and
- BB&T Asset Management, Inc., a registered investment advisor and the advisor to the BB&T Funds, provides tailored investment management solutions to meet the specific needs and objectives of individual and institutional clients through a full range of investment strategies, including domestic and international equity, alternative investment products and strategies and fixed income investing.

Services

The primary services offered by BB&T s subsidiaries include:

- small business lending
- commercial middle market lending
- real estate lending
- retail lending
- home equity lending
- sales finance
- home mortgage lending
- commercial mortgage lending
- equipment finance
- asset management

- retail and wholesale agency insurance
- institutional trust services
- wealth management / private banking
- investment brokerage services
- capital markets services
- commercial finance
- consumer finance
- international banking services
- payment solutions
- treasury services
- venture capital
- bankcard and merchant services
- insurance premium finance
- supply chain management
- payroll processing

Table of Contents

The following table reflects BB&T s deposit market share and branch locations by state at December 31, 2007.

Table 1

BB&T Deposit Market Share and Branch Locations by State

December 31, 2007

	% of BB&T s Deposits (2)	Deposit Market Share Rank (2)	Number of Branches
Virginia	26%	2nd	393
North Carolina (1)	26	2nd	346
Georgia	11	5th	158
Maryland	8	6th	131
South Carolina	9	3rd	115
Florida	5	10th	109
Kentucky	5	4th	89
West Virginia	6	1st	78
Tennessee	3	5th	58
Washington, D.C.	1	7th	11

(1) Excludes home office deposits.
(2) Source: FDIC.gov data as of June 30, 2007.

In addition to the markets described in the table above, BB&T operates two branches in Alabama and two branches in Indiana. Please refer to Note 21 Operating Segments in the Notes to Consolidated Financial Statements for additional disclosures.

Executive Overview

Significant accomplishments in 2007

In the opinion of BB&T s management, the Corporation s most significant accomplishments during 2007 were as follows (amounts include the impact of acquisitions where applicable):

- Strong performance relative to the industry
- Avoided major market disruptions

- Average loans increased 10.9%
- Average client deposits increased 9.2%
- Service charges revenue increased 11.5%
- Strong relative performance from insurance agency operations
- Effective expense control
- Fee income increased 6.9%
- Asset quality remained healthier than peers
- 90,000 net new transaction deposit accounts were added
- Households utilizing 5 or more BB&T services grew to 31%
- The number of clients utilizing online banking services increased 21% to approximately 2.5 million
- 35 de novo branch locations were opened
- Maintained superior retail service quality
- BB&T brand awareness improved
- Acquisition and conversion of Coastal Financial Corporation was completed
- Acquisitions of several nonbank financial services companies were completed

Table of Contents

Challenges

BB&T has grown at a rapid pace since its merger of equals with Southern National Corporation in 1995, and BB&T s business has become more dynamic and complex in recent years. Consequently, management has annually evaluated and, as necessary, adjusted the Corporation s business strategy in the context of the current operating environment. During this process, management considers the current financial condition and performance of the Company and its expectations for future economic activity, both on a national and local market scale. The achievement of BB&T s key strategic objectives and established long-term financial goals is subject to many uncertainties and challenges. In the opinion of management, the challenges that are most relevant and likely to have a near term impact on performance are presented below:

- Downturn in the residential real estate market
- Difficult interest rate environment has compressed growth in net interest income and created continuous margin pressure
- Unprecedented disruption and significantly increased risk in financial markets
- Ongoing burden of regulatory cost
- Intense competition within the financial services industry

Competition

The financial services industry is highly competitive and dramatic change continues to occur in all aspects of the Company s business. The ability of nonbank financial entities to provide services previously reserved for commercial banks has intensified competition. BB&T s subsidiaries compete actively with national, regional and local financial services providers, including banks, thrifts, securities dealers, mortgage bankers, finance companies and insurance companies. Competition among providers of financial products and services continues to increase, with consumers having the opportunity to select from a growing variety of traditional and nontraditional alternatives. The industry continues to consolidate, which affects competition by eliminating some regional and local institutions, while strengthening the franchises of acquirers. For additional information concerning markets, BB&T s competitive position and business strategies, see Market Area and General Business Development below.

Market Area

BB&T s primary market area consists of North and South Carolina, Virginia, Maryland, Georgia, eastern Tennessee, West Virginia, Kentucky, Florida and Washington, D.C. This area s employment base is diverse and primarily consists of manufacturing, general services, agricultural, wholesale/retail trade, technology and financial services. BB&T believes its current market area will support consistent growth in assets and deposits in the future. Management strongly believes that BB&T s community bank approach to providing client service is a competitive advantage that strengthens the Corporation s ability to effectively provide financial products and services to businesses and individuals in its markets.

General Business Development

BB&T is a regional financial holding company. The core of its business and franchise was created by the merger of equals between BB&T and Southern National Corporation in 1995 and the acquisition of United Carolina Bancshares in 1997. BB&T has maintained a long-term focus on a strategy that includes expanding and diversifying the BB&T franchise in terms of revenues, profitability and asset size. Tangible evidence of this focus is the growth in average total assets, loans and deposits, which have increased over the last five years at compound annual rates of 10.8%, 11.6%, and 11.2%, respectively.

Merger Strategy

BB&T s growth in business, profitability and market share has historically been enhanced by strategic mergers and acquisitions. Management intends to remain disciplined and focused with regards to future merger and acquisition opportunities. BB&T will continue to assess bank and thrift acquisitions subject to market conditions and suitable candidates, primarily within BB&T s existing footprint, and will pursue economically

Table of Contents

advantageous acquisitions of insurance agencies, specialized lending businesses, and fee income generating financial services businesses. BB&T s acquisition strategy is focused on three primary objectives:

- to pursue acquisitions of banks and thrifts with compatible cultures that will enhance BB&T s banking network and customer delivery system;
- to acquire companies in niche markets that provide products or services that can be offered through the existing distribution system to BB&T s current customer base; and
- to consider strategic nonbank acquisitions in markets that are economically feasible and provide positive long-term benefits.

BB&T consummated acquisitions of 48 community banks and thrifts, 79 insurance agencies and 31 nonbank financial services providers over the last fifteen years. In the long-term, BB&T expects to continue to take advantage of the consolidation in the financial services industry and expand and enhance its franchise through mergers and acquisitions. The consideration paid for these acquisitions may be in the form of cash, debt or BB&T common stock. The amount of consideration paid to complete these transactions may be in excess of the book value of the underlying net assets acquired, which could have a dilutive effect on BB&T s earnings. In addition, acquisitions often result in significant front-end charges against earnings; however, cost savings and revenue enhancements, especially incident to in-market bank and thrift acquisitions, are also typically anticipated.

Lending Activities

The primary goal of the BB&T lending function is to help clients achieve their financial goals by providing quality loan products that are fair to the client and profitable to the Corporation. Management believes that this purpose can best be accomplished by building strong, profitable client relationships over time, with BB&T becoming an important contributor to the prosperity and well-being of its clients. In addition to the importance placed on client knowledge and continuous involvement with clients, BB&T s lending process incorporates the standards of a consistent company-wide credit culture and an in-depth local market knowledge. Furthermore, the Corporation employs strict underwriting criteria governing the degree of assumed risk and the diversity of the loan portfolio in terms of type, industry and geographical concentration. In this context, BB&T strives to meet the credit needs of businesses and consumers in its markets while pursuing a balanced strategy of loan profitability, loan growth and loan quality.

BB&T conducts the majority of its lending activities within the framework of the Corporation s community bank operating model, with lending decisions made as close to the client as practicable.

The following table summarizes BB&T s loan portfolio based on the regulatory classification of the portfolio, which focuses on the underlying loan collateral, and differs from internal classifications presented herein that focus on the primary purpose of the loan.

Table 2

Composition of Loan and Lease Portfolio

	December 31, 2007	2006	2005	2004	2003
	(Dollars in millions)				
Commercial, financial and agricultural loans	$ 14,037	$ 10,848	$ 9,532	$ 8,824	$ 8,187
Lease receivables	3,899	4,358	4,250	4,170	4,085
Real estate construction and land development loans	19,474	17,553	11,942	8,601	6,477
Real estate mortgage loans	44,687	42,219	41,539	39,257	36,251
Consumer loans	11,107	10,389	9,604	9,238	9,208
Total loans and leases held for investment	93,204	85,367	76,867	70,090	64,208
Less: unearned income	(2,297)	(2,456)	(2,473)	(2,540)	(2,628)
Net loans and leases held for investment	90,907	82,911	74,394	67,550	61,580
Loans held for sale	779	680	629	613	725
Total loans and leases	$ 91,686	$ 83,591	$ 75,023	$ 68,163	$ 62,305

BB&T s loan portfolio is approximately 50% commercial and 50% retail by design, and is divided into four major categories commercial, consumer, mortgage and specialized lending. BB&T lends to a diverse customer

Table of Contents

base that is substantially located within the Corporation s primary market area. At the same time, the loan portfolio is geographically dispersed throughout BB&T s branch network to mitigate concentration risk arising from local and regional economic downturns.

The following discussion presents the principal types of lending conducted by BB&T and describes the underwriting procedures and overall risk management of BB&T s lending function. The relative risk of each loan portfolio is presented in the Asset Quality section of Management s Discussion and Analysis of Financial Condition and Results of Operations herein.

Underwriting Approach

Recognizing that the loan portfolio is a primary source of profitability, proper loan underwriting is critical to BB&T s long-term financial success. BB&T s underwriting approach is designed to define acceptable combinations of specific risk-mitigating features that ensure credit relationships conform to BB&T s risk philosophy. Provided below is a summary of the most significant underwriting criteria used to evaluate new loans and loan renewals:

- *Cash flow and debt service coverage* cash flow adequacy is a necessary condition of creditworthiness, meaning that loans not clearly supported by a borrower s cash flow must be justified by secondary repayment sources.
- *Secondary sources of repayment* alternative repayment funds are a significant risk-mitigating factor as long as they are liquid, can be easily accessed and provide adequate resources to supplement the primary cash flow source.
- *Value of any underlying collateral* loans are generally secured by the asset being financed. Because an analysis of the primary and secondary sources of repayment is the most important factor, collateral, unless it is liquid, does not justify loans that cannot be serviced by the borrower s normal cash flows.
- *Overall creditworthiness of the customer, taking into account the customer s relationships, both past and current, with other lenders* our success depends on building lasting and mutually beneficial relationships with clients, which involves assessing their financial position and background.
- *Level of equity invested in the transaction* in general, borrowers are required to contribute or invest a portion of their own funds prior to any loan advances.

Commercial Loan and Lease Portfolio

The commercial loan and lease portfolio represents the largest category of the Corporation s total loan portfolio. BB&T s commercial lending program is generally targeted to serve small-to-middle market businesses with sales of $200 million or less. In addition, BB&T s Corporate Banking Group provides lending solutions to large corporate clients. Traditionally, lending to small and mid-sized businesses has been among BB&T s strongest market segments.

Commercial and small business loans are primarily originated through BB&T s banking network. In accordance with the Corporation s lending policy, each loan undergoes a detailed underwriting process, which incorporates BB&T s underwriting approach, procedures and evaluations described above. In addition, Branch Bank has adopted an internal maximum credit exposure lending limit of $245 million for a best grade credit, which is considerably below Branch Bank s maximum legal lending limit. Commercial loans are typically priced with an interest rate tied to market indices, such as the prime rate and the London Interbank Offered Rate (LIBOR), or a fixed-rate. Commercial loans are individually monitored and reviewed for any possible deterioration in the ability of the client to repay the loan. Approximately 93% of BB&T s commercial loans are secured by real estate, business equipment, inventories and other types of collateral. BB&T s commercial leases consist of investments in various types of leveraged lease transactions.

Consumer Loan Portfolio

BB&T offers a wide variety of consumer loan products. Various types of secured and unsecured loans are marketed to qualifying existing clients and to other creditworthy candidates in BB&T s market area. These loans are relatively homogenous and no single loan is individually significant in terms of its size and potential risk of loss. Consumer loans are subject to the same rigorous lending policies and procedures as described above for commercial loans and are underwritten with note amounts and credit limits that ensure consistency with the Corporation s risk philosophy. In addition to its normal underwriting due diligence, BB&T uses automated scoring systems to help underwrite the credit risk in its consumer portfolio.

The consumer loan portfolio consists of three primary sub-portfolios direct retail, revolving credit and sales finance. The direct retail category consists mainly of home equity loans and lines of credit, which are secured by residential real estate. It also includes installment loans and some unsecured lines of credit other than credit cards. The revolving credit category is comprised of the outstanding balances on credit cards and BB&T s checking account overdraft protection product, Constant Credit. Such balances are generally unsecured and actively managed by BB&T Bankcard Corporation. Finally, the sales finance category primarily includes secured indirect installment loans to consumers for the purchase of automobiles. Such loans are originated through approved franchised and independent automobile dealers throughout the BB&T market area and, to a lesser degree, states outside BB&T s market area. The sales finance category also includes loans for the purchase of boats and recreational vehicles originated through dealers in BB&T s market area. Substantially all consumer loans, excluding the revolving credit portfolio, are secured.

Mortgage Loan Portfolio

BB&T is a large originator of residential mortgage loans, with originations in 2007 totaling $11.9 billion. Branch Bank offers various types of fixed- and adjustable-rate loans for the purpose of constructing, purchasing or refinancing residential properties. BB&T primarily originates conforming mortgage loans and higher quality jumbo and construction-to-permanent loans for owner-occupied properties. Conforming loans are loans that are underwritten in accordance with the underwriting standards set forth by the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). They are generally collateralized by one-to-four-family residential real estate, have loan-to-collateral value ratios of 80% or less, and are made to borrowers in good credit standing.

Risks associated with the mortgage lending function include interest rate risk, which is mitigated through the sale of substantially all conforming fixed-rate loans in the secondary mortgage market and an effective mortgage servicing rights hedge process. Borrower risk is lessened through rigorous underwriting procedures and mortgage insurance. The right to service the loans and receive servicing income is generally retained when conforming loans are sold. Management believes that the retention of mortgage servicing is a primary relationship driver in retail banking and a vital part of management s strategy to establish profitable long-term customer relationships and offer high quality client service. BB&T also purchases residential mortgage loans from correspondent originators. The loans purchased from third-party originators are subject to the same underwriting and risk-management criteria as loans originated internally.

Specialized Lending Portfolio

BB&T s specialized lending portfolio consists of loans originated through six wholly owned subsidiaries that provide specialty finance alternatives to consumers and businesses including: dealer-based financing of equipment for small businesses and consumers, commercial equipment leasing and finance, direct and indirect consumer finance, insurance premium finance, indirect subprime automobile finance, and full-service commercial mortgage banking. BB&T offers these services to bank clients as well as nonbank clients within and outside BB&T s primary geographic market area.

The specialized lending portfolio carries a higher overall credit risk profile than BB&T s other portfolios with a corresponding higher yield on the loans. BB&T s specialized lending subsidiaries adhere to the same overall underwriting approach as the commercial and consumer lending portfolio and also utilize automated credit scoring to assist with underwriting the credit risk. The majority of these loans are relatively homogenous and no single loan is individually significant in terms of its size and potential risk of loss. The majority of the loans are secured by real estate, automobiles, equipment or unearned insurance premiums. As of December 31, 2007, included in the specialized lending portfolio are loans to subprime borrowers of approximately $2.4 billion, or 2.6% of the total BB&T loan and lease portfolio. Of these, approximately $350 million are residential real estate loans and included in the disclosures in Table 6 herein.

Table of Contents

The following table presents BB&T s total loan portfolio based upon the primary purpose of the loan, as discussed herein, rather than upon regulatory reporting classifications:

Table 3

Composition of Loan and Lease Portfolio Based on Loan Purpose

	December 31,				
	2007	2006	2005	2004	2003
	(Dollars in millions)				
Loans and leases, net of unearned income:					
Commercial loans	$ 43,685	$ 39,580	$ 34,965	$ 31,968	$ 29,083
Leveraged leases	1,185	1,720	1,650	1,576	1,500
Total commercial loans and leases	44,870	41,300	36,615	33,544	30,583
Sales finance	6,021	5,683	5,264	5,176	5,250
Revolving credit	1,618	1,414	1,347	1,277	1,180
Direct retail	15,691	15,312	14,453	13,585	11,812
Total consumer loans	23,330	22,409	21,064	20,038	18,242
Residential mortgage loans	17,467	15,596	13,971	11,715	10,915
Specialized Lending	5,240	3,606	2,744	2,253	1,840
Total loans held for investment	90,907	82,911	74,394	67,550	61,580
Total loans held for sale	779	680	629	613	725
Total loans and leases	$ 91,686	$ 83,591	$ 75,023	$ 68,163	$ 62,305

The following table reflects the scheduled maturities of commercial, financial and agricultural loans, as well as real estate construction loans:

Table 4

Selected Loan Maturities and Interest Sensitivity (1)

	December 31, 2007		
	Commercial, Financial and Agricultural	Real Estate: Construction	Total
	(Dollars in millions)		
Fixed rate:			
1 year or less (2)	$ 1,695	$ 1,120	$ 2,815
1-5 years	1,861	3,840	5,701

After 5 years	1,654	1,241	2,895
Total	5,210	6,201	11,411
Variable rate:			
1 year or less (2)	5,278	7,948	13,226
1-5 years	2,613	4,444	7,057
After 5 years	936	881	1,817
Total	8,827	13,273	22,100
Total loans and leases (3)	$ 14,037	$ 19,474	$ 33,511

(1) Balances include unearned income.
(2) Includes loans due on demand.

Table of Contents

		(Dollars in millions)
(3)	The above table excludes:	
(i)	consumer loans	$ 11,107
(ii)	real estate mortgage loans	44,687
(iii)	loans held for sale	779
(iv)	lease receivables	3,899
Total		$ 60,472

Scheduled repayments are reported in the maturity category in which the payment is due. Determinations of maturities are based upon contract terms. BB&T s credit policy typically does not permit automatic renewal of loans. At the scheduled maturity date (including balloon payment date), the customer generally must request a new loan to replace the matured loan and execute either a new note or note modification with rate, terms and conditions negotiated at that time.

Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments

The allowance for loan and lease losses is determined based on management s best estimate of probable losses that are inherent in the portfolio at the balance sheet date. BB&T s allowance is driven by existing conditions and observations, and reflects losses already incurred, even if not yet identifiable.

The Corporation determines the allowance based on an ongoing evaluation of the loan and lease portfolios. This evaluation is inherently subjective because it requires material estimates, including the amounts and timing of cash flows expected to be received on impaired loans. Those estimates may be susceptible to significant change. Increases to the allowance are made by charges to the provision for credit losses, which is reflected in the Consolidated Statements of Income. Loans or leases deemed to be uncollectible are charged against the allowance. Recoveries of previously charged-off amounts are credited to the allowance.

In addition to the allowance for loan and lease losses, BB&T also estimates probable losses related to binding unfunded lending commitments. The methodology to determine such losses is inherently similar to the methodology utilized in calculating the allowance for commercial loans, adjusted for factors specific to binding commitments, including the probability of funding and exposure at funding. The reserve for unfunded lending commitments is included in accounts payable and other liabilities on the Consolidated Balance Sheets. Changes to the reserve for unfunded lending commitments are made by charges or credits to the provision for credit losses.

Reserve Policy and Methodology

The allowance for loan and lease losses consists of (1) a component for individual loan impairment recognized and measured pursuant to Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan,* and (2) components of collective loan impairment recognized pursuant to SFAS No. 5, *Accounting for Contingencies,* including a component that is unallocated. BB&T maintains specific reserves for individually impaired loans pursuant to SFAS No. 114. A loan is impaired when, based on current information and events, it is probable that BB&T will be unable to collect all amounts due (interest as well as principal) according to the contractual terms of the loan agreement. On a quarterly basis, BB&T reviews all commercial lending relationships with outstanding debt of $2 million or more that have been classified as substandard or doubtful. Loans are considered impaired when the borrower does not have the cash flow capacity or willingness to service the debt according to contractual terms, or it does not appear reasonable to assume that the borrower will continue to pay according to the contractual agreement. The amount of impairment is based on the present value of expected cash flows discounted at the loan s effective interest rate, and/or the value of collateral adjusted for any origination costs and nonrefundable fees that existed at the time of origination.

Reserves established pursuant to the provisions of SFAS No. 5 for collective loan impairment are primarily based on historical charge-off experience using a rolling twelve quarter annualized net charge-off rate. However, historical charge-off experience may be adjusted to reflect the effects of current conditions. BB&T considers information derived from its loan risk ratings; internal observable data related to trends within the loan and lease portfolios, including credit quality, concentrations, aging of the portfolio, growth and acquisitions; volatility adjustments to reflect changes in historical net charge-off rates and changes in probabilities of default; external

Table of Contents

observable data related to industry and general economic trends; and any significant, relevant changes to BB&T s policies and procedures. Any adjustments to historical loss experience are based on one or more sets of observable data as described above and are directionally consistent with changes in the data from period to period, taking into account the interaction of components over time. The adjusted historical loss information is applied to pools of loans grouped according to similar risk characteristics to calculate components of the allowance. In the commercial lending portfolio, each loan is assigned a risk grade at origination by the account officer and the assigned risk grade is subsequently reviewed and finalized through BB&T s established loan review committee process. Loans are assigned risk grades based on an assessment of conditions that affect the borrower s ability to meet contractual obligations under the loan agreement. This process includes reviewing borrowers financial information, historical payment experience, credit documentation, public information, and other information specific to each borrower. The established risk management regimen includes a review of all credit relationships with total credit exposure of $1 million or more on an annual basis or at any point management becomes aware of information affecting the borrower s ability to fulfill their obligations. In addition, for small business and commercial clients where total credit exposure is less than $1 million, BB&T has developed an automated loan review system to identify and proactively manage accounts with a higher risk of loss. The score produced by this automated system is updated monthly. All of the loan portfolios grouped in the retail lending and specialized lending categories typically employ scoring models to segment credits into groups with homogenous risk characteristics. Scoring models are validated on a periodic basis in order to ensure reliable default rate information. This information is employed to evaluate the levels of risk associated with new production as well as to assess any risk migration in the existing portfolio.

A portion of the Corporation s allowance for loan and lease losses is not allocated to any specific category of loans. This unallocated portion of the allowance reflects management s best estimate of the elements of imprecision and estimation risk inherent in the calculation of the overall allowance. Due to the subjectivity involved in determining the overall allowance, including the unallocated portion, the portion considered unallocated may fluctuate from period to period based on management s evaluation of the factors affecting the assumptions used in calculating the allowance, including historical loss experience, current economic conditions, industry or borrower concentrations and the status of merged institutions. The allocated and unallocated portions of the allowance are available to absorb losses in any loan or lease category. Management evaluates the adequacy of the allowance for loan and lease losses based on the combined total of the allocated and unallocated components.

While management uses the best information available to establish the allowance for loan and lease losses, future adjustments to the allowance or to the reserving methodology may be necessary if economic conditions differ substantially from the assumptions used in making the valuations.

Table of Contents

The following table presents an estimated allocation of the allowance for loan and lease losses at the end of each of the past five years. This table is presented based on the regulatory reporting classifications of the loans. This allocation of the allowance for loan and lease losses 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 5

Allocation of Allowance for Loan and Lease Losses by Category

	December 31, 2007		2006		2005		2004		2003	
	Amount	% Loans in each category	Amount	% Loans in each category	Amount	% Loans in each category	Amount	% Loans in each category	Amount	% Loans in each category
	(Dollars in millions)									
Balances at end of period applicable to:										
Commercial, financial and agricultural	$ 183	14.9%	$ 135	12.6%	$ 138	12.3%	$ 130	12.5%	$ 155	12.6%
Real estate:										
Construction and land development	223	20.7	193	20.4	132	15.4	96	12.2	94	10.0
Mortgage	391	48.4	360	49.9	381	54.4	403	56.4	382	56.9
Total real estate	614	69.1	553	70.3	513	69.8	499	68.6	476	66.9
Consumer	134	11.8	121	12.1	100	12.4	111	13.1	80	14.2
Lease receivables	20	4.2	26	5.0	24	5.5	22	5.8	29	6.3
Unallocated	53		53		50		43		45	
Total	$ 1,004	100.0%	$ 888	100.0%	$ 825	100.0%	$ 805	100.0%	$ 785	100.0%

The following tables provide further details regarding BB&T s commercial real estate lending, residential mortgage and consumer home equity portfolios as of December 31, 2007.

Table 6

Real Estate Lending Portfolio Credit Quality and Geographic Distribution

Commercial Real Estate Loan Portfolio (1)

	As of / For the Period Ended December 31, 2007					
Residential Acquisition, Development, and Construction Loans (ADC)	Builder / Construction	Land / Land Development	Condos / Townhomes	Total ADC	Other Commercial Real Estate (2)	Total Commercial Real Estate

	(Dollars in millions, except average loan and average client size)					
Total loans outstanding	$ 3,446	$ 4,614	$ 665	$ 8,725	$ 9,769	$ 18,494
Average loan size (in thousands)	286	586	1,419	427	433	430
Average client size (in thousands)	857	1,345	3,400	1,137	604	781
Percentage of total loans	3.8%	5.0%	.7%	9.5%	10.7%	20.2%
Nonaccrual loans and leases as a percentage of category	1.33	1.39	.45	1.30	.37	.81
Gross charge-offs as a percentage of category	.21	.20	.23	.21	.07	.13

Table of Contents

Residential Acquisition, Development, and Construction Loans (ADC) by State of Origination	Total Outstandings	Percentage of Total	Nonaccrual Loans and Leases	Nonaccrual as a Percentage of Outstandings	Gross Charge-Offs as a Percentage of Outstandings
	As of / For the Period Ended December 31, 2007 (Dollars in millions)				
North Carolina	$ 2,893	33.2%	$ 18	.62%	.10%
Georgia	1,754	20.1	28	1.58	.57
Virginia	1,410	16.2	4	.32	.13
Florida	928	10.7	35	3.77	.10
South Carolina	674	7.7	5	.72	.02
Tennessee	291	3.3	4	1.25	.05
Washington, D.C.	264	3.0	1	.34	
Kentucky	221	2.5	5	2.42	.09
West Virginia	151	1.7	13	8.61	1.07
Maryland	139	1.6			
Total	$ 8,725	100.0%	$ 113	1.30%	.21%

NOTES: (1) Commercial real estate loans (CRE) are defined as loans to finance non-owner occupied real property where the primary repayment source is the sale or rental/lease of the real property. Definition is based on internal classification.

(2) Other CRE loans consist primarily of non-residential income producing CRE loans. C&I loans secured by real property are excluded.

Residential Mortgage Portfolio

Mortgage Loans	Prime	ALT-A	Construction/ Permanent	Subprime (1)
	As of /For the Period Ended December 31, 2007 (Dollars in millions, except average loan size)			
Total loans outstanding	$ 12,213	$ 3,295	$ 1,788	$ 520
Average loan size (in thousands)	187	323	298	64
Average credit score	720	734	734	604
Percentage of total loans	13.3%	3.6%	2.0%	.6%
Percentage that are first mortgages	99.6	99.7	98.7	81.2
Nonaccrual loans and leases as a percentage of category	.55	.72	1.09	3.28
Gross charge-offs as a percentage of category	.04	.03	.26	.78

Residential Mortgage Loans by State	Total Mortgages Outstanding (1)	Percentage of Total	Nonaccrual as a Percentage of Outstandings	Gross Charge-Offs as a Percentage of Outstandings
	As of / For the Period Ended December 31, 2007 (Dollars in millions)			
North Carolina	$ 4,385	24.6%	.33%	.06%
Virginia	3,627	20.4	.53	.09
Florida	2,657	14.9	1.67	.04
Maryland	1,876	10.5	.43	.05
South Carolina	1,676	9.4	.38	.02
Georgia	1,669	9.4	1.37	.22
West Virginia	398	2.2	.52	.01
Kentucky	356	2.0	.53	.14

Tennessee	246	1.4	.13	.02
Washington, D.C.	185	1.0	.40	
Other	741	4.2	.94	.11
Total	$ 17,816	100.0%	.71%	.08%

Table of Contents

Home Equity Portfolio (2)

Home Equity Loans & Lines	As of /For the Period Ended December 31, 2007 Home Equity Loans	Home Equity Lines
	(Dollars in millions)	
Total loans outstanding	$ 10,138	$ 4,463
Average loan size (in thousands) (3)	47	32
Average credit score	724	757
Percentage of total loans	11.1%	4.9%
Percentage that are first mortgages	76.9	22.6
Nonaccrual loans and leases as a percentage of category	.32	.19
Gross charge-offs as a percentage of category	.29	.26

Home Equity Loans and Lines by State	Total Home Equity Loans and Lines Outstanding	Percentage of Total	Nonaccrual as a Percentage of Outstanding	Gross Charge-Offs as a Percentage of Outstandings
	As of / For the Period Ended December 31, 2007 (Dollars in millions)			
North Carolina	$ 5,145	35.2%	.24%	.43%
Virginia	3,223	22.1	.14	.19
South Carolina	1,454	10.0	.37	.23
Georgia	1,136	7.8	.41	.29
West Virginia	904	6.2	.30	.10
Maryland	843	5.8	.18	.15
Florida	714	4.9	.57	.27
Kentucky	615	4.2	.39	.20
Tennessee	457	3.1	.43	.08
Washington, D.C.	92	.6	.29	.55
Other	18	.1	.57	
Total	$ 14,601	100.0%	.28%	.28%

NOTES: (1) Includes $350 million in loans originated by Lendmark Financial Services, which are disclosed as a part of the specialized lending category.
(2) Home Equity portfolio is a component of direct retail loans and originated through the BB&T branching network.
(3) Home equity lines without an outstanding balance are excluded from this calculation.

Investment Activities

Investment securities represent a significant portion of BB&T s assets. Branch Bank invests in securities as allowable under bank regulations. These securities include obligations of the U.S. Treasury, U.S. government agencies, U.S. government sponsored entities, including mortgage-backed securities, bank eligible obligations of any state or political subdivision, privately-issued mortgage-backed securities, structured notes, bank eligible corporate obligations, including corporate debentures, commercial paper, negotiable certificates of deposit, bankers acceptances, mutual funds and limited types of equity securities. Branch Bank may also deal in securities subject to the provisions of the Gramm-Leach-Bliley Act. Scott & Stringfellow, Inc., BB&T s full-service brokerage and investment banking subsidiary, engages in the underwriting, trading and sales of equity and debt securities subject to the risk management policies of the Corporation.

BB&T s investment activities are governed internally by a written, board-approved policy. The investment policy is carried out by the Corporation s Market Risk and Liquidity Committee (MRLC), which meets regularly to review the economic environment and establish investment strategies. The MRLC also has much broader responsibilities, which are discussed in the Market Risk Management section in Management s Discussion and Analysis of Financial Condition and Results of Operations herein.

Investment strategies are established by the MRLC based on the interest rate environment, balance sheet mix, actual and anticipated loan demand, funding opportunities and the overall interest rate sensitivity of the Corporation. In general, the investment portfolio is managed in a manner appropriate to the attainment of the following goals: (i) to provide a sufficient margin of liquid assets to meet unanticipated deposit and loan fluctuations and overall funds management objectives; (ii) to provide eligible securities to secure public funds, trust deposits as prescribed by law and other borrowings; and (iii) to earn the maximum return on funds invested that is commensurate with meeting the requirements of (i) and (ii).

Funding Activities

Deposits are the primary source of funds for lending and investing activities, and their cost is the largest category of interest expense. Scheduled payments, as well as prepayments, and maturities from portfolios of loans and investment securities also provide a stable source of funds. Federal Home Loan Bank (FHLB) advances, other secured borrowings, Federal funds purchased and other short-term borrowed funds, as well as longer-term debt issued through the capital markets, all provide supplemental liquidity sources. BB&T s funding activities are monitored and governed through BB&T s overall asset/liability management process, which is further discussed in the Market Risk Management section in Management s Discussion and Analysis of Financial Condition and Results of Operations herein. BB&T conducts its funding activities in compliance with all applicable laws and regulations. Following is a brief description of the various sources of funds used by BB&T. For further discussion relating to outstanding balances and balance fluctuations, refer to the Deposits and Other Borrowings section in Management s Discussion and Analysis of Financial Condition and Results of Operations herein.

Deposits

Deposits are attracted principally from clients within BB&T s branch network through the offering of a broad selection of deposit instruments to individuals and businesses, including noninterest-bearing checking accounts, interest-bearing checking accounts, savings accounts, money rate savings accounts, investor deposit accounts, certificates of deposit and individual retirement accounts. Deposit account terms vary with respect to the minimum balance required, the time period the funds must remain on deposit and service charge schedules. Interest rates paid on specific deposit types are determined based on (i) the interest rates offered by competitors, (ii) the anticipated amount and timing of funding needs, (iii) the availability and cost of alternative sources of funding, and (iv) the anticipated future economic conditions and interest rates. Client deposits are attractive sources of funding because of their stability and relative cost. Deposits are regarded as an important part of the overall client relationship and provide opportunities to cross-sell other BB&T services. In addition, BB&T gathers a portion of its deposit base through wholesale funding products, which include negotiable certificates of deposit and Eurodollar deposits through the use of a Cayman branch facility. At December 31, 2007, these sources of deposits represented approximately 12% of BB&T s total deposits.

The following table provides information regarding the scheduled maturities of time deposits that are $100,000 and greater at December 31, 2007:

Table 7

Scheduled Maturities of Time Deposits $100,000 and Greater

December 31, 2007

(Dollars in millions)

Maturity Schedule

Three months or less	$ 6,641
Over three through six months	3,729
Over six through twelve months	2,806
Over twelve months	1,157
Total	$ 14,333

Borrowed Funds

BB&T s ability to borrow funds from nondeposit sources provides additional flexibility in meeting the liquidity needs of the Company. Short-term borrowings include Federal funds purchased, securities sold under repurchase agreements, master notes, short-term FHLB advances, U.S. Treasury tax and loan depository note

Table of Contents

accounts and other short-term borrowings. See Note 9 Federal Funds Purchased, Securities Sold Under Agreements to Repurchase, and Short-Term Borrowed Funds in the Notes to Consolidated Financial Statements herein for additional disclosures related to these types of borrowings.

BB&T also utilizes longer-term borrowings when management determines that the pricing and maturity options available through these sources create cost-effective options for funding asset growth and satisfying capital needs. BB&T s long-term borrowings include long-term FHLB advances to Branch Bank, senior and subordinated debt issued by BB&T Corporation and Branch Bank, junior subordinated debt underlying trust preferred securities and capital leases. See Note 10 Long-Term Debt in the Notes to Consolidated Financial Statements herein for additional disclosures related to long-term borrowings.

Employees

At December 31, 2007, BB&T had approximately 29,400 full-time equivalent employees compared to approximately 29,300 full-time equivalent employees at December 31, 2006.

Properties

BB&T and its significant subsidiaries occupy headquarter offices that are either owned or operated under long-term leases. BB&T also owns free-standing operations centers, with its primary operations and information technology center located in Wilson, North Carolina. BB&T also owns or leases significant office space used as the Corporation s headquarters in Winston-Salem, North Carolina. At December 31, 2007, Branch Bank operated 1,492 branch offices in North Carolina, South Carolina, Virginia, Maryland, Georgia, West Virginia, Tennessee, Kentucky, Alabama, Florida, Indiana and Washington, D.C. BB&T also operates numerous insurance agencies and other businesses that occupy facilities. Office locations are either owned or leased. Management believes that the premises occupied by BB&T and its subsidiaries are well-located and suitably equipped to serve as financial services facilities. See Note 6 Premises and Equipment in the Notes to Consolidated Financial Statements in this report for additional disclosures related to BB&T s properties and other fixed assets.

Web Site Access to BB&T s Filings with the Securities and Exchange Commission

All of BB&T s electronic filings with the Securities and Exchange Commission (SEC), including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available at no cost on the Corporation s web site, www.BBT.com, through the Investor Relations link as soon as reasonably practicable after BB&T files such material with, or furnishes it to, the SEC. BB&T s SEC filings are also available through the SEC s web site at www.sec.gov.

Executive Officers of BB&T

The following table lists the members of BB&T s executive management team:

Name of Executive Officer	Title	Years of Service	Age
John A. Allison IV	Chairman and Chief Executive Officer	37	59
Ricky K. Brown	Senior Executive Vice President and Banking Network Manager	31	52
W. Kendall Chalk	Senior Executive Vice President and Chief Credit Officer	33	62
Barbara F. Duck	Senior Executive Vice President and Electronic Delivery Channels Manager	20	41
Donna C. Goodrich	Senior Executive Vice President and Deposit Services Manager	22	45
Robert E. Greene	Senior Executive Vice President and Risk Management and Administrative Group Manager	35	57
Christopher L. Henson	Senior Executive Vice President and Chief Financial Officer	23	46
Kelly S. King	Chief Operating Officer	36	59
Clarke R. Starnes III	Senior Executive Vice President and Specialized Lending Group Manager	26	48
Steven B. Wiggs	Senior Executive Vice President and Chief Marketing Officer	29	50
C. Leon Wilson III	Senior Executive Vice President and Operations Division Manager	31	52

Table of Contents

Equity Compensation Plan Information

The following table provides information concerning securities to be issued upon the exercise of outstanding equity-based awards, the weighted average price of such awards and the securities remaining available for future issuance as of December 31, 2007.

Equity Compensation Plan Information

Plan Category	(a)(1) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b)(1) Weighted-average exercise price of outstanding options, warrants and rights	(c)(1)(2) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in (a))
Equity compensation plans approved by security holders	41,791,849	$ 33.17	18,827,006
Equity compensation plans not approved by security holders			
Total	41,791,849	$ 33.17	18,827,006

(1) The table above does not include 245,334 options outstanding at December 31, 2007, at a weighted-average exercise price of $25.90, which are administered under First Virginia option plans that were assumed by BB&T in its acquisition by merger of First Virginia. No future options will be issued under the First Virginia plans.

(2) All awards remaining available for future issuance will be issued under the terms of the BB&T Corporation 2004 Stock Incentive Plan, as amended by the Corporation s shareholders at the 2007 Annual Meeting of Shareholders.

Table of Contents

PERFORMANCE GRAPH

Set forth below is a graph comparing the total returns (assuming reinvestment of dividends) of BB&T Common Stock, the S&P 500 Index, and an Industry Peer Group Index. The graph assumes $100 invested on December 31, 2002 in BB&T Common Stock and in each of the indices. In 2007, the financial holding companies in the Industry Peer Group Index (the Peer Group) were Comerica Incorporated, Fifth-Third Bancorp, KeyCorp, M&T Bank Corporation, Marshall & Ilsley Corporation, National City Corporation, PNC Financial Services Group, Inc., Popular, Incorporated, Regions Financial Corporation, SunTrust Banks, Inc., UnionBanCal Corporation and U.S. Bancorp. The Peer Group consists of bank holding companies with assets between approximately $44.4 billion and $237.6 billion.

* $ 100 invested on 12/31/02 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

	Cumulative Total Return					
	12/02	12/03	12/04	12/05	12/06	12/07
BB&T CORPORATION	**100.00**	**108.15**	**122.05**	**126.20**	**137.46**	**100.17**
S&P 500	**100.00**	**128.68**	**142.68**	**149.69**	**173.33**	**182.85**
BB&T s PEER GROUP	**100.00**	**128.91**	**139.36**	**136.31**	**159.39**	**120.36**

Table of Contents

REGULATORY CONSIDERATIONS

The following discussion describes elements of an extensive regulatory framework applicable to bank holding companies, financial holding companies and banks and specific information about BB&T and its subsidiaries. Regulation of banks, bank holding companies and financial holding companies is intended primarily for the protection of depositors and the Deposit Insurance Fund (the DIF) rather than for the protection of shareholders and creditors. In addition to banking laws, regulations and regulatory agencies, BB&T and its subsidiaries and affiliates are subject to various other laws and regulations and supervision and examination by other regulatory agencies, all of which directly or indirectly affect the operations and management of BB&T and its ability to make distributions to shareholders.

General

As a bank holding company and a financial holding company under federal law, BB&T is subject to regulation under the Bank Holding Company Act of 1956, as amended, (the BHCA) and the examination and reporting requirements of the Board of Governors of the Federal Reserve System (the Federal Reserve Board). As a state-chartered commercial bank, Branch Bank is subject to regulation, supervision and examination by the North Carolina Commissioner of Banks. In addition, BB&T Bankcard Corporation is a special-purpose Georgia bank, subject to regulation, supervision and examination by the Georgia Department of Banking and Finance. Branch Bank and BB&T Bankcard Corporation are collectively referred to herein as the Banks. Each of the Banks is also subject to regulation, supervision and examination by the Federal Deposit Insurance Corporation (the FDIC). State and federal law also govern the activities in which the Banks engage, the investments they make and the aggregate amount of loans that may be granted to one borrower. Various consumer and compliance laws and regulations also affect the Banks operations. The Banks are also affected by the actions of the Federal Reserve Board as it attempts to control the monetary supply and credit availability in order to influence the economy.

In addition to federal and state banking laws and regulations, BB&T and certain of its subsidiaries and affiliates, including those that engage in securities underwriting, dealing, brokerage, investment advisory and insurance activities, are subject to other federal and state laws and regulations, and supervision and examination by other state and federal regulatory agencies and other regulatory authorities, including the SEC, the Financial Industry Regulatory Authority (the FINRA), the NYSE Euronext, Inc. (the NYSE), and various state insurance and securities regulators.

The earnings of BB&T s subsidiaries, and therefore the earnings of BB&T, are affected by general economic conditions, management policies, changes in state and federal laws and regulations and actions of various regulatory authorities, including those referred to above. Proposals to change the laws and regulations to which BB&T and its subsidiaries are subject are frequently introduced at both the federal and state levels. The likelihood and timing of any such changes and the impact such changes might have on BB&T and its subsidiaries are impossible to determine with any certainty. The description herein summarizes the significant state and federal laws to which BB&T and the Banks currently are subject. To the extent statutory or regulatory provisions are described, the description is qualified in its entirety by reference to the particular statutory or regulatory provisions.

Financial Holding Company Regulation

Under current federal law, a bank holding company, such as BB&T, may elect to become a financial holding company, which allows the holding company to offer customers virtually any type of service that is financial in nature or incidental thereto, including banking and activities closely related thereto, securities underwriting, insurance (both underwriting and agency) and merchant banking. In order to become and maintain its status as a financial holding company, a financial holding company and all of its affiliated depository institutions must be well-capitalized, well-managed, and have at least a satisfactory Community Reinvestment Act of 1977 (CRA) rating. If the Federal Reserve Board determines that a financial holding company is not well-capitalized or well-managed, the company has a period of time to come into compliance, but during the period of noncompliance, the Federal Reserve Board can place any limitations on the financial holding company that it believes to be

Table of Contents

appropriate. Furthermore, if the Federal Reserve Board determines that a financial holding company has not maintained a satisfactory CRA rating, the company will not be able to commence any new financial activities or acquire a company that engages in such activities, although the company will still be allowed to engage in activities closely related to banking and make investments in the ordinary course of conducting merchant banking activities. BB&T became a financial holding company on June 14, 2000, and currently satisfies the requirements to maintain its status as a financial holding company.

Most of the financial activities that are permissible for financial holding companies are also permissible for a financial subsidiary of one or more of the Banks, except for insurance underwriting, insurance company portfolio investments, real estate investments and development, and merchant banking, which must be conducted in a financial holding company. In order for these financial activities to be engaged in by a financial subsidiary of a bank, federal law requires the parent bank (and its sister-bank affiliates) to be well-capitalized and well-managed; the aggregate consolidated assets of all of that bank s financial subsidiaries may not exceed the lesser of 45% of its consolidated total assets or $50 billion; the bank must have at least a satisfactory CRA rating; and if that bank is one of the 100 largest national banks, it must meet certain financial rating or other comparable requirements.

Current federal law also establishes a system of functional regulation under which the Federal Reserve Board is the umbrella regulator for bank holding companies, but bank holding company affiliates are to be principally regulated by functional regulators such as the FDIC for state nonmember bank affiliates, the SEC for securities affiliates and state insurance regulators for insurance affiliates. Certain specific activities, including traditional bank trust and fiduciary activities, may be conducted in the bank without the bank being deemed a broker or a dealer in securities for purposes of functional regulation. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the states may continue to adopt and enforce rules that specifically regulate bank insurance activities in certain identifiable areas.

Acquisitions

BB&T complies with numerous laws related to its acquisition activity. Under the BHCA, a bank holding company may not directly or indirectly acquire ownership or control of more than 5% of the voting shares or substantially all of the assets of any bank holding company or bank or merge or consolidate with another bank holding company without the prior approval of the Federal Reserve Board. Current federal law authorizes interstate acquisitions of banks and bank holding companies without geographic limitation. Furthermore, a bank headquartered in one state is authorized to merge with a bank headquartered in another state, subject to any state requirement that the target bank shall have been in existence and operating for a minimum period of time, not to exceed five years; and subject to certain deposit market-share limitations. After a bank has established branches in a state through an interstate merger transaction, the bank may establish and acquire additional branches at any location in the state where a bank headquartered in that state could have established or acquired branches under applicable federal or state law.

Other Safety and Soundness Regulations

The Federal Reserve Board has enforcement powers over bank holding companies and their nonbanking subsidiaries. The Federal Reserve Board has authority to prohibit activities that represent unsafe or unsound practices or constitute violations of law, rule, regulation, administrative order or written agreement with a federal regulator. These powers may be exercised through the issuance of cease and desist orders, civil money penalties or other actions.

There also are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event the depository institution is insolvent or is in danger of becoming insolvent. For example, under requirements of the Federal Reserve Board with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit financial resources to support such institutions in circumstances where it might not do so otherwise. In addition, the cross-guarantee provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by the DIF as a result of the insolvency of commonly controlled insured depository institutions or for any assistance provided by the FDIC to commonly controlled insured depository institutions in danger of failure. The FDIC may decline to enforce the cross-guarantee provision if it determines that a waiver is in the best interests of the DIF. The FDIC s claim for reimbursement under the cross guarantee provisions is superior to claims of shareholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and nonaffiliated holders of subordinated debt of the commonly controlled insured depository institution.

State banking regulators also have broad enforcement powers over the Banks, including the power to impose fines and other civil and criminal penalties, and to appoint a conservator (with the approval of the Governor in the case of a North Carolina state bank) in order to conserve the assets of any such institution for the benefit of depositors and other creditors. The North Carolina Commissioner of Banks also has the authority to take possession of a North Carolina state bank in certain circumstances, including, among other things, when it appears that such bank has violated its charter or any applicable laws, is conducting its business in an unauthorized or unsafe manner, is in an unsafe or unsound condition to transact its business or has an impairment of its capital stock.

Payment of Dividends

BB&T is a legal entity separate and distinct from its subsidiaries. The majority of BB&T s revenue is from dividends paid to BB&T by Branch Bank. Branch Bank is subject to laws and regulations that limit the amount of dividends it can pay. In addition, both BB&T and Branch Bank are subject to various regulatory restrictions relating to the payment of dividends, including requirements to maintain capital at or above regulatory minimums, and to remain well-capitalized under the prompt corrective action regulations summarized elsewhere in this section. Federal banking regulators have indicated that banking organizations should generally pay dividends only if (1) the organization s net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (2) the prospective rate of earnings retention appears consistent with the organization s capital needs, asset quality and overall financial condition. North Carolina law states that, subject to certain capital requirements, the board of directors of a bank chartered under the laws of North Carolina may declare a dividend of as much of that bank s undivided profits as the directors deem expedient. BB&T does not expect that these laws, regulations or policies will materially affect the ability of Branch Bank to pay dividends. At December 31, 2007, subject to restrictions imposed by state law, the Board of Directors of Branch Bank could have declared dividends of up to $3.4 billion; however, to remain well-capitalized under federal guidelines, Branch Bank would have limited total additional dividends to $1.0 billion.

Capital

Each of the federal banking agencies, including the Federal Reserve Board and the FDIC, have issued substantially similar risk-based and leverage capital guidelines applicable to banking organizations they supervise, including bank holding companies and banks. Under the risk-based capital requirements, BB&T and the Banks are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital must be composed of common shareholders equity excluding the over- or underfunded status of postretirement benefit obligations, unrealized gains or losses on debt securities available for sale, unrealized gains on equity securities available for sale and unrealized gains or losses on cash flow hedges, net of deferred income taxes; plus certain mandatorily redeemable capital securities; less nonqualifying intangible assets net of applicable deferred income taxes and certain nonfinancial equity investments. This is called Tier 1 capital. The remainder may consist of qualifying subordinated debt, certain hybrid capital instruments, qualifying preferred stock and a limited amount of the allowance for credit losses. This is called Tier 2 capital. Tier 1 capital and Tier 2 capital combined are referred to as total regulatory capital.

The Federal Reserve Board requires bank holding companies that engage in trading activities to adjust their risk-based capital ratios to take into consideration market risks that may result from movements in market prices of covered trading positions in trading accounts, or from foreign exchange or commodity positions, whether or not in trading accounts, including changes in interest rates, equity prices, foreign exchange rates or commodity prices. Any capital required to be maintained under these provisions may consist of a new Tier 3 capital consisting of forms of short-term subordinated debt.

28

Table of Contents

Each of the federal bank regulatory agencies, including the Federal Reserve Board, also has established minimum leverage capital requirements for banking organizations. These requirements provide that banking organizations that meet certain criteria, including excellent asset quality, high liquidity, low interest rate exposure and good earnings, and that have received the highest regulatory rating must maintain a ratio of Tier 1 capital to total adjusted average assets of at least 3%. Institutions not meeting these criteria, as well as institutions with supervisory, financial or operational weaknesses, are expected to maintain a minimum Tier 1 capital to total adjusted average assets ratio at least 100 basis points above that stated minimum. Holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. The Federal Reserve Board also continues to consider a tangible Tier 1 capital leverage ratio (deducting all intangibles) and other indicators of capital strength in evaluating proposals for expansion or new activity.

In addition, both the Federal Reserve Board and the FDIC have adopted risk-based capital standards that explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution s ability to manage these risks, as important factors to be taken into account by each agency in assessing an institution s overall capital adequacy. The capital guidelines also provide that an institution s exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a banking organization s capital adequacy. The agencies also require banks and bank holding companies to adjust their regulatory capital to take into consideration the risk associated with certain recourse obligations, direct credit subsidies, residual interest and other positions in securitized transactions that expose banking organizations to credit risk.

The ratios of Tier 1 capital, total capital to risk-adjusted assets, and leverage capital of BB&T and Branch Bank as of December 31, 2007, are shown in the following table.

Table 8

Capital Adequacy Ratios of BB&T Corporation and Branch Bank

December 31, 2007

	Regulatory Minimums	Regulatory Minimums to be Well-Capitalized	BB&T	Branch Bank
Risk-based capital ratios:				
Tier 1 capital (1)	4.0%	6.0%	9.1%	8.8%
Total risk-based capital (2)	8.0	10.0	14.2	11.1
Tier 1 leverage ratio (3)	3.0	5.0	7.2	7.0

(1) Common shareholders equity excluding the over-or underfunded status of postretirement benefit obligations, unrealized gains or losses on debt securities available for sale, unrealized gains on equity securities available for sale and unrealized gains or losses on cash flow hedges, net of deferred income taxes; plus certain mandatorily redeemable capital securities, less nonqualifying intangible assets net of applicable deferred income taxes, and certain nonfinancial equity investments; computed as a ratio of risk-weighted assets, as defined in the risk-based capital guidelines.

(2) The sum of Tier 1 capital, a qualifying portion of the allowance for credit losses, qualifying subordinated debt and qualifying unrealized gains on available for sale equity securities; computed as a ratio of risk-weighted assets, as defined in the risk-based capital guidelines.

(3) Tier 1 capital computed as a percentage of fourth quarter average assets less nonqualifying intangibles and certain nonfinancial equity investments.

The federal banking agencies, including the Federal Reserve Board and the FDIC, are required to take prompt corrective action in respect of depository institutions and their bank holding companies that do not meet minimum capital requirements. The law establishes five capital categories for insured depository institutions for this purpose: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. To be considered well-capitalized under these standards, an institution must maintain a total risk-based capital ratio of 10% or greater; a Tier 1 risk-based capital ratio of 6% or greater; a leverage capital ratio of 5% or greater; and must not be subject to any order or written directive to meet and maintain a specific capital level for any capital measure. BB&T and Branch Bank are classified as well-capitalized. Federal law also requires the bank regulatory agencies to implement systems for prompt corrective action for institutions that fail to meet minimum capital requirements within the five capital categories, with progressively more severe restrictions on operations, management and capital distributions according to the category in which an institution is placed. Failure to meet capital requirements may also cause an institution to be directed to raise additional capital. Federal law also mandates that the agencies adopt safety and soundness standards relating generally to operations and management, asset quality and executive compensation, and authorizes administrative action against an institution that fails to meet such standards.

In addition to the prompt corrective action directives, failure to meet capital guidelines may subject a banking organization to a variety of other enforcement remedies, including additional substantial restrictions on its operations and activities, termination of deposit insurance by the FDIC and, under certain conditions, the appointment of a conservator or receiver.

Deposit Insurance Assessments

The deposits of the Banks are insured by the DIF of the FDIC up to the limits set forth under applicable law and are subject to the deposit insurance premium assessments of the DIF. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 (the Reform Act). Under this system, as amended, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines its assessment rate based on certain specified financial ratios or, if applicable, its long-term debt ratings. As of January 1, 2007, assessments for the DIF could range from 5 to 43 basis points per $100 of assessable deposits, depending on the insured institution s risk category as described above. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. The FDIC has published guidelines under the Reform Act on the adjustment of assessment rates for certain institutions. Under the current system, premiums are assessed quarterly. The Reform Act also provides for a one-time premium assessment credit for eligible insured depository institutions, including those institutions in existence and paying deposit insurance premiums on December 31, 1996, or certain successors to any such institution. The assessment credit is determined based on the eligible institution s deposits at December 31, 1996 and is applied automatically to reduce the institution s quarterly premium assessments to the maximum extent allowed, until the credit is exhausted. In addition, insured deposits have been required to pay a pro rata portion of the interest due on the obligations issued by the Financing Corporation (FICO) to fund the closing and disposal of failed thrift institutions by the Resolution Trust Corporation.

Consumer Protection Laws

In connection with their lending and leasing activities, the Banks are each subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, and their respective state law counterparts.

Federal law currently contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, at the inception of the customer relationship and annually thereafter, the institution s policies and procedures regarding the handling of customers nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

The CRA requires the Banks primary federal bank regulatory agency, in this case the FDIC, to assess the bank s record in meeting the credit needs of the communities served by each Bank, including low- and moderate-income neighborhoods and persons. Institutions are assigned one of four ratings: Outstanding, Satisfactory,

Table of Contents

Needs to Improve or Substantial Noncompliance. This assessment is reviewed for any bank that applies to merge or consolidate with or acquire the assets or assume the liabilities of an insured depository institution, or to open or relocate a branch office. The CRA record of each subsidiary bank of a financial holding company, such as BB&T, also is assessed by the Federal Reserve Board in connection with any acquisition or merger application.

USA Patriot Act

The USA Patriot Act of 2001 (the Patriot Act) contains anti-money laundering measures affecting insured depository institutions, broker-dealers and certain other financial institutions. The Patriot Act includes the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the IMLAFA). The IMLAFA requires such financial institutions to implement policies and procedures to combat money laundering and the financing of terrorism and grants the Secretary of the Treasury broad authority to establish regulations and to impose requirements and restrictions on financial institutions operations. In addition, the Patriot Act requires the federal bank regulatory agencies to consider the effectiveness of a financial institution s anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions. The U.S. Treasury Department has issued a number of regulations implementing the Patriot Act, which impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The obligations of financial institutions under the Patriot Act have increased, and may continue to increase, BB&T s costs and may subject BB&T to liability. As noted above, enforcement and compliance-related activities by government agencies has increased. Compliance with the Patriot Act, and in particular the IMLAFA, are among the areas receiving focus from bank regulators conducting examinations and this can be expected to continue.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 comprehensively revised the laws affecting corporate governance, accounting obligations and corporate reporting for companies, such as BB&T, with equity or debt securities registered under the Securities Exchange Act of 1934, as amended. In particular, the Sarbanes-Oxley Act established: (i) new requirements for audit committees, including independence, expertise, and responsibilities; (ii) certification responsibilities for the Chief Executive Officer and Chief Financial Officer with respect to the Company s financial statements; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for reporting companies and their directors and executive officers; and (v) new and increased civil and criminal penalties for violation of the federal securities laws.

Other Regulatory Matters

BB&T and its subsidiaries and affiliates are subject to numerous examinations by federal and state banking regulators, as well as the SEC, the FINRA, the NYSE and various state insurance and securities regulators. BB&T and its subsidiaries have from time to time received requests for information from regulatory authorities in various states, including state insurance commissions and state attorneys general, securities regulators and other regulatory authorities, concerning their business practices. Such requests are considered incidental to the normal conduct of business.

Corporate Governance

Information with respect to BB&T s corporate governance policies and principles is presented on BB&T s web site, www.BBT.com, and includes:

- BB&T s Corporate Governance Guidelines
- BB&T s Corporate Board of Directors
- Committees of the Corporate Board of Directors and Committee Charters
- BB&T s Codes of Ethics for Directors, Senior Financial Officers and Employees
- Chief Executive Officer and Chief Financial Officer Certifications

31

Table of Contents

- BB&T s Executive Officers

- BB&T s Policy and Procedures for Accounting and Legal Complaints

BB&T intends to disclose any substantive amendments or waivers to the Code of Ethics for Directors or Senior Financial Officers on our web site at www.BBT.com/Investor.

NYSE Certification

The annual certification of BB&T s Chief Executive Officer required to be furnished to the NYSE pursuant to Section 303A.12(a) of the NYSE Listed Company Manual was previously filed with the NYSE on May 14, 2007.

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following discussion and analysis of the consolidated financial condition and consolidated results of operations of BB&T Corporation and its subsidiaries for each of the three years in the period ended December 31, 2007, and related financial information, are presented in conjunction with the consolidated financial statements and related notes to assist in the evaluation of BB&T s 2007 performance.

Reclassifications

In certain circumstances, reclassifications have been made to prior period information to conform to the 2007 presentation. Such reclassifications had no effect on previously reported shareholders equity or net income.

Mergers and Acquisitions Completed During 2007

During 2007, BB&T completed the following mergers and acquisitions:

On January 2, 2007, BB&T completed its acquisition of insurance premium finance company AFCO Credit Corporation and its Canadian affiliate, CAFO, Inc. (collectively, AFCO). The acquisition has significantly strengthened BB&T s insurance premium finance franchise in the United States, as well as provided entry into Canada.

On May 1, 2007, BB&T completed its merger with Coastal Financial Corporation (Coastal), a bank holding company headquartered in Myrtle Beach, South Carolina. Coastal had $1.7 billion in assets and operated 17 branches in the Myrtle Beach area of South Carolina and seven branches in the Wilmington area of North Carolina. Shareholders of Coastal received .385 of a share of BB&T common stock in exchange for each share of Coastal common stock.

On November 1, 2007, BB&T completed its acquisition of Collateral Real Estate Capital, LLC (Collateral), a commercial real estate finance company headquartered in Birmingham, Alabama. BB&T combined the operations of Collateral with its existing commercial mortgage banking subsidiary, Laureate Capital LLC. The combined company was renamed Grandbridge Real Estate Capital LLC and will be based in Charlotte, North Carolina.

In addition to the mergers and acquisitions noted above, BB&T acquired four insurance agencies and divested one insurance agency during 2007, all of which were immaterial in relation to the consolidated results of BB&T. See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for further information regarding mergers and acquisitions.

Critical Accounting Policies

The accounting and reporting policies of BB&T Corporation and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. 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 BB&T s consolidated financial position and/or consolidated results of operations and related disclosures. The more critical accounting and reporting policies include BB&T s accounting for the allowance for loan and lease losses and reserve for unfunded lending commitments, valuation of mortgage servicing rights, intangible assets and other purchase accounting related adjustments associated with mergers and acquisitions, costs and benefit obligations associated with BB&T s pension and postretirement benefit plans, and income taxes. Understanding BB&T s accounting policies is fundamental to understanding BB&T s consolidated financial position and consolidated results of operations. Accordingly, BB&T s significant accounting policies and changes in accounting principles and effects of new accounting pronouncements are discussed in detail in Note 1 in the Notes to Consolidated Financial Statements.

Table of Contents

The following is a summary of BB&T s critical accounting policies that are highly dependent on estimates, assumptions and judgments. These critical accounting policies are reviewed with the Audit Committee of BB&T s Board of Directors on a periodic basis.

Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments

It is the policy of BB&T to maintain an allowance for loan and lease losses and a reserve for unfunded lending commitments that equal management s best estimate of probable credit losses that are inherent in the portfolio at the balance sheet date. Estimates for loan and lease losses are determined by analyzing historical loan and lease losses, current trends in delinquencies and charge-offs, plans for problem loan and lease administration, the results of regulatory examinations, and changes in the size, composition and risk assessment of the loan and lease portfolio. Also included in management s estimates for loan and lease losses are considerations with respect to the impact of current economic events, the outcomes of which are uncertain. These events may include, but are not limited to, fluctuations in overall interest rates, political conditions, legislation that may directly or indirectly affect the banking industry and economic conditions affecting specific geographical areas and industries in which BB&T conducts business. The methodology used to determine an estimate for the reserve for unfunded lending commitments is inherently similar to the methodology utilized in calculating the allowance for loans and leases adjusted for factors specific to binding commitments, including the probability of funding and exposure at the time of funding. A detailed discussion of the methodology used in determining the allowance for loan and lease losses and the reserve for unfunded lending commitments is included in the Overview and Description of Business Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments.

Valuation of Mortgage Servicing Rights

BB&T has a significant mortgage loan servicing portfolio and related mortgage servicing rights. Mortgage servicing rights represent the present value of the future net servicing fees from servicing mortgage loans acquired or originated by BB&T. The methodology used to determine the fair value of mortgage servicing rights is subjective and requires the development of a number of assumptions, including anticipated prepayments of loan principal. The value of mortgage servicing rights is significantly affected by mortgage interest rates available in the marketplace, which influence mortgage loan prepayment speeds. In general, during periods of declining interest rates, the value of mortgage servicing assets declines due to increasing prepayments attributable to increased mortgage refinance activity. Conversely, during periods of rising interest rates, the value of servicing assets generally increases due to reduced refinance activity. BB&T has two classes of mortgage servicing rights for which it separately manages the economic risk: residential and commercial. Residential mortgage servicing rights are carried at fair value with changes in fair value recorded as a component of mortgage banking income each period. BB&T uses various derivative instruments to mitigate the income statement effect of changes in fair value, due to change in valuation inputs and assumptions, of its residential mortgage servicing rights. Commercial mortgage servicing rights are carried at lower of cost or market and amortized over the estimated period that servicing income is expected to be received based on projections of the amount and timing of estimated future cash flows. The amount and timing of servicing asset amortization is updated based on actual results and updated projections. Please refer to Note 8 Loan Servicing in the Notes to Consolidated Financial Statements for quantitative disclosures reflecting the effect that changes in management s assumptions would have on the fair value of mortgage servicing rights.

Intangible Assets

BB&T s growth in business, profitability and market share over the past several years has been enhanced significantly by mergers and acquisitions. BB&T s mergers and acquisitions are accounted for using the purchase method of accounting. Under the purchase method, BB&T is required to record the assets acquired, including identified intangible assets, and liabilities assumed at their fair value, which often involves estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques, which are inherently subjective. The amortization of identified intangible assets is based upon the estimated economic benefits to be received, which is also subjective. These estimates also include the establishment of various accruals and allowances based on planned facility dispositions and employee severance considerations, among other acquisition-related items. In addition, purchase acquisitions typically result in goodwill, which is subject to ongoing periodic impairment tests based on the fair value of net assets acquired compared to the carrying value of goodwill. Please refer to Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for a description of BB&T s impairment testing process. The major assumptions used in the impairment testing process include the estimated future cash flows of each business unit and discount rates. Discount rates are unique to each business unit and are based upon the cost of capital specific to the industry in which the business unit operates. Management has evaluated the effect of lowering the estimated future cash flows or increasing the discount rate for each business unit by 10% and determined that no impairment of goodwill would have been recognized under this evaluation.

Pension and Postretirement Benefit Obligations

BB&T offers various pension plans and postretirement benefit plans to employees. The calculation of the obligations and related expenses under these plans requires the use of actuarial valuation methods and assumptions. Actuarial valuations and assumptions used in the determination of future values of plan assets and liabilities are subject to management judgment and may differ significantly if different assumptions are used. The discount rate assumption used to measure the postretirement benefit obligations is set by reference to published high-quality bond indices, as well as certain hypothetical spot-rate yield curves. These yield curves were constructed from the underlying bond price and yield data collected as of the plan s measurement date and are represented by a series of annualized, individual discount rates with durations ranging from six months to thirty years. Each discount rate in the curve was derived from an equal weighting of the double A or higher bond universe, apportioned into distinct maturity groups. For durations where no bond maturities were available, the discount rates for these maturities were extrapolated based on historical relationships from observable data in similar markets. These indices and hypothetical curves give only an indication of the appropriate discount rate because the cash flows of the bonds comprising the indices and curves do not match the projected benefit payment stream of the plan precisely. For this reason, we also consider the individual characteristics of the plan, such as projected cash flow patterns and payment durations, when setting the discount rate. Please refer to Note 14 Benefit Plans in the Notes to Consolidated Financial Statements for disclosures related to BB&T s benefit plans, including quantitative disclosures reflecting the impact that changes in certain assumptions would have on service and interest costs and benefit obligations.

Income Taxes

The calculation of BB&T s income tax provision is complex and requires the use of estimates and judgments. As part of the Company s analysis and implementation of business strategies, consideration is given to the tax laws and regulations that apply to the specific facts and circumstances for any tax position under evaluation. For tax positions that are uncertain in nature, management determines whether the tax position is more likely than not to be sustained upon examination. For tax positions that meet this threshold, management then estimates the amount of the tax benefit to recognize in the financial statements. Management closely monitors tax developments in order to evaluate the effect they may have on the Company s overall tax position and the estimates and judgments utilized in determining the income tax provision and records adjustments as necessary.

Analysis of Financial Condition

A summary of the more significant fluctuations in balance sheet accounts is presented below.

For the year ended December 31, 2007, BB&T s average assets totaled $126.4 billion, an increase of $12.1 billion, or 10.6%, compared to the 2006 average of $114.3 billion, primarily reflecting growth in average loans and leases and investment securities. Average loans and leases for 2007 were up $8.6 billion, or 10.9%, from 2006 and average investment securities increased $2.0 billion, or 9.2%, compared to 2006. The growth in average loans and leases was composed of growth in average commercial loans and leases, which increased $3.5 billion, or 9.0%;

average mortgage loans, which increased $2.0 billion, or 13.0%; average consumer loans, which increased $1.2 billion, or 5.6%; and growth in average loans originated by BB&T s specialized lending subsidiaries, which increased $1.9 billion, or 58.8%. Total earning assets averaged $112.3 billion in 2007, an increase of $10.7 billion, or 10.6%, compared to 2006. These averages and growth rates include the effects of acquisitions.

BB&T s average deposits totaled $83.5 billion, reflecting growth of $6.3 billion, or 8.1%, compared to 2006. The categories of deposits with the highest growth rates were: client certificates of deposit, which increased $3.5 billion, or 15.4%; and other client deposits, which increased $2.8 billion, or 8.9%.

Table of Contents

Short-term borrowings include Federal funds purchased, securities sold under repurchase agreements, master notes, short-term bank notes, treasury tax and loan deposit notes payable and other short-term borrowings. Average short-term borrowings totaled $9.3 billion for the year ended December 31, 2007, an increase of $2.3 billion, or 33.1%, from the 2006 average. BB&T has also utilized long-term debt for a significant portion of its funding needs. Long-term debt includes Federal Home Loan Bank (FHLB) advances, other secured borrowings by Branch Bank, capital securities issued by unconsolidated trusts and senior and subordinated debt issued by the Corporation and Branch Bank. Average long-term debt totaled $18.0 billion for the year ended December 31, 2007, up $3.4 billion, or 23.4%, compared to 2006.

The compound annual rate of growth in average total assets for the five-year period ended December 31, 2007, was 10.8%. Over the same five-year period, average loans and leases increased at a compound annual rate of 11.6%, average securities increased at a compound annual rate of 6.6%, and average deposits grew at a compound annual rate of 11.2%. These balance sheet growth rates include the effect of acquisitions, as well as internal growth.

For more detailed discussions concerning the causes of these fluctuations, please refer to the sections that follow.

Securities

The securities portfolio provides earnings and liquidity, and is managed as part of the overall asset and liability management process to optimize net interest income and reduce exposure to interest rate risk. Management has historically emphasized investments with duration of five years or less to provide flexibility in managing the balance sheet in changing interest rate environments. Total securities increased 2.4% in 2007, to a total of $23.4 billion at the end of the year. As of December 31, 2007, the total securities portfolio included $1.0 billion in trading securities and $22.4 billion of available-for-sale securities. The available-for-sale portfolio comprised 95.7% of total securities at December 31, 2007. Management believes that the high concentration of securities in the available-for-sale portfolio allows flexibility in the day-to-day management of the overall investment portfolio, consistent with the objectives of optimizing profitability and mitigating interest rate risk.

The available-for-sale securities portfolio is primarily composed of U.S. government-sponsored entity obligations and mortgage-backed securities issued by U.S. government-sponsored entities. U.S. government-sponsored entity securities comprised 43.4% of the available-for-sale securities portfolio at December 31, 2007. The duration of the U.S. government-sponsored entity portfolio was 1.83 years and 2.84 years at December 31, 2007 and 2006, respectively. Mortgage-backed securities comprised 36.7% of the total available-for-sale securities portfolio at year-end 2007. The duration of the mortgage-backed securities was 2.91 years at December 31, 2007 compared to 3.26 years at December 31, 2006. The duration of the entire available-for-sale portfolio at December 31, 2007 was 2.43 years compared to 3.04 years at December 31, 2006.

The following table provides information regarding the composition of BB&T s securities portfolio for the years presented:

Table 9

Composition of Securities Portfolio

	December 31,		
	2007	**2006**	**2005**

	(Dollars in millions)		
Trading securities (at estimated fair value):	$ 1,009	$ 2,147	$ 707
Securities available for sale (at estimated fair value):			
U.S. Treasury securities	73	83	112
U.S. government-sponsored entity securities	9,734	9,036	11,154
States and political subdivisions	1,392	571	675
Mortgage-backed securities	8,221	8,297	6,611
Equity and other securities	2,999	2,734	1,231
Total securities available for sale	22,419	20,721	19,783
Total securities	$ 23,428	$ 22,868	$ 20,490

Table of Contents

At December 31, 2007, trading securities reflected on BB&T s consolidated balance sheet totaled $1.0 billion compared to $2.1 billion at December 31, 2006. The decline in the trading portfolio was the result of a $1.1 billion purchase of municipal securities executed late in 2006, which matured early in 2007.

The $1.7 billion increase in securities available for sale was the result of a combination of factors, including an increase in funds allocated to the securities portfolio as a result of the acquisition of Coastal, and an increase in municipal securities with states and political subdivisions primarily due to a new funding program in BB&T s Capital Markets Group. During the year ended December 31, 2007, BB&T sold approximately $2.5 billion of available-for-sale securities and realized net losses totaling $3 million.

The following table presents BB&T s securities portfolio at December 31, 2007, segregated by major category with ranges of maturities and average yields disclosed.

Table 10

Securities

	December 31, 2007	
	Carrying Value	Weighted Average Yield (1)
	(Dollars in millions)	
U.S. Treasury securities:		
Within one year	$ 45	4.80%
One to five years	24	4.07
Five to ten years	4	4.22
Total	73	4.52
U.S. government-sponsored entity securities:		
Within one year	810	3.81
One to five years	5,004	4.19
Five to ten years	3,858	4.83
After ten years	62	5.95
Total	9,734	4.43
Mortgage-backed securities (2):		
Within one year	11	3.15
One to five years	151	3.82
Five to ten years	187	4.94
After ten years	7,872	5.11
Total	8,221	5.08
Obligations of states and political subdivisions:		
Within one year	147	6.68
One to five years	232	6.78
Five to ten years	72	6.91

After ten years	941	6.89
Total	1,392	6.86
Other securities (3):		
Within one year	5	3.37
One to five years	70	5.84
Five to ten years	511	7.28
After ten years	1,671	5.72
Total	2,257	6.07
Trading securities and securities with no stated maturity (4)	1,751	5.03
Total securities (5)	$ 23,428	5.01%

(1) Yields on tax-exempt securities are calculated on a taxable-equivalent basis using the statutory federal income tax rate of 35%. Yields for available-for-sale securities are calculated based on the amortized cost of the securities.
(2) For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted average contractual maturities of underlying collateral.
(3) Includes privately-issued mortgage-backed securities totaling $1.7 billion. For purposes of the maturity table, these securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted average contractual maturities of underlying collateral.
(4) Trading securities and securities with no stated maturity include equity investments that totaled $742 million and trading securities that totaled $1.0 billion.
(5) Includes securities available-for-sale and trading securities carried at estimated fair values of $22.4 billion and $1.0 billion, respectively.

The market value of the available-for-sale portfolio at year-end 2007 was $45 million lower than the amortized cost of these securities. At December 31, 2007, BB&T s available-for-sale portfolio had net unrealized losses, net of deferred income taxes, of $28 million, which are reported as a component of shareholders equity. At December 31, 2006, the available-for-sale portfolio had net unrealized losses of $249 million, net of deferred income taxes. The improvement in the fair value of the securities available-for-sale portfolio during 2007 was primarily a result of a decline in interest rates in the marketplace at December 31, 2007 compared to the prior year-end.

On December 31, 2007, BB&T held certain investment securities having continuous unrealized loss positions for more than 12 months. As of December 31, 2007, the unrealized losses on these securities totaled $36 million. Substantially all of these investments were in U.S. government-sponsored entity securities and mortgage-backed securities, which primarily consist of securities issued by the Federal Farm Credit Bureau, the Federal Home Loan Bank System, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. These agencies are rated AAA and the unrealized losses are the result of increases in market interest rates compared to the date the securities were acquired rather than the credit quality of the issuers. At December 31, 2007, BB&T had the ability and intent to retain these securities for a period of time sufficient to recover all unrealized losses. Accordingly, BB&T has not recognized any other-than-temporary impairment in connection with these securities during 2007.

The fully taxable equivalent (FTE) yield on the total securities portfolio was 5.05% for the year ended December 31, 2007, compared to 4.48% for the prior year. The increase in FTE yield resulted principally from the changes in the overall composition of the securities portfolio with a larger concentration of higher-yielding mortgage-backed securities and other securities, which primarily consist of privately-issued mortgage backed securities. The yield on U.S. government-sponsored entity securities increased from 4.02% in 2006 to 4.58% in 2007, while the yield on mortgage-backed securities increased from 4.97% to 5.15% and the FTE yield on state and municipal securities decreased from 6.89% last year to 6.65% in the current year. The yield on other securities increased from 5.82% during 2006 to 6.35% in 2007.

Loans and Leases

BB&T emphasizes commercial lending to small and medium-sized businesses, consumer lending, mortgage lending and specialized lending with an overall goal of maximizing the profitability of the loan portfolio while maintaining strong asset quality. The various categories of loan products offered by BB&T are discussed under Lending Activities in the Overview and Description of Business section herein. BB&T is a full-service lender with approximately one-half of its loan portfolio to businesses and one-half to individual consumers. Average commercial loans, including lease receivables, comprised 48.3% of the loan portfolio during 2007, compared to 49.1% in 2006. Average consumer loans, which include sales finance, revolving credit and direct retail, comprised 26.0% of average loans in 2007, compared to 27.3% in 2006. Average mortgage loans comprised 19.9% of average total loans for 2007, compared to 19.5% a year ago. Average loans originated by BB&T s specialized lending subsidiaries represented the remaining 5.8% of average total loans in 2007, compared to 4.1% during the prior year.

Table of Contents

BB&T s loan portfolio, excluding loans held for sale, increased $8.0 billion, or 9.6%, as compared to 2006. Average total loans and leases for 2007 increased $8.6 billion, or 10.9%, compared to 2006. The growth in the loan portfolio was primarily a result of strong internal growth in the commercial and industrial lending portfolio, as well as growth in the mortgage and specialized lending portfolios. The growth in average loans during 2007, includes the impact of the acquisitions of Main Street Banks, Inc. (Main Street) and First Citizens Bancorp (First Citizens), which were acquired in 2006, and Coastal and AFCO, which were acquired during 2007.

Average commercial loans and leases increased $3.5 billion, or 9.0%, in 2007 as compared to 2006. Overall the commercial loan and lease portfolio showed strong growth during 2007. The mix of the commercial loan portfolio has shifted somewhat, as commercial real estate lending has slowed due to a slower real estate market. This has been offset by an increased focus on commercial and industrial loans. Average consumer loans increased $1.2 billion, or 5.6%, as compared to 2006, which includes increases in direct retail loans of 3.8%, sales finance loans of 9.6% and revolving credit loans of 9.7%. The pace of growth in the direct retail loan portfolio slowed further in 2007, due to a slowdown in the residential real estate market, which decreased demand for home equity loan products. Sales finance loans and revolving credit reflected solid growth rates during 2007. BB&T concentrates its efforts on the highest quality borrowers in both of these product markets. Average mortgage loans increased $2.0 billion, or 13.0%, compared to 2006. Management views mortgage loans as an integral part of BB&T s relationship-based credit culture. BB&T is a large originator of residential mortgage loans, with 2007 originations of $11.9 billion. To improve the overall yield of the loan portfolio and to mitigate interest rate risk, BB&T sells most of its fixed-rate mortgage loans and some of its adjustable-rate mortgage loans in the secondary market. At December 31, 2007, BB&T was servicing $32.1 billion in residential mortgages owned by third parties and $18.9 billion of mortgage loans owned by BB&T, including $18.2 billion classified as mortgage loans and $669 million classified as securities available for sale. Average loans originated by BB&T s specialized lending subsidiaries increased $1.9 billion, or 58.8%, compared to 2006. The growth in the specialized lending portfolio was driven by the acquisition of AFCO as well as strong internal loan growth as management views these businesses as providing an attractive risk-adjusted return for BB&T and has grown this portfolio at a faster pace than the overall lending portfolio.

The average annualized FTE yields on commercial, consumer, mortgage and specialized lending subsidiary loans for 2007 were 7.76%, 7.54%, 5.99% and 13.27%, respectively, resulting in a yield for the total loan portfolio of 7.67%. The FTE yields on commercial, consumer, mortgage and specialized lending subsidiary loans for 2006 were 7.78%, 7.23%, 5.70% and 15.22%, respectively, resulting in a yield for the total loan portfolio of 7.53%. The 14 basis point increase in the average yield on loans resulted primarily from the repricing of maturing loans with lower yields that were replaced with higher-yielding loans and leases. In addition, the FTE yield on the total loan portfolio was positively affected by a change in the mix of loans, with a higher percentage of higher-yielding loans originated in the specialized lending group in 2007 compared to 2006. The prime rate is the basis for pricing many commercial and consumer loans and was 7.25% at year-end 2007. The average prime rate in effect during 2007 and 2006 was 8.05% and 7.96%, respectively. The Federal Reserve Board left rates unchanged from June 2006 through September 2007, but cut rates by 100 basis points over the last four months of 2007 in response to a slowing economy, challenges in the residential real estate markets, and disruptions in other financial markets. The Federal Reserve continued to aggressively lower rates in early 2008 with two cuts totaling 125 basis points and, as of February 1, 2008, the prime rate was 6.00%. Therefore, the FTE yield on the loan portfolio is expected to decline as loans mature or reprice.

Asset Quality and Credit Risk Management

BB&T utilizes the following general practices to manage credit risk:

- limiting the amount of credit that individual lenders may extend;
- establishing a process for credit approval accountability;

- careful initial underwriting and analysis of borrower, transaction, market and collateral risks;
- ongoing servicing of individual loans and lending relationships;
- continuous monitoring of the portfolio, market dynamics and the economy; and
- periodically reevaluating the bank s strategy and overall exposure as economic, market and other relevant conditions change.

Table of Contents

BB&T s lending strategy, which focuses on relationship-based lending within our markets and smaller individual loan balances, continues to produce credit quality that is better than its peer group of financial institutions. As measured by relative levels of nonperforming assets and net charge-offs, BB&T s asset quality has remained significantly better than published industry averages.

The following table summarizes asset quality information for the past five years.

Table 11

Asset Quality

	December 31,				
	2007	2006	2005	2004	2003
	(Dollars in millions)				
Nonaccrual loans and leases	$ 502	$ 260	$ 229	$ 269	$ 350
Restructured loans					1
Foreclosed property	194	89	71	89	96
Nonperforming assets	$ 696	$ 349	$ 300	$ 358	$ 447
Loans 90 days or more past due and still accruing	$ 223	$ 102	$ 103	$ 100	$ 117
Asset Quality Ratios: (1)					
Nonaccrual and restructured loans and leases as a percentage of loans and leases	.55%	.31%	.31%	.39%	.56%
Nonperforming assets as a percentage of:					
Total assets	.52	.29	.27	.36	.49
Loans and leases plus foreclosed property	.76	.42	.40	.52	.72
Net charge-offs as a percentage of average loans and leases	.38	.27	.30	.36	.43
Allowance for loan and lease losses as a percentage of loans and leases	1.10	1.06	1.10	1.18	1.26
Allowance for loan and lease losses as a percentage of loans and leases held for investment	1.10	1.07	1.11	1.19	1.27
Ratio of allowance for loan and leases to:					
Net charge-offs	2.97x	4.12x	3.84x	3.42x	3.17x
Nonaccrual and restructured loans and leases	2.00	3.41	3.60	2.99	2.24

NOTE: (1) Items referring to loans and leases are net of unearned income and, except for loans and leases held for investment, include loans held for sale.

During 2007, BB&T s credit quality declined as a result of a very challenging economic environment. Nonperforming assets and credit losses increased during the year, primarily in the latter half of 2007, as a result of the slowing residential real estate market and a weaker overall economy. Nonperforming assets increased from .29% of total assets at December 31, 2006 to .52% at year-end 2007. Net charge-offs for 2007 were .38% of average loans and leases and reflected an increase of 11 basis points from the .27% level recorded during 2006. The primary causes for the increase in net charge-offs were higher losses in residential real estate lending and higher default rates at Regional Acceptance, BB&T s sub-prime automobile lender. Management anticipates that net charge-offs and nonperforming assets will continue to increase into 2008, but expects that the increases will be manageable.

Table of Contents

The following table summarizes nonperforming assets and past due loans by loan type for the past three years.

Table 12

Summary of Nonperforming Assets and Past Due Loans

	December 31, 2007	December 31, 2006	December 31, 2005
	(Dollars in millions)		
Nonaccrual loans and leases			
Commercial loans and leases	$ 273	$ 129	$ 104
Direct retail	43	39	41
Sales finance	5	2	5
Mortgage	119	53	48
Specialized lending	62	37	31
Total nonaccrual loans and leases	502	260	229
Foreclosed real estate	143	54	48
Other foreclosed property	51	35	23
Total nonperforming assets	$ 696	$ 349	$ 300
Nonaccrual loans and leases as a percentage of total loans and leases			
Commercial loans and leases	.30%	.16%	.14%
Direct retail	.05	.05	.06
Sales finance			.01
Mortgage	.13	.06	.06
Specialized lending	.07	.04	.04
Total nonaccrual loans and leases as a percentage of loans and leases	.55%	.31%	.31%
Loans 90 days or more past due and still accruing interest			
Commercial loans and leases	$ 40	$ 14	$ 10
Direct retail	58	20	21
Sales finance	17	17	21
Revolving credit	15	6	5
Mortgage	85	37	39
Specialized lending	8	8	7
Total loans 90 days or more past due and still accruing interest	$ 223	$ 102	$ 103
Total loans 90 days or more past due and still accruing interest as a percentage of total loans and leases			
Commercial loans and leases	.04%	.02%	.01%
Direct retail	.06	.02	.03
Sales finance	.02	.02	.03
Revolving credit	.02	.01	.01
Mortgage	.09	.04	.05
Specialized lending	.01	.01	.01
Total loans 90 days or more past due and still accruing interest as a percentage of total loans and leases	.24%	.12%	.14%

Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments

The allowance for loan and lease losses and the reserve for unfunded lending commitments compose BB&T s allowance for credit losses. The allowance for credit losses totaled $1.0 billion at December 31, 2007, an increase of 14.3% compared to $888 million at the end of 2006. The allowance for loan and lease losses, as a percentage of loans and leases, was 1.10% at December 31, 2007, compared to 1.06% at year-end 2006. As a percentage of loans held for investment, the ratio of the allowance for loan and lease losses to total loans and leases was 1.10% at

Table of Contents

December 31, 2007 compared to 1.07% at the end of last year. The increase in the allowance for loan and leases losses, as a percentage of total loans outstanding reflects the deteriorating credit quality of the loan portfolio, primarily related to residential real estate lending. Please refer to Note 5 Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments in the Notes to Consolidated Financial Statements for additional disclosures.

Information relevant to BB&T s allowance for loan and lease losses for the last five years is presented in the following table. The table is presented using regulatory classifications.

Table 13

Analysis of Allowance for Credit Losses

	December 31,				
	2007	2006	2005	2004	2003
	(Dollars in millions)				
Balance, beginning of period	$ 888	$ 830	$ 828	$ 793	$ 724
Charge-offs:					
Commercial, financial and agricultural	(40)	(32)	(52)	(60)	(72)
Real estate	(93)	(46)	(45)	(61)	(78)
Consumer	(264)	(194)	(174)	(165)	(161)
Lease receivables	(8)	(5)	(6)	(11)	(5)
Total charge-offs	(405)	(277)	(277)	(297)	(316)
Recoveries:					
Commercial, financial and agricultural	11	12	14	17	25
Real estate	8	7	8	10	11
Consumer	47	41	39	34	30
Lease receivables	1	1	2	1	1
Total recoveries	67	61	63	62	67
Net charge-offs	(338)	(216)	(214)	(235)	(249)
Provision charged to expense	448	240	217	249	248
Allowance for loans (sold) acquired, net	17	34	(1)	21	70
Balance, end of period	$ 1,015	$ 888	$ 830	$ 828	$ 793
Average loans and leases (1)	$ 87,952	$ 79,313	$ 71,517	$ 66,107	$ 57,857
Net charge-offs as a percentage of average loans and leases (1)	.38%	.27%	.30%	.36%	.43%

(1) Loans and leases are net of unearned income and include loans held for sale.

Deposits and Other Borrowings

Client deposits generated through the BB&T banking network are the largest source of funds used to support asset growth. Total deposits at December 31, 2007, were $86.8 billion, an increase of $5.8 billion, or 7.2%, compared to year-end 2006. The increase in deposits during 2007 was driven by a $2.8 billion, or 39.4%, increase in other interest-bearing deposits, a $2.0 billion, or 7.9%, increase in client certificates of deposit (CDs), and a $1.4 billion, or 4.2%, increase in other client deposits, which include money rate savings accounts, investor deposit accounts, savings accounts, individual retirement accounts and other time deposits. These increases were partially offset by a decline of $334 million, or 2.5%, in noninterest-bearing deposits and a decline of $132 million, or 9.9%, in interest checking accounts. For the year ended December 31, 2007, total deposits averaged $83.5 billion, an increase of $6.3 billion, or 8.1%, compared to 2006. The increase in average deposits was primarily the result of a $3.5 billion, or 15.4%, increase in average CDs, and a $2.8 billion, or 8.9%, increase in average other client deposits. The overall increases in year-end and average deposits included the impact of the acquisition of Coastal, which was completed during 2007. The increase in average deposits also included the impact of the acquisitions of Main Street and First Citizens, which were completed during 2006.

Table of Contents

Average other client deposits, which include money rate savings accounts, investor deposit accounts, savings accounts, individual retirement accounts and other time deposits represent the largest component of BB&T s deposits and composed 41.0% of total average deposits for 2007, compared to 40.7% during 2006. CDs are the second largest source and composed 31.2% of total average deposits for 2007 compared to 29.2% for 2006. The remainder of client deposits consists of noninterest-bearing deposits and interest-checking accounts, which comprised 18.5% of total average deposits in the current year, compared to 19.9%, for last year. BB&T also gathers other interest-bearing deposits through wholesale funding products, which include negotiable certificates of deposit and Eurodollar deposits. Average other interest-bearing deposits represented 9.3% of total average deposits for 2007, as compared to 10.1% for 2006. During 2006, management increased its focus on deposit gathering efforts and more aggressively pursued retail deposits through the banking network to fund strong loan growth and fuel organic growth initiatives. This led to the increases in CDs as a percentage of total deposits and the decrease in reliance on other interest-bearing deposits. Late in 2007, management chose to price CDs less competitively, which has led to a slowdown in the growth of CDs more recently. The decline in noninterest-bearing and interest checking deposits as a percentage of total average deposits was largely a result of consumers migrating to CDs and other higher-yielding deposit products during 2006 and 2007. The slowing economy during 2007 also resulted in a decline in noninterest-bearing and interest checking deposits.

The average rate paid on interest-bearing deposits increased to 3.73% during 2007, from 3.34% in 2006. This increase resulted primarily as a result of a migration by clients into higher-cost products and intense price competition in the marketplace. The average rates paid on the various categories of interest-bearing deposits also increased as follows: CDs increased to 4.61% in the current year from 4.16% in 2006; other client deposits increased to 2.82% in the current year from 2.43% in 2006; interest checking increased to 2.31% in 2007 from 1.87% in 2006; and other interest-bearing deposits increased to 5.15% in 2007 from 5.04% in 2006. The average cost for interest-bearing deposits declined in the fourth quarter of 2007, as management was able to lower rates in response to the Federal Reserve cutting interest rates. Management anticipates that the cost of funding will continue to decline into 2008, as CDs and other products reprice.

BB&T also uses various types of short-term borrowings in meeting funding needs. While client deposits remain the primary source for funding loan originations, management uses short-term borrowings as a supplementary funding source for loan growth and other balance sheet management purposes. Short-term borrowings comprised 7.4% of total funding needs on average in 2007 as compared to 6.1% in 2006. See Note 9 Federal Funds Purchased, Securities Sold Under Agreements to Repurchase and Short-Term Borrowed Funds in the Notes to Consolidated Financial Statements herein for further disclosure. The types of short-term borrowings utilized by the Corporation include Federal funds purchased, which comprised 11.2% of total short-term borrowings, and securities sold under repurchase agreements, which comprised 23.8% of short-term borrowings at year-end 2007. Master notes, U.S. Treasury tax and loan deposit notes, and short-term bank notes are also utilized to meet short-term funding needs and comprised the remaining 65.0% of these types of funding sources as of December 31, 2007. Short-term borrowings at the end of 2007 were $10.6 billion, an increase of $2.5 billion, or 31.5% compared to year-end 2006. Average short-term borrowings totaled $9.3 billion during 2007 compared to $7.0 billion last year, an increase of 33.1%. The increase in the year-end balance and average balance compared to 2006 was primarily due to increases in short-term bank notes, which were generated by a new funding program offered by BB&T s Capital Markets Group. The rates paid on average short-term borrowings increased from 4.30% in 2006 to 4.55% during 2007. The increase in the cost of short-term borrowings primarily resulted from a higher average Federal funds rate in effect during 2007 compared to 2006. At December 31, 2007, the targeted Federal funds rate was 4.25% as compared to its lowest level of 1.00% in June 2003. As previously mentioned, the Federal Reserve lowered rates an additional 125 basis points in early 2008, and the targeted Federal funds rate is currently 3.00%. The following table summarizes certain pertinent information for the past three years with respect to BB&T s short-term borrowings:

Table of Contents

Table 14

Federal Funds Purchased, Securities Sold Under

Agreements to Repurchase and Short-Term Borrowed Funds

	As of /For the Year Ended Ended December 31,		
	2007	2006	2005
	(Dollars in millions)		
Securities Sold Under Agreements to Repurchase			
Maximum outstanding at any month-end during the year	$ 2,776	$ 3,080	$ 4,269
Balance outstanding at end of year	2,530	2,090	2,699
Average outstanding during the year	2,160	2,608	3,505
Average interest rate during the year	4.39%	4.35%	3.04%
Average interest rate at end of year	3.18	4.24	3.73
Federal Funds Purchased and Short-term Borrowed Funds			
Maximum outstanding at any month-end during the year	$ 9,148	$ 6,036	$ 5,447
Balance outstanding at end of year	8,104	5,997	3,863
Average outstanding during the year	7,165	4,398	3,881
Average interest rate during the year	4.39%	4.27%	3.04%
Average interest rate at end of year	3.79	4.83	3.93

BB&T also utilizes long-term debt to provide both funding and, to a lesser extent, regulatory capital. Long-term debt comprised 14.3% of total funding needs on average during 2007 and 12.8% in 2006. See Note 10 Long-Term Debt in the Notes to Consolidated Financial Statements herein for further disclosure. Long-term debt at December 31, 2007, totaled $18.7 billion, an increase of $2.8 billion, or 17.5%, from year-end 2006. For the year ended December 31, 2007, average long-term debt increased $3.4 billion, or 23.4%, compared to the average for 2006. BB&T s long-term debt consists primarily of FHLB advances, which composed 38.6% of total outstanding long-term debt at December 31, 2007, subordinated notes of BB&T Corporation, which composed 16.6% of the year-end balance and a $4.0 billion private financing arrangement by Branch Bank, which composed 21.4% of total outstanding long-term debt at December 31, 2007. FHLB advances are cost-effective long-term funding sources that provide BB&T with the flexibility to structure the debt in a manner that aids in the management of interest rate risk and liquidity. The remaining long-term debt primarily consists of both unsecured senior and subordinated borrowings by Branch Bank and junior subordinated debt to unconsolidated trusts issued by the Corporation. The average rate paid on long-term debt increased from 5.10% during 2006 to 5.46% during 2007 primarily because BB&T has issued floating rate instruments or elected to swap a portion of its fixed-rate long-term debt to floating rates. In addition, new long-term debt issuances in 2007 were at higher rates than issuances that were replaced during the year.

The increase in long-term debt during 2007 primarily resulted from a $4.0 billion fixed-rate private financing by Branch Bank that matures in 2010, which was partially offset by the repayment of $1.5 billion in private financing. The fixed interest rate on the new $4.0 billion borrowing was swapped to a floating rate during the first quarter of 2007. In addition, BB&T and Branch Bank issued new long-term debt during the second quarter of 2007 that provides additional regulatory capital. In June 2007, BB&T issued $600 million of capital securities through a statutory business trust created under the laws of the State of Delaware, which was formed by BB&T for the sole purpose of issuing the capital securities and investing the proceeds thereof in junior subordinated debentures issued by BB&T. BB&T has made guarantees which, taken collectively, fully, irrevocably, and unconditionally guarantee, on a subordinated basis, all of the obligations under the trust, including the capital securities. The capital securities qualify for Tier 1 regulatory capital treatment and have a scheduled maturity on June 12, 2057 and a final repayment date of June 12, 2077. BB&T is required to use all commercially reasonable efforts, subject to certain market disruption events, to sell adequate qualifying capital securities to permit repayment of the securities in full on the scheduled maturity date. In May 2007, Branch Bank issued $300 million of floating-rate subordinated notes due in 2017 that qualify for Tier II capital treatment.

Liquidity needs are a primary consideration in evaluating funding sources. BB&T s strategy is to maintain funding flexibility in order that the Corporation may react rapidly to opportunities that may become available in the marketplace. BB&T will continue to focus on traditional core funding strategies, supplemented as needed by the types of borrowings discussed above. See Liquidity herein for additional discussion.

Table of Contents

Shareholders Equity

Shareholders equity totaled $12.6 billion at December 31, 2007, an increase of $887 million, or 7.6%, from year-end 2006. During 2007, BB&T issued 11.5 million shares in connection with business combinations, the exercise of stock options and other equity-based incentive plans, which increased shareholders equity by $475 million. Additionally, growth of $748 million in shareholders equity resulted from BB&T s earnings retained after dividends to shareholders. This growth was partially offset by the repurchase of 7.0 million shares of common stock at a cost of $254 million. In addition, BB&T recorded a reduction in retained earnings of $425 million in connection with the adoption of FIN 48 and FSP FAS 13-2 and an increase to shareholders equity of $255 million from other comprehensive income, which principally relates to an increase in the fair value of available-for-sale securities.

Analysis of Results of Operations

Consolidated net income for 2007 totaled $1.73 billion, which generated basic earnings per share of $3.17 and diluted earnings per share of $3.14. Net income for 2006 was $1.53 billion and net income for 2005 totaled $1.65 billion. Basic earnings per share were $2.84 in 2006 and $3.02 in 2005, while diluted earnings per share were $2.81 and $3.00 for 2006 and 2005, respectively.

Two important and commonly used measures of bank profitability are return on average assets (net income as a percentage of average total assets) and return on average shareholders equity (net income as a percentage of average common shareholders equity). BB&T s returns on average assets were 1.37%, 1.34%, and 1.58% for the years ended December 31, 2007, 2006 and 2005, respectively. The returns on average common shareholders equity were 14.25%, 13.35%, and 14.95% for the last three years.

Net Interest Income

Net interest income is BB&T s primary source of revenue. Net interest income is influenced by a number of factors, including the volume, mix and maturity of interest-earning assets and interest-bearing liabilities and the interest rates earned and paid thereon. The difference between rates earned on interest-earning assets and the cost of the supporting funds (with an adjustment made to tax-exempt items to provide comparability with taxable items, i.e. the FTE adjustment) is measured by the net interest margin. The accompanying table presents the dollar amount of changes in interest income and interest expense, and distinguishes between the changes related to increases or decreases in average outstanding balances of interest-earning assets and interest-bearing liabilities (volume), and the changes related to increases or decreases in average interest rates on such assets and liabilities (rate). Changes attributable to both volume and rate have been allocated proportionately.

For 2007, net interest income on an FTE-adjusted basis totaled $3.9 billion, compared with $3.8 billion in 2006 and $3.6 billion in 2005. Net interest income increased 5.2% in 2006 compared to 2005, as the benefit from strong average earning asset growth of 9.6% was partially offset by the adverse impact from the steady increase in short-term rates, which caused funding costs to increase at a faster pace than interest on earning assets. The 4.0% increase in net interest income during 2007 resulted from similar factors, as earning assets grew 10.6%.

The FTE-adjusted net interest margin is the primary measure used in evaluating the gross profit margin from the portfolios of earning assets. The FTE-adjusted net interest margin was 3.52% in 2007, 3.74% in 2006 and 3.89% in 2005. The average yield on interest earning assets increased 22 basis points compared to the average yield during 2006, while the average cost of funds over the same time period increased 39 basis points.

During the second half of 2004 through the middle of 2006, the Federal Reserve Board implemented a series of interest rate increases that ultimately increased short-term rates by 425 basis points. The Federal Reserve Board reversed this trend in September 2007 and lowered short-term rates by 100 basis points in the last four months of 2007 and an additional 125 basis points in January 2008. While many of BB&T s liabilities reprice in a short period of time after a change in rates, there is typically a delay of between three and eighteen months before BB&T s assets will be repriced. The decline in the net interest margin during 2007 compared to 2006 was affected by additional funding costs associated with a payment to the IRS that was made in January 2007 as described in the Provision for Income Taxes section below. In addition, the net interest margin continued to tighten in 2007 for three primary reasons. First, the mix of asset growth has shifted from higher-yielding commercial real estate and direct retail loans to lower-yielding mortgage loans and commercial and industrial loans. Second, higher levels of nonaccruals have negatively affected net interest income and the net interest margin. Third, increased liability costs, specifically a shift to higher-cost deposits from lower-cost transaction accounts, contributed to the margin compression. The decline in the net interest margin during 2006 compared to 2005 was due to a faster increase in the cost of funds compared to interest-earning assets. This was primarily a result of a delay in the repricing of earning assets compared to interest-bearing liabilities and a change in the mix of funding sources with a higher concentration of deposits in higher-cost products. In addition to the lag effect described above, the margin was also negatively affected by a flat yield curve during 2005, which became inverted in 2006. The inverted yield curve is a significant challenge for financial services companies, like BB&T, who borrow money from clients in the form of deposits and pay short-term rates, and invest in assets with longer-term maturities, which generally produce an interest spread. BB&T s net interest margin in 2006 and 2007 was also negatively impacted by the additional interest expense incurred in connection with BB&T s share repurchase program.

Table of Contents

Table 15

FTE Net Interest Income and Rate / Volume Analysis

For the Years Ended December 31, 2007, 2006 and 2005

	Average Balances			Yield / Rate			Income / Expense			2007 vs. 2006			2006 vs. 2005		
										Increase	Change due to		Increase	Change due to	
	2007	2006	2005	2007	2006	2005	2007	2006	2005	(Decrease)	Rate	Volume	(Decrease)	Rate	Volume
							(Dollars in millions)								
Assets															
Securities, at amortized cost (1):															
U.S. Treasury securities	$ 82	$ 113	$ 120	4.52%	3.56%	3.05%	$ 4	$ 4	$ 4	$	$ 1	$ (1)	$	$	$
U.S. government sponsored-entity securities (6)	10,373	11,616	12,299	4.58	4.02	3.78	475	467	465	8	61	(53)	2	29	(27)
Mortgage-backed securities	8,265	6,990	6,106	5.15	4.97	4.72	425	347	288	78	13	65	59	16	43
States and political subdivisions	873	607	699	6.65	6.89	6.73	58	42	47	16	(1)	17	(5)	1	(6)
Other securities	2,495	1,160	696	6.35	5.82	4.97	158	67	35	91	8	83	32	7	25
Trading securities	1,223	862	547	4.62	3.34	2.64	57	29	14	28	13	15	15	4	11
Total securities (5)	23,311	21,348	20,467	5.05	4.48	4.17	1,177	956	853	221	95	126	103	57	46
Other earning assets (2)	1,042	911	719	4.88	5.69	3.06	51	52	22	(1)	(9)	8	30	22	8
Loans and leases, net of unearned income (1)(3)(4)(5)	87,952	79,313	71,517	7.67	7.53	6.59	6,749	5,973	4,713	776	114	662	1,260	714	546
Total earning assets	112,305	101,572	92,703	7.10	6.87	6.03	7,977	6,981	5,588	996	200	796	1,393	793	600
Non-earning assets	14,115	12,756	11,909												
Total assets	$ 126,420	$ 114,328	$ 104,612												
Liabilities and Shareholders Equity															
Interest-bearing deposits:															
Interest-checking	$ 2,297	$ 2,164	$ 1,797	2.31	1.87	0.80	53	40	14	13	10	3	26	23	3
Other client deposits	34,273	31,462	29,814	2.82	2.43	1.51	968	764	451	204	132	72	313	287	26
Client certificates of deposits	26,039	22,564	17,969	4.61	4.16	2.91	1,201	939	522	262	108	154	417	262	155
Other interest-bearing deposits	7,741	7,822	7,888	5.15	5.04	3.35	398	394	265	4	8	(4)	129	131	(2)
Total interest-bearing deposits	70,350	64,012	57,468	3.73	3.34	2.18	2,620	2,137	1,252	483	258	225	885	703	182
Federal funds purchased, securities sold under repurchase agreements and short-term borrowed funds(1)	9,325	7,006	7,386	4.55	4.30	3.04	424	301	224	123	18	105	77	90	(13)
Long-term debt	18,045	14,628	11,959	5.46	5.10	4.22	985	747	505	238	56	182	242	117	125

Total interest-bearing liabilities	97,720	85,646	76,813	4.12	3.72	2.58	4,029	3,185	1,981	844	332	512	1,204	910	294
Noninterest-bearing deposits	13,151	13,218	12,878												
Other liabilities	3,383	4,012	3,856												
Shareholders' equity	12,166	11,452	11,065												
Total liabilities and shareholders equity	$ 126,420	$ 114,328	$ 104,612												
Average interest rate spread				2.98%	3.15%	3.45%									
Net interest margin				3.52%	3.74%	3.89%	$ 3,948	$ 3,796	$ 3,607	$ 152	$ (132)	$ 284	$ 189	$ (117)	$ 306
Taxable equivalent adjustment							$ 68	$ 88	$ 83						

(1) Yields are stated on a taxable equivalent basis assuming tax rates in effect for the periods presented.
(2) Includes Federal funds sold, securities purchased under resale agreements or similar arrangements, interest-bearing deposits with banks, and other earning assets.
(3) Loan fees, which are not material for any of the periods shown, have been included for rate calculation purposes.
(4) Nonaccrual loans have been included in the average balances. Only the interest collected on such loans has been included as income.
(5) Includes assets which were held for sale or available for sale at amortized cost and trading securities at fair value.
(6) Includes stock issued by the FHLB of Atlanta.

Table of Contents

Provision for Credit Losses

A provision for credit losses is charged against earnings in order to maintain an allowance for loan and lease losses and a reserve for unfunded lending commitments that reflects management s best estimate of probable losses inherent in the credit portfolios at the balance sheet date. The amount of the provision is based on continuing assessments of nonperforming and watch list loans and associated unfunded credit commitments, analytical reviews of loss experience in relation to outstanding loans and funded credit commitments, loan charge-offs, nonperforming asset trends and management s judgment with respect to current and expected economic conditions and their impact on the loan portfolio and outstanding unfunded credit commitments**.** The methodology used is described in the Overview and Description of Business section under the heading Allowance for Loan and Lease Losses and Reserve for Unfunded Credit Commitments. The provision for credit losses recorded by BB&T in 2007 was $448 million, compared with $240 million in 2006 and $217 million in 2005.

The provision for credit losses increased 86.7% during 2007 while the total loan and lease portfolio increased 9.7% compared to the balance outstanding at the end of 2006. Net charge-offs were .38% of average loans and leases for 2007 compared to .27% of average loans and leases during 2006. The allowance for loan and lease losses was 1.10% of loans and leases outstanding and was 2.00x total nonaccrual loans and leases at year-end 2007, compared to 1.06% and 3.41x, respectively, at December 31, 2006. The increase in the provision for credit losses during 2007 compared to 2006 was largely driven by challenges in residential real estate markets with the largest concentration of credit issues occurring in Atlanta, Georgia and Florida, as well as an increase in losses from Regional Acceptance. While Florida represents a relatively large percentage of the nonaccrual loans in the residential acquisition and development lending portfolio, the Florida residential acquisition and development portfolio is only approximately 1% of BB&T s total loans outstanding. Additional disclosures related to BB&T s real estate lending by product type and geographic distribution can be found in Table 6 herein. The 10.6% increase in the provision for credit losses during 2006 compared to 2005 was primarily the result of growth in the loan portfolio.

Noninterest Income

Noninterest income has become, and will continue to be, a significant contributor to BB&T s financial success. Noninterest income includes service charges on deposit accounts, trust revenue, mortgage banking income, investment banking and brokerage fees and commissions, insurance commissions, gains and losses on securities transactions and commissions and fees derived from other activities. Noninterest income as a percentage of total revenues has steadily increased in recent years, totaling 41.3% for 2007. Exceeding 40% on this measure has been a management objective for several years. Management has established a new goal for noninterest income to exceed 45% of total revenues in the next five years to further reduce BB&T s reliance on traditional spread-based interest income, as fee-based activities are a relatively stable revenue source during periods of changing interest rates.

Table of Contents

The following table provides a breakdown of BB&T s noninterest income:

Table 16

Noninterest Income

	Years Ended December 31, 2007	2006	2005	% Change 2007 v. 2006	% Change 2006 v. 2005
	(Dollars in millions)				
Insurance commissions	$ 853	$ 813	$ 714	4.9%	13.9%
Service charges on deposits	611	548	543	11.5	.9
Investment banking and brokerage fees and commissions	343	317	290	8.2	9.3
Other nondeposit fees and commissions	184	167	129	10.2	29.5
Check card fees	180	155	128	16.1	21.1
Trust income	162	154	141	5.2	9.2
Bankcard fees and merchant discounts	139	122	112	13.9	8.9
Mortgage banking income	115	108	104	6.5	3.8
Securities losses, net	(3)	(73)		NM	NM
Income from bank-owned life insurance	101	93	94	8.6	(1.1)
Other noninterest income	89	117	71	(23.9)	64.8
Total noninterest income	$ 2,774	$ 2,521	$ 2,326	10.0%	8.4%

NM not meaningful

The 10.0% growth in noninterest income was the result of increased revenues from essentially all of BB&T s fee-based businesses during 2007. These increases were partially offset by trading losses at Scott & Stringfellow. The 8.4% growth in noninterest income for 2006 was the result of increased revenues from all of BB&T s major fee-based businesses. These increases were partially offset by a loss from sales of securities as a result of management s decision to restructure a portion of the securities portfolio during the fourth quarter of 2006, and a slight decline in income from bank-owned life insurance. The major categories of noninterest income and fluctuations in these amounts are discussed in the following paragraphs. These fluctuations reflect the impact of acquisitions.

Revenues from BB&T s insurance agency/brokerage operations were the largest source of noninterest income. Internal growth, combined with the expansion of BB&T s insurance agency network through acquisitions during the last two years, resulted in growth of 4.9% in 2007 and 13.9% in 2006. The increase in insurance commissions in 2007 compared to 2006 was primarily related to the sale of property and casualty, and employee benefit insurance, which increased $17.0 million and $9.1 million, respectively. These increases were the result of strong new sales of products, which was partially offset by more competitive pricing in the property and casualty insurance market. The increase in commission income during 2006 included increases in property and casualty insurance and employee benefit-related insurance commissions of $77 million and $10 million, respectively, compared to 2005.

Service charges on deposit accounts represent BB&T s second largest category of noninterest revenue. Service charge revenue increased $63 million, or 11.5%, compared to 2006. Service charge revenue grew primarily due to strong transaction account growth and increased revenue from overdraft items. Service charge revenue was up slightly during 2006, primarily due to management s decision to offer more free services as a method of attracting and retaining clients. The resulting decline caused by these changes in pricing strategy was more than offset by an increase of $24 million on higher revenues from overdraft items in 2006 compared to 2005.

Investment banking and brokerage fees and commissions increased $26 million, or 8.2%, compared to 2006 primarily as a result of increased revenues of $20 million at Scott & Stringfellow, BB&T s full-service brokerage and investment banking subsidiary. The remainder of the increase was generated by BB&T Investment Services, Inc. The 9.3% increase in 2006 compared to 2005 resulted primarily from growth in investment banking and retail brokerage revenues of $23 million at Scott & Stringfellow, and was aided by the acquisition of Bergen Capital, Inc., which was completed in January 2006.

Other nondeposit fees and commissions, including bankcard fees and merchant discounts and checkcard fees increased $59 million, or 13.3%, during 2007 compared to 2006. During 2006, these categories increased $75 million, or 20.3%, compared to 2005. The increases in 2007 and 2006 included additional checkcard fees of $25 million and $27 million, respectively, as clients continued to show a preference for utilizing electronic forms of payment rather than traditional paper checks. Bankcard fees also grew $17 million in 2007 compared to 2006 and $10 million in 2006 compared to 2005, as a result of strong sales of merchant services. In addition, during 2006, fees from money orders and official checks increased $14 million compared to the prior year.

Revenue from corporate and personal trust services are based on the types of services provided as well as the overall value of the assets managed, which is affected by stock market conditions. During 2007, trust revenues increased by $8 million, or 5.2%, compared to 2006. During 2006, trust revenues increased by $13 million compared to 2005. The increase during 2006 was the result of a combination of factors, including approximately $4 million related to wealth management fee opportunities that were identified as part of management s 2004 revenue enhancement initiative, $4 million as a result of increased assets under management and $3 million related to the 2005 acquisition of Sterling Capital Management LLC (Sterling). The value of trust assets under management, including custodial accounts, increased during each of the last three years and was $36.9 billion, $33.7 billion and $32.9 billion at December 31, 2007, 2006 and 2005, respectively.

Income from mortgage banking activities includes gains and losses from the sale of mortgage loans, revenue from servicing mortgage loans, valuation adjustments for mortgage servicing rights, mortgage servicing rights-related derivative gains/losses and the amortization or realization of expected mortgage servicing rights cash flows. Mortgage banking income totaled $115 million, $108 million and $104 million during 2007, 2006 and 2005, respectively. The following table provides a breakdown of the various components of mortgage banking income and related statistical information:

Table 17

Mortgage Banking Income and Related Statistical Information

Mortgage Banking Income	**As of/ For the Years Ended December 31,**			**% Change**	
				2007 v. 2006	**2006 v. 2005**
	2007	**2006**	**2005**		
	(Dollars in millions)				
Residential Mortgage Banking:					
Residential mortgage production income	$ 47	$ 46	$ 58	2.2%	(20.7)%
Residential Mortgage Servicing:					
Residential mortgage servicing fees	114	102	96	11.8	6.3
Residential mortgage servicing rights (decrease) increase in fair value due to change in valuation inputs or assumptions	(60)	21	86		
Mortgage servicing rights derivative gains (losses)	64	(17)	(77)		
Net	4	4	9		(55.6)
Realization of expected residential mortgage servicing rights cash flows	(90)	(80)	(84)	12.5	(4.8)
Total residential mortgage servicing income	28	26	21	7.7	23.8
Total residential mortgage banking income	75	72	79	4.2	(8.9)
Commercial Mortgage Banking:					
Commercial mortgage banking revenues	46	40	27	15.0	48.1
Amortization of commercial mortgage servicing rights	(6)	(4)	(2)	50.0	100.0

Total commercial banking income	40	36	25	11.1	44.0
Total mortgage banking income	$ 115	$ 108	$ 104	6.5	3.8

Mortgage Banking Statistical Information	As of/ For the Years Ended December 31, 2007	2006	2005	% Change 2007 v. 2006	2006 v. 2005
	(Dollars in millions)				
Residential mortgage originations	$ 11,940	$ 9,889	$ 10,528	20.7%	(6.1)%
Residential mortgage loans serviced for others	32,093	28,232	25,844	13.7	9.2
Residential mortgage loan sales	7,547	5,282	4,835	42.9	9.2
Commercial mortgage originations	3,012	2,906	2,038	3.6	42.6
Commercial mortgage loans serviced for others	20,752	9,206	8,092	125.4	13.8

Mortgage banking income increased $7 million, or 6.5% during 2007. The growth in 2007 included an increase of $4 million, or 11.1%, in commercial mortgage banking income primarily generated by Grandbridge, BB&T s commercial mortgage banking subsidiary. BB&T significantly expanded the size and product offerings of its commercial mortgage banking activities during 2007 with the acquisition of Collateral, which is part of Grandbridge. This acquisition was the primary reason for the 125.4% increase during 2007 in commercial mortgage loans serviced for others. BB&T s residential mortgage banking income also increased $3 million during 2007 compared to 2006. While residential mortgage loan sales increased 42.9% during 2007, gains and other revenues associated with those sales only increased 2.2% due to increased competition in the marketplace. Mortgage banking income increased $4 million, or 3.8%, during 2006. The increase in 2006 included an increase of $11 million, or 44.0%, from commercial mortgage banking activities. BB&T s residential mortgage banking income declined $7 million during 2006 compared to 2005, primarily as a result of lower gains from sales of mortgage loans, which resulted in a decline of $12 million from residential mortgage production revenues. While residential mortgage loan sales increased from $4.8 billion in 2005 to $5.3 billion in 2006, the margins on residential mortgage loan sales were down as a result of increased competition in the marketplace. This decline was partially offset by an increase of $5 million related to residential mortgage servicing activities.

Income from bank owned life insurance increased $8 million, or 8.6%, in 2007 compared to 2006, primarily due to the restructuring of certain contracts into higher-yielding separate account policies in mid-2006.

Other income decreased $28 million, or 23.9%, in 2007 compared to 2006. The decline during 2007 was primarily due to approximately $33 million in losses from capital markets activities during the last half of 2007. These losses were primarily caused by disruptions in the financial markets that decreased the value of certain trading securities and derivative contracts. In addition, BB&T sold an insurance operation during 2007, which produced a gain of $19 million and generated $17 million in additional revenues from client derivative activities. Other income for 2007 also reflects lower revenues from investments managed by BB&T Capital Partners, a small business investment company, which decreased $15 million compared to 2006, and decreased revenues of $11 million related to various financial assets isolated for the purpose of providing post-employment benefits. The 64.8%, or $46 million, increase in 2006 compared to 2005, was primarily due to increased revenues from investments managed by BB&T Capital Partners, which contributed $21 million to the growth during 2006. In addition, 2006 includes increases of $8 million in revenues from various financial assets isolated for the purpose of providing post-employment benefits and $8 million related to trading income at Scott & Stringfellow.

The ability to generate significant amounts of noninterest revenue in the future will be very important to the continued financial success of BB&T. Through its subsidiaries, BB&T will continue to focus on asset management, mortgage banking, trust, insurance, investment banking and brokerage services, as well as other fee-producing products and services. BB&T plans to continue to pursue acquisitions of additional financial services companies, including insurance agencies and other fee income producing businesses as a means of expanding fee-based revenues. Also, among BB&T s principal strategies following the acquisition of a financial institution is the cross-sell of noninterest income generating products and services to the acquired institution s client base. As previously mentioned, management has set a goal to increase the contribution of noninterest revenue sources to 45% over the next five years.

Noninterest Expense

Noninterest expense totaled $3.6 billion in 2007, $3.5 billion in 2006 and $3.2 billion in 2005. Noninterest expense includes certain merger-related and restructuring charges or credits recorded during the years 2007,

Table of Contents

2006 and 2005 as noted in Table 18 below. These amounts totaled $21 million in 2007, $18 million in 2006 and $(11 million) in 2005. Additional disclosures related to these merger-related and restructuring charges are presented in Merger-Related and Restructuring Charges. Noninterest expenses for 2005 also include a $44.0 million pre-tax one-time, non-cash adjustment that was recorded to account for escalating lease payments and the amortization of leasehold improvements. The table below shows the components of noninterest expense and the discussion that follows explains the composition of certain categories and the factors that caused them to change in 2007 and 2006.

Table 18

Noninterest Expense

	Years Ended December 31,			% Change 2007 v. 2006	% Change 2006 v. 2005
	2007	2006	2005		
	(Dollars in millions)				
Salaries and wages	$ 1,715	$ 1,700	$ 1,474	.9%	15.3%
Pension and other employee benefits	379	377	311	.5	21.2
Total personnel expenses	2,094	2,077	1,785	.8	16.4
Net occupancy expense on bank premises	286	253	274	13.0	(7.7)
Furniture and equipment expense	191	196	198	(2.6)	(1.0)
Total occupancy and equipment expenses	477	449	472	6.2	(4.9)
Professional services	139	120	93	15.8	29.0
Loan processing expenses	111	103	98	7.8	5.1
Amortization of intangibles	104	104	112		(7.1)
Software	58	58	52		11.5
Travel and transportation	52	48	38	8.3	26.3
Other marketing expense	46	30	25	53.3	20.0
Advertising and public relations	45	55	48	(18.2)	14.6
Telephone	43	44	43	(2.3)	2.3
Deposit related expense	43	38	38	13.2	
Supplies	38	37	38	2.7	(2.6)
Foreclosed property expense	31	18	23	72.2	(21.7)
Merger-related and restructuring charges (gains), net	21	18	(11)	16.7	NM
Other noninterest expenses	334	317	313	5.4	1.3
Total noninterest expense	$ 3,636	$ 3,516	$ 3,167	3.4%	11.0%

NM not meaningful

The 3.4% increase in total noninterest expense during 2007 compared to 2006 reflects strong cost controls and was better than management s goal. The 11.0% increase in total noninterest expense during 2006 compared to 2005 was primarily due to increases in personnel costs and professional services, which was partially offset by a reduction in occupancy expense as a result of the one-time lease adjustment recorded during 2005. The increases during 2007 and 2006 were impacted by the acquisitions of AFCO and Coastal during 2007, Main Street and First Citizens during 2006, and several nonbank financial services companies during 2007 and 2006.

Total personnel expense is the largest component of noninterest expense and includes salaries and wages, as well as pension and other employee benefit costs. The 2007 increase of only .8% resulted primarily from additional salaries and wages as a result of acquisitions and an increase in health care expenses. Total salaries and wages expense increased $15 million in 2007 compared to 2006, including higher equity-based compensation, which grew $12 million compared to 2006. The .5% increase in pension and other employee benefit costs was also affected by the additional salaries and wages expense, which caused increases in social security taxes and defined contribution plan expenses of $5 million each compared to 2006. In addition, health care and other welfare expenses increased $14 million which were offset by a decrease in pension expense of $18 million compared to 2006. The 2006 increase of 16.4% resulted primarily from additional salaries and wages as a result of increased incentive compensation and additional staffing. Total salaries and wages increased $226 million compared to 2005, including higher insurance incentive compensation, investment banking incentive compensation and other annual incentive compensation of $37 million, $17 million and $10 million, respectively. Incentive commissions related to mortgage banking activities declined $7 million in 2006 compared to 2005. In addition, BB&T adopted SFAS 123(R) on January 1, 2006 and recorded compensation expense related to its equity-based awards in 2006 of $58 million. The 21.2% increase in pension and other employee benefit costs was also affected by the additional salaries and wages expense, which caused increases in social security taxes and defined contribution plan expenses of $8 million each compared to 2005. In addition, expense related to post-employment benefits, excluding defined contribution plan expenses, increased $18 million and health care and other welfare expenses increased $14 million compared to 2005. Additional disclosures relating to BB&T s benefit plans can be found in Note 14 Benefit Plans in the Notes to Consolidated Financial Statements.

Net occupancy and equipment expense increased $28 million, or 6.2%, in 2007. The increase in 2007 was largely a result of increased lease expenses due to BB&T s de novo branching strategy. During 2006, net occupancy and equipment expense decreased by $23 million, or 4.9%. The decrease in 2006 compared to 2005 was primarily the result of the $44 million one-time lease adjustment previously mentioned. This decrease was partially offset by increases as a result of BB&T s de novo branching strategy, additional rent from new leases and other increases.

Amortization expense associated with intangible assets was flat in 2007 compared to 2006. The decrease of 7.1% in amortization expense associated with intangible assets in 2006 compared to 2005 primarily resulted from decreases from declining balance amortization methods for past acquisitions. These decreases were partially offset by additional amortization due to the acquisitions of Main Street and First Citizens during 2006. See Note 2 Business Combinations in the Notes to Consolidated Financial Statements for a summary of completed mergers and acquisitions during the three year period ended December 31, 2007.

Other noninterest expenses, including loan processing expenses and professional services, increased $72 million, or 8.3%, compared to 2006, which reflected an increase of $59 million, or 7.3%, compared to 2005. The 2007 increase was primarily the result of increases in professional services, marketing expenses, foreclosed property expenses and loan processing costs. The 2006 increase reflected higher advertising expenses, professional services expenses, travel and transportation costs and software expenses. The increases for 2007 and 2006 were impacted by acquisitions completed during the past two years. Please refer to Table 18 for additional detail on fluctuations in other categories of noninterest expense.

Merger-Related and Restructuring Charges

BB&T recorded certain merger-related and restructuring charges or credits during the years 2007, 2006 and 2005. These charges or credits are reflected in BB&T s Consolidated Statements of Income as a category of noninterest expense. Please Refer to Note 2 Business Combinations in the Notes to Consolidated Financial Statements for a summary of mergers and acquisitions consummated during the three years ended December 31, 2007.

During 2007, BB&T recorded merger-related and restructuring charges of $21 million, which are reflected in BB&T s Consolidated Statements of Income as noninterest expenses. These expenses were recorded in connection with the acquisition of Coastal and other merger-related and restructuring activities.

During 2006, BB&T recorded merger-related and restructuring charges of $18 million, which are reflected in BB&T s Consolidated Statements of Income as a separate category of noninterest expenses. These amounts were primarily associated with the write-off of duplicate software in connection with the Main Street acquisition and systems conversion costs related to the acquisitions of Main Street and First Citizens.

During 2005, BB&T recorded net merger-related and restructuring credits, or gains of $11 million, which are reflected in BB&T s Consolidated Statements of Income as a separate category of noninterest expenses. These amounts were primarily associated with the sale of duplicate facilities and the finalization of severance and other personnel-related liabilities in connection with the First Virginia Banks, Inc. (First Virginia) and Republic Bancshares, Inc. (Republic) acquisitions on terms more beneficial than originally estimated.

Table of Contents

The following table presents the components of merger-related and restructuring charges included in noninterest expenses. This table includes changes to previously recorded merger-related accruals and period expenses for merger-related items that must be expensed as incurred. Items that are required to be expensed as incurred include certain expenses associated with systems conversions, data processing, training, and other costs.

Table 19

Summary of Merger-Related and Restructuring Charges (Gains)

	For the Year Ended December 31,		
	2007	2006	2005
	(Dollars in millions)		
Severance and personnel-related	$ 8	$ 2	$ (5)
Occupancy and equipment	2	(2)	(5)
Other	11	18	(1)
Total	$ 21	$ 18	$ (11)

Severance and personnel-related costs or credits include severance, employee retention, payments related to change-in-control provisions of employment contracts, outplacement services and other benefits associated with employee termination or reversals of previously estimated amounts, which typically occur in corporate support and data processing functions. Occupancy and equipment charges or credits represent merger-related and restructuring costs or gains associated with lease terminations, obsolete equipment write-offs, and the sale of duplicate facilities and equipment. Credits may result when obsolete properties or equipment are sold for more than originally estimated. Other merger-related and restructuring charges or credits include expenses necessary to convert and combine the acquired branches and operations of merged companies, direct media advertising related to the acquisitions, asset and supply inventory write-offs, litigation accruals, and other similar charges.

In conjunction with the consummation of an acquisition and the completion of other requirements, BB&T typically accrues certain merger-related expenses related to estimated severance and other personnel costs, costs to terminate lease contracts, costs related to the disposal of duplicate facilities and equipment, costs to terminate data processing contracts and other costs associated with an acquisition. The following tables present a summary of activity with respect to BB&T s merger and restructuring accruals. These tables include costs reflected as expenses, as presented in the table above, and certain accruals recorded through purchase accounting adjustments.

	Merger-related and Restructuring Accrual Activity (Dollars in millions)						
	Balance January 1, 2006	Accrued at acquisition	Merger-related and restructuring charges (gains)	Utilized	Purchase Price Adjustments	Other, net (1)	Balance December 31, 2006
Severance and personnel-related	$ 6	$ 20	$ 2	$ (19)	$ 3	$	$ 12
Occupancy and equipment	8		(2)	(2)			4
Other	3	1	18	(10)		(10)	2
Total	$ 17	$ 21	$ 18	$ (31)	$ 3	$ (10)	$ 18

(1) Primarily relates to the write-off of duplicate software related to the Main Street acquisition.

	Balance January 1, 2007	Accrued at acquisition	Merger-related and restructuring charges	Utilized	Purchase Price Adjustments	Other, net	Balance December 31, 2007
Severance and personnel-related	$ 12	$ 4	$ 8	$ (15)	$	$	$ 9
Occupancy and equipment	4	1	2	(3)			4
Other	2	3	11	(13)			3
Total	$ 18	$ 8	$ 21	$ (31)	$	$	$ 16

Table of Contents

The liabilities for severance and personnel-related costs relate to severance liabilities that will be paid out based on such factors as expected termination dates, the provisions of employment contracts and the terms of BB&T s severance plans. The remaining occupancy and equipment accruals relate to costs to exit certain leases and to dispose of excess facilities and equipment. Such liabilities will be utilized upon termination of the various leases and sale of duplicate property.

In general, a major portion of accrued costs are utilized in conjunction with or immediately following the systems conversion, when most of the duplicate positions are eliminated and the terminated employees begin to receive severance. Other accruals are utilized over time based on the sale, closing or disposal of duplicate facilities or equipment or the expiration of lease contracts. Merger accruals are re-evaluated periodically and adjusted as necessary. The remaining accruals at December 31, 2007 are expected to be utilized during 2008, unless they relate to specific contracts that expire in later years.

Provision for Income Taxes

BB&T s provision for income taxes totaled $836 million for 2007, a decrease of $109 million, or 11.5%, compared to 2006. The provisions for income taxes totaled $945 million in 2006 and $813 million in 2005. BB&T s effective tax rates for the years ended 2007, 2006 and 2005 were 32.5%, 38.2%, and 33.0%, respectively. In 2006, the higher provision for income taxes and the higher effective tax rate were primarily the result of an adjustment of $139 million to BB&T s tax reserves for leveraged lease transactions as discussed below. A reconciliation of the effective tax rate to the statutory tax rate is included in Note 13 Income Taxes in the Notes to Consolidated Financial Statements herein.

BB&T has extended credit to, and invested in, the obligations of states and municipalities and their agencies, and has made other investments and loans that produce tax-exempt income. The income generated from these investments together with certain other transactions that have favorable tax treatment have reduced BB&T s overall effective tax rate from the statutory rate in 2007, 2006 and 2005.

BB&T continually monitors and evaluates the potential impact of current events and circumstances on the estimates and assumptions used in the analysis of its income tax positions and, accordingly, BB&T s effective tax rate may fluctuate in the future. On a periodic basis, BB&T evaluates its income tax positions based on tax laws and regulations and financial reporting considerations, and records adjustments as appropriate. This evaluation takes into consideration the status of current taxing authorities examinations of BB&T s tax returns, recent positions taken by the taxing authorities on similar transactions, if any, and the overall tax environment in relation to tax-advantaged transactions. Accordingly, the results of these examinations may alter the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. In this regard, the Internal Revenue Service (IRS) disallowed certain deductions taken by BB&T on leveraged lease transactions during 1997-2002. In 2004, BB&T filed a lawsuit against the IRS to pursue a refund of amounts assessed by the IRS related to a leveraged lease transaction entered into during 1997. On January 4, 2007, the United States Middle District Court of North Carolina issued a summary judgment in favor of the IRS related to BB&T s lawsuit. Based on a review of the summary judgment by BB&T s counsel, BB&T filed a notice of appeal with the United States Appeals Court for the Fourth Circuit, based in Richmond, Virginia.

Due to the timing of the District Court s ruling and its potential impact on BB&T s other leveraged lease transactions, BB&T recorded $139 million in additional reserves in the fourth quarter of 2006 and paid $1.2 billion to the IRS during the first quarter of 2007. This payment represented the total tax and interest due on these transactions for all open years. The tax paid relates to differences in the timing of income recognition and deductions for income tax purposes for which deferred taxes had been previously provided.

Management has consulted with outside counsel and continues to believe that BB&T s treatment of its leveraged lease transactions was appropriate and in compliance with the tax laws and regulations applicable to the years examined.

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; however, market risk also includes product liquidity risk, price risk and volatility risk. The primary objective of interest rate risk management is to minimize any adverse effect that changes in interest rates may have on net interest income. This is accomplished through active management of 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 consistent net interest income during periods of changing interest rates. BB&T s Market Risk and Liquidity Committee monitors loan, investment and liability portfolios to ensure comprehensive management of interest rate risk. 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 net interest margins and assure liquidity by coordinating the volumes, maturities or repricing opportunities of earning assets, deposits and borrowed funds. It is the responsibility of the Market Risk and Liquidity Committee 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 Market Risk and Liquidity Committee also sets policy guidelines and establishes long-term strategies with respect to interest rate risk exposure and liquidity. The Market Risk and Liquidity Committee 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 impact on earnings and liquidity as a result of fluctuations in interest rates is within acceptable standards.

BB&T utilizes a variety of financial instruments to manage various financial risks. These instruments, commonly referred to as derivatives, primarily consist of interest-rate swaps, swaptions, caps, floors, collars, financial forward and futures contracts, when-issued securities and options written and purchased. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or referenced interest rate. BB&T uses derivatives primarily to manage risk related to securities, business loans, Federal funds purchased, long-term debt, mortgage servicing rights, mortgage banking operations and certificates of deposit. BB&T also uses derivatives to facilitate transactions on behalf of its clients. BB&T s derivatives resulted in a decrease in net interest income of $19 million and $8 million in 2007 and 2006, respectively and produced a benefit to net interest income of $52 million during 2005. The decline in benefits to net interest income from 2005 to 2007 can primarily be attributed to increases in rates that affected the benefits received on BB&T s interest rate swaps on its medium and long-term debt.

Derivative contracts are written in amounts referred to as notional amounts. Notional amounts only provide the basis for calculating payments between counterparties and do not represent amounts to be exchanged between parties, and are not a measure of financial risk. On December 31, 2007, BB&T had derivative financial instruments outstanding with notional amounts totaling $47.2 billion. The estimated net fair value of open contracts was $181 million at December 31, 2007.

See Note 19 Derivative Financial Instruments in the Notes to Consolidated Financial Statements herein for additional disclosures.

Impact of Inflation and Changing Interest Rates

The majority of BB&T s assets and liabilities are monetary in nature and, therefore, differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. Fluctuations in interest rates and actions of the Board of Governors of the Federal Reserve System (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 Market Risk and Liquidity Committee, management believes that BB&T is positioned to respond to changing needs for liquidity, changes in interest rates and inflationary trends.

BB&T s interest rate sensitivity is illustrated in the following table. The table reflects rate-sensitive positions at December 31, 2007, and is not necessarily indicative of positions on other dates. The carrying amounts of interest rate sensitive assets and liabilities are presented in the periods in which they next reprice to market rates or mature and are aggregated to show the interest rate sensitivity gap. To reflect anticipated prepayments, certain asset and liability categories are shown in the table using estimated cash flows rather than contractual cash flows.

Table of Contents

Table 20

Interest Rate Sensitivity Gap Analysis

December 31, 2007

	Within One Year	One to Three Years	Three to Five Years	After Five Years	Total
		(Dollars in millions)			
Assets					
Securities and other interest-earning assets (1,4)	$ 8,513	$ 6,339	$ 2,927	$ 6,322	$ 24,101
Federal funds sold and securities purchased under resale agreements or similar arrangements	679				679
Loans and leases (2,4)	55,993	17,810	7,532	10,351	91,686
Total interest-earning assets	65,185	24,149	10,459	16,673	116,466
Liabilities					
Time deposits	37,632	2,653	568	5	40,858
Other deposits with no stated maturity (3)	16,062	4,373	2,299	10,115	32,849
Federal funds purchased and securities sold under repurchase agreements and short-term borrowed funds (4)	9,758	876			10,634
Long-term debt (4)	9,944	350	482	7,917	18,693
Total interest-bearing liabilities	73,396	8,252	3,349	18,037	103,034
Asset-liability gap	$ (8,211)	$ 15,897	$ 7,110	$ (1,364)	
Cumulative interest rate sensitivity gap	$ (8,211)	$ 7,686	$ 14,796	$ 13,432	

(1) Securities based on amortized cost.
(2) Loans and leases include loans held for sale and are net of unearned income.
(3) Projected runoff of deposits that do not have a contractual maturity date was computed based upon decay rate assumptions developed by bank regulators to assist banks in addressing FDICIA rule 305.

(4) The carrying amounts have been adjusted to reflect the impact of hedging strategies.

Management uses Interest Sensitivity Simulation Analysis (Simulation) to measure the sensitivity of projected earnings to changes in interest rates. Simulation takes into account the current contractual agreements that BB&T has made with its customers on deposits, borrowings, loans, investments and any commitments to enter into those transactions. Management monitors BB&T s interest sensitivity by means of a computer 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 of 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.

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 interest sensitive income as projected for the next twelve months under the most likely interest rate scenario incorporated into the Interest Sensitivity Simulation computer model. Key assumptions in the preparation of the table include prepayment speeds of mortgage-related assets, cash flows and maturities of derivative financial instruments, changes in market conditions, loan volumes and pricing, deposit sensitivity, customer preferences and capital plans. The resulting change in interest sensitive income reflects the level of sensitivity that interest sensitive income has in relation to changing interest rates.

Table 21

Interest Sensitivity Simulation Analysis

Interest Rate Scenario			**Annualized Hypothetical Percentage Change in Net Interest Income**	
Linear Change in Prime Rate	**Prime Rate December 31,**		**December 31,**	
	2007	**2006**	**2007**	**2006**
3.00%	10.25%	11.25%	(3.15)%	(3.12)%
1.50	8.75	9.75	(2.19)	(2.19)
No Change	7.25	8.25		
(1.50)	5.75	6.75	0.44	1.58
(3.00)	4.25	5.25	1.29	1.96

Management has established parameters for asset/liability management, which prescribe a maximum negative impact on interest sensitive income of 3% for the next 12 months for a linear increase of 150 basis points for six months followed by a flat interest rate scenario for the remaining six month period, and a maximum negative impact of 6% for a linear increase of 300 basis points for 12 months.

Liquidity

Liquidity represents BB&T s continuing ability to meet funding needs, primarily deposit withdrawals, timely repayment of borrowings and other liabilities, and funding of loan commitments. In addition to the level of liquid assets, such as trading securities and securities available for sale, 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 capability to securitize or package loans for sale.

The purpose of BB&T Corporation (the Parent Company) is to serve as the capital financing vehicle for the operating subsidiaries. The assets of the Parent Company consist primarily 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 principal and interest on master notes, long-term debt, and redeemable capital securities. The main sources of funds for the Parent Company are dividends and management fees from subsidiaries, repayments of advances to subsidiaries, and proceeds from issuance of long-term debt and master notes. The primary uses of funds by the Parent Company are for the retirement of common stock, investments in subsidiaries, advances to subsidiaries, dividend payments to shareholders, and interest and principal payments due on long-term debt and master notes.

The primary source of funds used for Parent Company cash requirements has been dividends declared from Branch Bank, which totaled $1.2 billion during 2007, and net proceeds from the issuance of long-term debt, which totaled $350 million in 2007. Funds raised through master note agreements with commercial clients are placed in a note receivable at Branch Bank primarily for its use in meeting short-term funding needs and, to a lesser extent, to support the short-term temporary cash needs of the Parent Company. At December 31, 2007 and 2006, master note balances totaled $1.8 billion and $1.4 billion, respectively.

During 2005, BB&T filed a universal shelf registration statement with the Securities and Exchange Commission to provide for the issuance of up to $2.5 billion of securities, which could include unsecured debt securities, shares of common stock, shares of preferred stock, depositary shares representing fractional interest in preferred stock, stock purchase contracts, stock purchase units, warrants to purchase debt securities, preferred stock or common stock, or units consisting of a combination of these securities. In addition, the

Table of Contents

universal shelf registration statement provided for the issuance of capital securities by BB&T Capital Trust I. As of December 31, 2007, BB&T has $2.0 billion available for issuance under this universal shelf registration statement. In late 2005, the SEC passed major changes to the securities registration process, which especially benefited larger companies who frequently access the capital markets. The changes to the securities registration process allow companies who have met certain eligibility requirements to file a registration statement that immediately becomes effective and permits the company to pay the fees related to the registration of the securities at the time of issuance. This has effectively eliminated the need to periodically file shelf registration statements and estimate the amount of securities that will be needed in the future. The change in regulations also has greatly enhanced the ability of BB&T to access the capital markets.

The Parent Company had five issues of subordinated notes outstanding totaling $3.1 billion at December 31, 2007. In addition, as of December 31, 2007, BB&T had $1.9 billion of junior subordinated debentures outstanding to unconsolidated trusts. Please refer to Note 10 Long-Term Debt in the Notes to Consolidated Financial Statements for additional information with respect to these subordinated notes and junior subordinated debentures.

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 certificates of deposit, access to the FHLB system, dealer repurchase agreements and repurchase agreements with commercial clients, participation in the Treasury, Tax and Loan and Special Direct Investment programs with the Federal Reserve Board, access to the overnight and term Federal funds markets, use of a Cayman branch facility, access to retail brokered certificates of deposit and a borrower in custody program with the Federal Reserve Board for the discount window.

BB&T s and Branch Bank s ability to raise funding at competitive prices is affected by the rating agencies views of BB&T s and Branch Bank s credit quality, liquidity, capital and earnings. Management meets with the rating agencies on a routine basis to discuss the current outlook for BB&T and Branch Bank. As of December 31, 2007, the four major rating agencies had assigned the following ratings to BB&T and Branch Bank:

Credit Ratings of BB&T Corporation and Branch Bank

December 31, 2007

	S&P	Moody's	Fitch	DBRS
BB&T Corporation				
Commercial paper	A-1	P1	F1+	R-1(middle)
Issuer	A+	Aa3	AA-	AA(low)
LT/Senior debt	A+	(P)Aa3	AA-	AA(low)
Subordinated debt	A	A1	A+	A(high)
Trust preferred securities	A-	(P)A1	n/a	A(high)
Branch Bank				
Bank financial strength	AA-/A-1+	B+	A/B	n/a
Long term deposits	AA-	Aa2	AA	AA
LT/Senior unsecured bank notes	AA-	Aa2	AA-	AA
Other long term senior obligations	A-1+	Aa2	AA-	AA
Other short term senior obligations	A-1+	P1	F1+	R-1(middle)
Short term bank notes	A-1+	P1	F1+	R-1(middle)
Short term deposits	A-1+	P1	F1+	R-1(middle)
Subordinated bank notes	A+	Aa3	A+	AA(low)
Ratings Outlook:				

Credit Trend	Stable	Stable	Stable	Stable

Management believes current sources of liquidity are adequate to meet BB&T s current requirements and plans for continued growth. See Note 6 Premises and Equipment, Note 10 Long-Term Debt and Note 15 Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional information regarding outstanding balances of sources of liquidity and contractual commitments and obligations.

Table of Contents

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

The following table presents, as of December 31, 2007, BB&T s significant fixed and determinable contractual obligations by payment date. The payment amounts represent those amounts contractually due to the recipient. The table excludes liabilities recorded in connection with FIN 48, because management cannot reasonably estimate the timing of any payments that may be required in connection with these liabilities. Further discussion of the nature of each obligation is included in Note 15 Commitments and Contingencies in the Notes to Consolidated Financial Statements.

Table 22

Contractual Obligations and Other Commitments

December 31, 2007

	Total	Less than One Year	1 to 3 Years	3 to 5 Years	After 5 Years
		(Dollars in millions)			
Contractual Cash Obligations					
Long-term debt	$ 18,687	$ 1,029	$ 4,850	$ 1,672	$ 11,136
Operating leases	1,002	126	220	168	488
Commitments to fund affordable housing investments	444	233	177	31	3
Venture capital commitments	213	57	143	13	
Time deposits	40,858	37,632	2,653	568	5
Total contractual cash obligations	$ 61,204	$ 39,077	$ 8,043	$ 2,452	$ 11,632

BB&T s significant commitments include certain investments in affordable housing and historic building rehabilitation projects throughout its market area. BB&T enters into such arrangements as a means of supporting local communities and recognizes tax credits relating to these investments. At December 31, 2007, BB&T s investments in such projects totaled $750 million, which includes outstanding commitments of $444 million. BB&T typically acts as a limited partner in these investments and does not exert control over the operating or financial policies of the partnerships. Branch Bank typically provides financing during the construction and development of the properties; however, permanent financing is generally obtained from independent third parties upon completion of a project. BB&T s risk exposure relating to such commitments is generally limited to the amount of investments and commitments made. Please refer to Note 1 Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements for further discussion of these investments in limited partnerships.

In addition, BB&T enters into derivative contracts to manage various financial risks. A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or referenced interest rate. Derivative contracts are carried at fair value on the Consolidated Balance Sheets with the fair value representing the net present value of expected future cash receipts or payments based on market interest rates as of the balance sheet date. Derivative contracts are written in amounts referred to as notional amounts, which only provide the basis for calculating payments between counterparties and are not a measure of financial risk. Therefore, the derivative liabilities recorded on the balance sheet as of December 31, 2007 do not represent the amounts that may ultimately be paid under these contracts. Further discussion of derivative instruments is included in Note 1 Summary of Significant Accounting Policies and Note 19 Derivative Financial Instruments in the Notes to Consolidated Financial Statements.

In the ordinary course of business, BB&T indemnifies its officers and directors to the fullest extent permitted by law against liabilities arising from litigation. BB&T also issues standard representation and warranties in underwriting agreements, merger and acquisition agreements, loan sales, brokerage activities and other similar arrangements. Counterparties in many of these indemnifications provide similar indemnifications to BB&T. Although these agreements often do not specify limitations, BB&T does not believe that any payments related to these guarantees would materially change the financial condition or results of operations of BB&T.

Table of Contents

BB&T has investments and future funding commitments to certain venture capital funds. As of December 31, 2007, BB&T had investments of $99 million, net of minority interest, related to these ventures and future funding commitments of $213 million. BB&T s risk exposure relating to such commitments is generally limited to the amount of investments and future funding commitments made.

Merger and acquisition agreements of businesses other than financial institutions occasionally include additional incentives to the acquired entities to offset the loss of future cash flows previously received through ownership positions. Typically, these incentives are based on the acquired entity s contribution to BB&T s earnings compared to agreed-upon amounts. When offered, these incentives are typically issued for terms of three to five years. As certain provisions of these agreements do not specify dollar limitations, it is not possible to quantify the maximum exposure resulting from these agreements.

In the normal course of business, BB&T is also a party to financial instruments to meet the financing needs of clients and to mitigate exposure to interest rate risk. Such financial instruments include commitments to extend credit and certain contractual agreements, including standby letters of credit and financial guarantee arrangements. Further discussion of these commitments is included in Note 15 Commitments and Contingencies in the Notes to Consolidated Financial Statements.

BB&T contracts with an independent third party for the disbursement of official checks. Under the terms of the agreement, BB&T acts as an agent for the third party in the issuance of official checks. Funds received from the buyers of official checks are transferred to the third party issuer to cover the checks when they are ultimately presented for payment. But for this arrangement with the third party, these funds would have remained at BB&T in the form of noninterest-bearing deposits. The official check program is contractually arranged to substantially limit BB&T s exposure to loss, since the third party is required to invest the funds received and maintain an equal relationship between outstanding checks and the balances available to cover the checks. BB&T monitors this relationship through a reconciliation process. The third party has provided a letter of credit from another bank in favor of BB&T and has access to a revolving line of credit to further mitigate any risk that there would be inadequate funds to cover the outstanding balance of official checks sold. However, in the event that the third party failed to honor official checks BB&T had sold as its agent, it is likely that BB&T would choose to reimburse the purchasers, though not contractually or legally obligated to do so. At December 31, 2007, the third party issuer had outstanding official checks that had been sold by BB&T totaling $418 million.

BB&T s significant commitments and obligations are summarized in the accompanying table. Not all of the commitments presented in the table will be utilized thus the actual cash requirements are likely to be significantly less than the amounts reported.

Table 23

Summary of Significant Commitments

December 31, 2007

(Dollars in millions)

Lines of credit	$ 13,904
Commercial letters of credit	41
Standby letters of credit and financial guarantees written	3,367
Other commitments (1)	20,391

Total significant commitments	$ 37,703

(1) Other commitments include unfunded business loan commitments, unfunded overdraft protection on demand deposit accounts and other unfunded commitments to lend.

Related Party Transactions

The Corporation may extend credit to certain officers and directors in the ordinary course of business. These loans are made under substantially the same terms as comparable third-party lending arrangements and are in compliance with applicable banking regulations.

Table of Contents

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 comprehensive risk profile, to preserve a sufficient capital base from which to support future growth, to provide a competitive return to shareholders, to comply with regulatory standards and to achieve optimal credit ratings for BB&T Corporation and its subsidiaries.

Management regularly monitors the capital position of BB&T on a consolidated basis. In this regard, management s overriding policy is to maintain capital at levels that will result in BB&T being classified as well-capitalized for regulatory purposes and to maintain sufficient capital relative to the Corporation s level of risk. Secondarily, it is management s intent to maintain consolidated capital levels that result in regulatory risk-based capital ratios that are generally comparable with BB&T s peers of similar size, complexity and risk profile. Further, management particularly monitors and intends to maintain the following minimum capital ratios:

Tier 1 Capital Ratio	8.50%
Total Capital Ratio	12.00%
Tier 1 Leverage Capital Ratio	7.00%
Tangible Capital Ratio	5.50%

Payments of cash dividends to BB&T s shareholders, which have generally been in the range of 40.0% to 60.0% of earnings over the last six years, and repurchases of common shares are the methods used to manage any excess capital generated. In addition, management closely monitors the Parent Company s double leverage ratio (investments in subsidiaries as a percentage of shareholders equity) with the intention of maintaining the ratio below 125.0%. The active management of the subsidiaries equity capital, as described above, is the process utilized to manage this important driver of Parent Company liquidity and is a key element in the management of BB&T s capital position.

The capital of the subsidiaries is also regularly monitored to determine if the levels that management believes are the most beneficial and efficient for their operations are maintained. Management intends to maintain capital at Branch Bank at levels that will result in Branch Bank being classified as well-capitalized for regulatory purposes. Secondarily, it is management s intent to maintain Branch Bank s capital at levels that result in regulatory risk-based capital ratios that are generally comparable with peers of similar size, complexity and risk profile. If the capital levels of Branch Bank increase above these guidelines, excess capital may be transferred to the Parent Company, subject to regulatory and other operating considerations, in the form of special dividend payments.

While nonrecurring events or management decisions may result in the Corporation temporarily falling below its minimum guidelines for one or more of these ratios, it is management s intent through capital planning to return to these targeted minimums within a reasonable period of time. Such temporary decreases below these minimums are not considered an infringement of BB&T s overall capital policy provided the Corporation and Branch Bank remain well-capitalized.

Capital Adequacy and Resources

Bank holding companies and their subsidiaries are subject to regulatory requirements with respect to risk-based capital adequacy. Capital adequacy is an important indicator of financial stability and performance.

Risk-based capital ratios measure capital as a percentage of a combination of risk-weighted balance sheet and off-balance sheet risk. The risk-weighted values of both balance sheet and off-balance sheet items are determined in accordance with risk factors specified by Federal bank regulatory pronouncements.

Tier 1 capital is calculated as common shareholders equity, excluding the over- or underfunded status of postretirement benefit obligations, unrealized gains or losses on debt securities available for sale, unrealized gains on equity securities available for sale and unrealized gains or losses on cash flow hedges, net of deferred income taxes; plus certain mandatorily redeemable capital securities, less nonqualifying intangible assets, net of applicable deferred income taxes, and certain nonfinancial equity investments. Tier 2 capital may consist of qualifying subordinated debt, certain hybrid capital instruments, qualifying preferred stock and a limited amount of the allowance for credit losses. Tier 1 capital and Tier 2 capital combined are referred to as total regulatory capital. Tier 1 capital is required to be at least 4% of risk-weighted assets, and total capital must be at least 8% of risk-weighted assets, with one half of the minimum consisting of Tier 1 capital.

In addition to the risk-based capital measures described above, regulators have also established minimum leverage capital requirements for banking organizations. The minimum required Tier 1 leverage ratio ranges from 3% to 5% depending upon Federal bank regulatory agency evaluations of an organization s overall safety and soundness. BB&T s regulatory capital and ratios are set forth in the following table.

Table 24

Capital Components and Ratios

	December 31, 2007	December 31, 2006
	(Dollars in millions)	
Tier 1 capital	$ 9,085	$ 8,226
Tier 2 capital	5,148	4,790
Total regulatory capital	$ 14,233	$ 13,016
Risk-based capital ratios:		
Tier 1 capital	9.1%	9.0%
Total regulatory capital	14.2	14.3
Tier 1 leverage ratio	7.2	7.2
Tangible equity ratio	5.6	5.7

BB&T has entered into a transaction involving the issuance of capital securities (Capital Securities) by a Delaware statutory trust formed by the Company (the Trust). Simultaneously with the closing of this transaction, BB&T entered into a replacement capital covenant (the Replacement Capital Covenant) for the benefit of persons that buy, hold or sell a specified series of long-term indebtedness of the Company or its largest depository institution subsidiary (the Covered Debt). The Replacement Capital Covenant provides that neither BB&T nor any of its subsidiaries (including the Trust) will repay, redeem or purchase any of the Capital Securities and the securities held by the Trust (the Other Securities), as applicable, on or before the date specified in the Replacement Capital Covenant, with certain limited exceptions, except to the extent that, during the 180 days prior to the date of that repayment, redemption or purchase, the Company has received proceeds from the sale of qualifying securities that (i) have equity-like characteristics that are the same as, or more equity-like than, the applicable characteristics of the Capital Securities or Other Securities, as applicable, at the time of repayment, redemption or purchase, and (ii) the Company has obtained the prior approval of the Federal Reserve Board, if such approval is then required by the Federal Reserve Board.

The following table identifies the (i) closing date for the transaction, (ii) issuer, (iii) series of Capital Securities issued, (iv) Other Securities, and (v) applicable Covered Debt.

Closing Date	Issuer	Capital Securities	Other Securities	Covered Debt
6/12/07	BB&T Capital Trust IV and BB&T Corporation	BB&T Capital Trust IV s $600,000,000 Fixed to Floating Rate Capital Securities	Company s $600,010,000 Fixed to Floating Rate Junior Subordinated Debentures due 2077	Company s 6.75% junior subordinated debentures due 2036 underlying the 6.75% capital securities of BB&T

Capital Trust II

Common Stock and Dividends

BB&T s ability to pay dividends is primarily dependent on earnings from operations, the adequacy of capital and the availability of liquid assets for distribution. BB&T s ability to generate liquid assets for distribution is dependent on the ability of Branch Bank to pay dividends to the Parent Company. The payment of cash dividends is an integral part of providing a competitive return on shareholders investments. The Corporation s policy is to accomplish this while retaining sufficient capital to support future growth and to meet regulatory requirements. BB&T s common dividend payout ratio, computed by dividing dividends paid per common share by basic earnings per common share, was 55.52% in 2007 as compared to 56.34% in 2006. BB&T s annual cash dividends paid per common share increased 10.0% during 2007 to $1.76 per common share for the year, as compared to $1.60 per common share in 2006. This increase marked the 36th consecutive year that the Corporation s annual cash dividend paid to shareholders has been increased. A discussion of dividend restrictions is included in Note 16 Regulatory Requirements and Other Restrictions in the Notes to Consolidated Financial Statements and in the Regulatory Considerations section.

BB&T s common stock is traded on the New York Stock Exchange (NYSE) under the symbol BBT . BB&T s common stock was held by approximately 324,000 shareholders at December 31, 2007 compared to approximately 259,000 at December 31, 2006. The accompanying table, Quarterly Summary of Market Prices and Dividends Paid on Common Stock, sets forth the quarterly high and low trading prices and closing sales prices for BB&T s common stock and the dividends paid per share of common stock for each of the last eight quarters.

Table 25

Quarterly Summary of Market Prices and Cash Dividends Paid on Common Stock

	2007				2006			
	Sales Prices			Cash Dividends Paid	Sales Prices			Cash Dividends Paid
	High	Low	Last		High	Low	Last	
Quarter Ended:								
March 31	$ 44.30	$ 39.54	$ 41.02	$ .42	$ 42.85	$ 38.24	$ 39.20	$ .38
June 30	43.02	39.13	40.68	.42	43.46	39.09	41.59	.38
September 30	43.00	36.95	40.39	.46	44.54	39.87	43.78	.42
December 31	42.61	30.36	30.67	.46	44.74	42.48	43.93	.42
Year	$ 44.30	$ 30.36	$ 30.67	$ 1.76	$ 44.74	$ 38.24	$ 43.93	$ 1.60

Share Repurchases

BB&T has periodically repurchased shares of its own common stock. During the years ended December 31, 2007, 2006 and 2005, BB&T repurchased 7 million shares, 22 million shares and 12 million shares of common stock, respectively. In accordance with North Carolina law, repurchased shares cannot be held as treasury stock, but revert to the status of authorized and unissued shares.

On June 27, 2006, BB&T s Board of Directors granted authority under a new share repurchase plan (the 2006 Plan) for the repurchase of up to 50 million shares of BB&T s common stock as needed for general corporate purposes. The 2006 Plan also authorizes the repurchase of the remaining shares from the previous authorization. The 2006 Plan remains in effect until all the authorized shares are repurchased unless modified by the Board of Directors.

Table of Contents

The following table presents the common stock repurchases made by BB&T during the fourth quarter of 2007 and the remaining shares that may be repurchased under the 2006 Plan.

Table 26

Share Repurchase Activity

	2007			
	Total Shares Repurchased (1)	**Average Price Paid Per Share (2)**	**Total Shares Purchased Pursuant to Publicly-Announced Plan**	**Maximum Remaining Number of Shares Available for Repurchase Pursuant to Publicly-Announced Plan**
	(Shares in thousands)			
October 1-31	27	$ 37.08	25	48,014
November 1-30	3,126	33.85	3,125	44,889
December 1-31	759	32.45	750	44,139
Total	3,912	$ 33.60	3,900	44,139

(1) Repurchases reflect shares exchanged or surrendered in connection with the exercise of equity-based awards under BB&T's equity-based compensation plans.
(2) Excludes commissions.

Segment Results

BB&T s operations are divided into seven reportable business segments: the Banking Network, Residential Mortgage Banking, Sales Finance, Specialized Lending, Insurance Services, Financial Services, and Treasury. These operating segments have been identified based primarily on BB&T s organizational structure. See Note 21 Operating Segments , in the Notes to Consolidated Financial Statements herein, for additional disclosures related to BB&T s operating segments, the internal accounting and reporting practices utilized to manage these segments and financial disclosures for these segments as required by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.* Fluctuations in noninterest income and noninterest expense incurred directly by the segments are more fully discussed in the Noninterest Income and Noninterest Expense sections of this discussion and analysis. Merger-related expenses in 2007, 2006 and 2005, the additional tax provision recorded in 2006, the loss on sales of securities incurred in connection with the partial portfolio restructuring in 2006, the lease accounting adjustment recorded during 2005 and certain other charges are excluded from segment results as presented herein.

Banking Network

The Banking Network had solid internal loan and deposit growth during 2007, with total assets at year-end 2007 increasing 7.1% compared to 2006. The total Banking Network was composed of 1,492 banking offices at the end of 2007, an increase of 33 offices compared to 1,459 banking offices at December 31, 2006. The increase in offices was the result of the acquisition of Coastal, as well as a de novo branching strategy to expand BB&T s presence in high growth markets. Net interest income for the Banking Network totaled $3.4 billion in 2007, an increase of $121 million, or 3.6%, compared to 2006. The increase in net interest income during 2007 was primarily a result of an increase of

$206 million in the net funds transfer pricing (FTP) credit provided to the Banking Network during 2007, offset by a decrease of $85 million in net interest income from clients. The decline in the net interest income from clients was primarily due to higher interest expense on deposits due to a shift by clients to higher cost products and growth in CDs. Net interest income for 2006 amounted to $3.3 billion, a decrease of $116 million, or 3.4%, compared to 2005. The decrease in net interest income during 2006 was primarily a result of a change in the FTP credit provided to the Banking Network, which declined $252 million compared to 2005. Net interest income from clients increased $136 million, or 6.0%, during 2006, reflecting the strong loan growth generated by the Banking Network.

The economic provision for loan and lease losses increased $10 million in 2007 compared to 2006, primarily reflecting loan growth. The economic provision for loan and lease losses decreased $70 million, or 32.6%, from 2005 to 2006. The decrease during 2006 was primarily due to a change in loss rates for allocating the economic provision for loan and lease losses to the segments.

Table of Contents

Noninterest income in the Banking Network increased $128 million, or 13.2%, during 2007, due primarily to growth in overdraft fees, checkcard fees and other nondeposit fees and commissions. During 2006, noninterest income increased $83 million, or 9.4%, due primarily to growth in other nondeposit fees and commissions. Noninterest income allocated from other segments, which is reflected as intersegment net referral fees (referral fees), increased $16 million, or 7.2%, compared to 2006, primarily due to higher referrals from the Financial Services segment. Referral fees increased $8 million, or 3.7%, compared to 2005, primarily due to higher referral fees earned from the Sales Finance and Financial Services segments, which was partially offset by a decrease in referrals from the Residential Mortgage Banking segment. Noninterest expenses incurred within the Banking Network during 2007 increased $71 million, or 5.1%, compared to 2006, including additional costs related to the acquisition of Coastal. Comparing 2006 to 2005, noninterest expenses increased $122 million, or 9.5%, including additional costs related to the acquisitions of Main Street and First Citizens and additional staffing in new branches. Allocated corporate expenses increased $60 million, or 11.4%, in 2007 compared to 2006 after increasing $98 million in 2006 compared to 2005 because of increased allocations of marketing and advertising expenses and other corporate support areas.

The provision for income taxes allocated to the Banking Network increased $42 million in 2007 compared to 2006, primarily as a result of higher pretax income. Comparing 2006 to 2005 the provision for income taxes increased $18 million, or 2.1%, primarily as a result of a higher effective tax rate in 2006 due to a change in the methodology for allocating taxes to the segments. The increased tax rate was partially offset by lower pretax income.

Total identifiable assets for the Banking Network increased $4.0 billion in 2007, or 7.1%, to a total of $60.7 billion, compared to an increase of $5.4 billion, or 10.4%, in 2006. The increase in 2007 included the acquisition of Coastal, while the 2006 increase included the acquisitions of Main Street and First Citizens.

Residential Mortgage Banking

BB&T s mortgage originations totaled $11.9 billion in 2007, up 20.7% from $9.9 billion in 2006. BB&T s residential mortgage servicing portfolio, which includes portfolio loans on BB&T s balance sheet and loans serviced for third parties, totaled $51.0 billion at year-end 2007 compared to $45.2 billion at December 31, 2006.

Net interest income for the Residential Mortgage Banking segment totaled $254 million in 2007, up 2.8% compared to $247 million in 2006. The increase in net interest income in 2007 was primarily the result of growth in the held for investment loan portfolio, offset by higher funding costs. Net interest income in 2006 was down slightly compared to 2005 primarily as a result of a higher FTP charge in 2006.

The economic provision for loan and lease losses was unchanged during 2007 compared to 2006 and 2006 compared to 2005. The economic provision for loan and lease losses is based on expected losses and is therefore more stable over time than the provision for loan and lease losses that is recorded in the Consolidated Statements of Income.

Noninterest income in the Residential Mortgage Banking segment increased $11 million in 2007 compared to 2006, primarily reflecting higher gains from loan sales, while noninterest income in 2006 decreased $4 million, or 3.5%, compared to 2005 due to a substantial decrease in residential mortgage production revenues, which was partially offset by an increase in residential mortgage servicing income. Noninterest expenses incurred within the Residential Mortgage Banking segment increased $11 million, or 20.8%, during 2007, primarily reflecting higher personnel costs. During 2006, noninterest expenses increased 3.9%, while allocated corporate expense declined $25 million, or 69.4%, due to a change in the factors used to allocate expense to the segment.

The provision for income taxes allocated to the Residential Mortgage Banking segment in 2007 increased $3 million, primarily due to higher pretax income. Comparing 2006 to 2005, the provision for income taxes increased $13 million, or 23.2%, primarily due to the change in methodology for allocating taxes to the segments.

Total identifiable assets for the Residential Mortgage Banking segment increased $2.1 billion, or 12.6%, from 2006 and $1.8 billion, or 12.0%, from 2006 to 2005, reflecting increases in mortgage loans due to higher originations in 2007 and better loan retention due to slower prepayments in 2007 and 2006.

Table of Contents

Sales Finance

Net interest income from the Sales Finance segment increased $9 million, or 8.0%, during 2007 compared to 2006. The increase in net interest income during 2007 included an increase of $70 million, or 22.9%, from clients, and an increase in the FTP charge of $61 million, or 31.4%. During 2006, net interest income declined $8 million, or 6.7%, compared to 2005. The decrease in net interest income during 2006 included an increase of $47 million, or 18.2%, from clients, which was more than offset by an increase of $55 million, or 39.3%, for the FTP charge.

The economic provision for loan and lease losses was flat in 2007 after decreasing $6 million, or 22.2%, in 2006 compared to 2005. The decline during 2006 was primarily as a result of a change in loss rates for allocating the economic provision for loan and lease losses to the segments.

The Sales Finance segment was assessed referral fees of $13 million and $12 million in 2007 and 2006, respectively, to compensate the Banking Network for services. 2006 was the first year such a fee was assessed since the Sales Finance segment had previously been part of the Banking Network. Noninterest expenses incurred within the Sales Finance segment increased slightly in 2007 after decreasing $4 million, or 14.8%, during 2006, reflecting strong expense control. Allocated corporate expense increased $2 million in 2007 compared to 2006 after declining $1 million in 2006 compared to 2005.

The provision for income taxes allocated to the Sales Finance segment during 2007 was up $2 million, mainly as a result of higher pretax income. During 2006, the provision for income taxes was unchanged compared to 2005. While pretax income declined $7 million in 2006 compared to 2005, the effective tax rate allocated to the segments increased due to the change in methodology for allocating taxes.

Total identifiable assets for the Sales Finance segment increased $300 million, or 5.5%, compared to 2006 and $410 million, or 8.1%, from 2006 to 2005.

Specialized Lending

BB&T s Specialized Lending segment continued to expand during 2007 through internal growth and the acquisitions of AFCO and Collateral. Net interest income totaled $457 million in 2007, an increase of 21.5% compared to 2006. Net interest income in 2007 consisted of $676 million in net interest income from clients less an FTP charge of $219 million. The growth in net interest income was due to growth in the lending portfolio, offset by higher funding costs. Comparing 2006 to 2005, net interest income increased $75 million, or 24.9%. Net interest income in 2006 consisted of $494 million of net interest income from clients less an FTP charge of $118 million. The growth in net interest income in 2006 was a result of strong loan growth in the segment. BB&T has continued to emphasize growth in the Specialized Lending segment as the risk-adjusted yields on the loans offered are more attractive than traditional lending products offered by the Banking Network. Average loans for the Specialized Lending segment increased 58.8% during 2007 compared to 2006, including the acquisitions of AFCO and Collateral, which added loans of approximately $1.3 billion and $44 million, respectively.

The economic provision for loan and lease losses totaled $194 million in 2007, an increase of $57 million compared to 2006. Comparing 2006 to 2005 the economic provision for loan and lease losses increased $34 million, or 33.0%. Due to the overall higher credit risk profiles of the clients of Specialized Lending, loss rates are expected to be higher than conventional bank lending. Loss rates are also affected by shifts in the portfolio mix of the underlying subsidiaries. The increase during 2007 was primarily due to higher losses on subprime automobile loans, while the increase in 2006 compared to 2005 was primarily due to growth in loans and leases.

Noninterest income produced by the Specialized Lending segment totaled $90 million in 2007, an increase of $16 million, or 21.6%, compared to 2006. The increase in 2007 was largely attributable to growth in revenues from operating leases and commercial mortgage banking activities. Comparing 2006 to 2005, noninterest income increased $15 million, or 25.4%. The increase during 2006 was primarily due to growth in revenues from commercial mortgage banking activities. Noninterest expenses incurred within the Specialized Lending segment in 2007 totaled $207 million, an increase of $44 million, or 27.0%, compared to 2006, and allocated corporate expenses increased $5 million, or 25.0%. Comparing 2006 to 2005 noninterest expenses totaled $163 million, an increase of $24 million, or 17.3%, and allocated corporate expenses increased $3 million, or 17.6%, from 2005 to 2006. The increases in noninterest expenses incurred within the Specialized Lending segment and the allocated corporate expenses were due to a combination of internal growth and growth from acquisitions.

Table of Contents

The provision for income taxes allocated to the Specialized Lending segment decreased $2 million in 2007 compared to 2006, primarily as a result of lower pretax income. Comparing 2006 to 2005, the provision for income taxes increased $17 million, or 54.8%, as a result of higher pretax income and a change in methodology for allocating taxes to the segments.

Total identifiable assets for the Specialized Lending segment increased $1.8 billion, or 48.2%, from 2007 to 2006 due to internal growth and the acquisitions of AFCO and Collateral. Comparing 2006 to 2005, total identifiable assets increased $817 million, or 27.5%.

Insurance Services

Noninterest income produced by the Insurance Services segment totaled $839 million during 2007, an increase of $56 million, or 7.2%, compared to 2006. The growth during 2007 includes a gain of $19 million from the sale of an insurance agency operation. Comparing 2006 to 2005, noninterest income increased $94 million, or 13.6%. Internal growth combined with the expansion of BB&T s insurance agency network and insurance brokerage operations through acquisitions during the last two years were responsible for the growth in noninterest income. Noninterest expenses incurred within the Insurance Services segment and allocated corporate expenses increased slightly during 2007 reflecting strong expense control. Comparing 2006 to 2005, noninterest expenses increased $96 million, or 18.2%, while allocated corporate expenses decreased $3 million, or 10.7%. The overall increase in noninterest expenses within the Insurance Services segment during 2006 principally resulted from the continued expansion of the BB&T insurance agency network.

The changes in the provision for income taxes allocated to the Insurance Services segment were largely consistent with changes in the levels of pretax income for the years 2007 compared to 2006 and 2006 compared to 2005.

Financial Services

Net interest income for the Financial Services segment totaled $59 million in 2007, an increase of $15 million, or 34.1%, compared to 2006. Comparing 2006 to 2005, net interest income increased $23 million, or 109.5%. The increases in net interest income over the past two years were largely due to higher FTP credits received by the Financial Services segment.

Noninterest income in the Financial Services segment in 2007 totaled $553 million, a slight increase compared to $547 million earned during 2006, which was up $68 million, or 14.2%, compared to 2005. The revenue increase in 2006 was due to strong growth from trust operations and investment banking and brokerage operations, which includes the impact of acquisitions. Noninterest expenses incurred by Financial Services in 2007 were up slightly compared to 2006, after increasing $68 million in the prior year. The increase in noninterest expenses in 2006 was largely due to increased personnel costs as a result of additional staffing and higher incentive compensation.

The provision for income taxes allocated to Financial Services increased $2 million in 2007 compared to 2006, following an increase of $11 million in 2006 compared to 2005. While pretax income increased 13.3% in 2007 compared to 2006, the provision for income taxes only increased 5.6% due to a higher level of tax exempt income earned in 2007. The increase in the provision for income taxes allocated to the Financial Services segment in 2006 compared to 2005 was primarily a result of a change in the effective tax rate used to allocate taxes to the segments. Total identifiable segment assets for Financial Services increased to a total of $4.2 billion at December 31, 2007, compared to $2.2 billion at year-end 2006 and $1.6 billion at December 31, 2005.

Treasury

Net interest income for the Treasury segment was an expense of $298 million in 2007 compared to an expense of $240 million in 2006. Net interest income for 2007 consisted of $134 million of net interest expense and $164 million of expense from the FTP charge. For 2006, net interest income for the Treasury segment consisted of $171 million of net interest expense and $69 million of expense from the FTP charge. The improvement in net interest income from external sources was primarily due to slower growth in funding costs compared to growth in interest income from investments, while the additional FTP charge resulted from higher credits paid on deposits and other funding sources. For 2005 net interest income for the Treasury segment consisted of $30 million of net interest income and $512 million of expense from the FTP charge. The decrease in the FTP charge from 2005 to 2006 was primarily a result of changes to the rates used for crediting funding sources, while the decline in net interest income from external sources was principally due to the increase in short-term interest rates, which increased the cost of funding.

Noninterest income in the Treasury segment is primarily related to income from bank-owned life insurance. During 2007, noninterest income earned by the Treasury segment totaled $111 million, a decrease of 5.1%, compared to $117 million earned during 2006. The decline during 2007 reflected an $8 million increase from bank-owned life insurance, which was more than offset by $17 million in losses from the sale of securities. For 2005, noninterest income within the Treasury segment totaled $108 million.

The provision for income taxes allocated to the Treasury segment during 2007, 2006 and 2005 was a benefit of $117 million, $94 million and $194 million, respectively. The changes in the tax benefits allocated to the Treasury segment are a combination of changes in the level of pretax income and tax exempt income. In addition, the change in the provision for income taxes for 2006 compared to 2005 reflects a change in the methodology used to allocate taxes. Total identifiable assets for the Treasury segment in 2007 decreased slightly compared to 2006, following an increase of $2.2 billion, or 10.2%, in 2006 compared to 2005. As of December 31, 2007, total identifiable assets in the Treasury segment were $24.1 billion.

Fourth Quarter Results

Net income for the fourth quarter of 2007 was $411 million, compared to $251 million for the comparable period of 2006. On a per share basis, diluted net income for the fourth quarter of 2007 was $.75 compared to $.46 for the same period a year ago. Annualized returns on average assets and average shareholders equity were 1.24% and 12.89%, respectively, for the fourth quarter of 2007, compared to .84% and 8.33%, respectively, for the fourth quarter of 2006.

BB&T s fourth quarter 2006 results were negatively affected by an additional tax provision of $139 million after-tax, and securities losses resulting from a previously-announced portfolio restructuring of $47 million after-tax. BB&T recorded the additional tax reserves as a result of a summary judgment issued by the United States District Court for the Middle District of North Carolina on January 4, 2007 in favor of the IRS related to the treatment of a leveraged lease transaction. The amount of the additional tax reserves relates to the potential impact of the District Court s ruling on BB&T s entire leveraged lease portfolio.

Net interest income amounted to $991 million for the fourth quarter of 2007, an increase of 3.7% compared to $956 million for the same period of 2006. Noninterest income totaled $718 million for the fourth quarter of 2007, up 19.3% from $602 million earned during the fourth quarter of 2006. The growth in noninterest income in the fourth quarter of 2007 compared to the same period of 2006 includes the impact of the securities losses that were recorded in the prior year s fourth quarter. BB&T s noninterest expense for the fourth quarter of 2007 totaled $942 million, up 2.2% from the $922 million recorded in the fourth quarter of 2006.

The fourth quarter 2007 provision for credit losses increased 152.1% to $184 million, compared to $73 million for the fourth quarter of 2006. The increase in the provision for credit losses reflects the deteriorating credit quality of the loan portfolio that has resulted from challenges in the residential real estate markets and a weaker overall economy. The increase in the provision for credit losses also reflects higher net charge-offs in the fourth quarter of 2007, compared to the fourth quarter of 2006.

The fourth quarter 2007 provision for income taxes totaled $172 million, a decrease of $140 million compared to $312 million for the same period of 2006. The decrease in the provision for income taxes was primarily the result of additional tax reserves for leveraged lease transactions in 2006 as previously mentioned.

The accompanying table, Quarterly Financial Summary Unaudited, presents condensed information relating to quarterly periods in the years ended December 31, 2007 and 2006.

Table of Contents

Table 27

Quarterly Financial Summary Unaudited

	2007 Fourth Quarter	2007 Third Quarter	2007 Second Quarter	2007 First Quarter	2006 Fourth Quarter	2006 Third Quarter	2006 Second Quarter	2006 First Quarter
	(Dollars in millions, except per share data)							
Consolidated Summary of Operations:								
Interest income	$ 2,012	$ 2,030	$ 1,961	$ 1,891	$ 1,866	$ 1,803	$ 1,668	$ 1,556
Interest expense	1,021	1,052	995	946	910	865	751	659
Provision for credit losses	184	105	88	71	73	62	58	47
Securities gains (losses) , net	1	6	1	(11)	(73)			
Other noninterest income	717	669	728	663	675	660	651	608
Noninterest expense	942	888	923	883	922	915	860	819
Provision for income taxes (1)	172	216	226	222	312	204	221	208
Net income	$ 411	$ 444	$ 458	$ 421	$ 251	$ 417	$ 429	$ 431
Basic earnings per share	$ .75	$ .81	$ .84	$ .78	$ .46	$ .77	$ .80	$ .80
Diluted earnings per share	$ .75	$ .80	$ .83	$ .77	$ .46	$ .77	$ .79	$ .79
Selected Average Balances:								
Assets	$ 131,009	$ 128,633	$ 124,848	$ 121,054	$ 118,777	$ 116,884	$ 112,383	$ 109,132
Securities, at amortized cost	23,967	24,246	23,124	21,872	21,609	21,736	21,081	20,955
Loans and leases (2)	90,805	89,090	86,939	84,894	82,690	81,044	77,978	75,443
Total earning assets	116,029	114,441	111,030	107,606	105,216	103,757	100,028	97,175
Deposits	85,260	84,223	81,959	82,523	79,889	79,123	75,626	74,199
Federal funds purchased, securities sold under repurchase agreements and short-term debt	10,739	9,892	9,000	7,627	7,109	6,720	7,507	6,685
Long-term debt	18,864	18,721	18,471	16,086	16,101	15,433	13,826	13,111
Total interest-bearing liabilities	101,823	99,588	96,063	93,290	89,810	87,765	83,746	81,143
Shareholders' equity	12,655	12,359	12,113	11,522	11,941	11,500	11,221	11,134

(1) Fourth quarter 2007 and 2006, respectively include a credit of $7 million and a charge of $139 million to the provision for income taxes related to leveraged leases.
(2) Loans and leases are net of unearned income and include loans held for sale.

Table of Contents

SIX YEAR FINANCIAL SUMMARY AND SELECTED RATIOS

(Dollars in millions, except per share data, shares in thousands)

	As of / For the Years Ended December 31,						Five Year Compound Growth Rate
	2007	2006	2005	2004	2003	2002	
Summary of Operations							
Interest income	$ 7,894	$ 6,893	$ 5,506	$ 4,547	$ 4,355	$ 4,434	12.2 %
Interest expense	4,014	3,185	1,981	1,199	1,273	1,687	18.9
Net interest income	3,880	3,708	3,525	3,348	3,082	2,747	7.2
Provision for credit losses	448	240	217	249	248	263	11.2
Net interest income after provision credit losses	3,432	3,468	3,308	3,099	2,834	2,484	6.7
Noninterest income	2,774	2,521	2,326	2,119	1,828	1,541	12.5
Noninterest expense	3,636	3,516	3,167	2,896	3,045	2,234	10.2
Income before income taxes and cumulative effect of change in accounting principle	2,570	2,473	2,467	2,322	1,617	1,791	7.5
Provision for income taxes	836	945	813	764	552	498	10.9
Income before cumulative effect of change in accounting principle	1,734	1,528	1,654	1,558	1,065	1,293	6.0
Cumulative effect of change in accounting principle						10	NM
Net income	$ 1,734	$ 1,528	$ 1,654	$ 1,558	$ 1,065	$ 1,303	5.9
Per Common Share							
Average shares outstanding:							
Basic	547,184	539,140	546,916	551,661	509,851	473,304	2.9
Diluted	551,755	543,891	551,380	556,041	514,082	478,793	2.9
Basic earnings per share							
Income before cumulative effect of change in accounting principle	$ 3.17	$ 2.84	$ 3.02	$ 2.82	$ 2.09	$ 2.73	3.0
Cumulative effect of change in accounting principle						.02	NM
Net income	$ 3.17	$ 2.84	$ 3.02	$ 2.82	$ 2.09	$ 2.75	2.9
Diluted earnings per share							
Income before cumulative effect of change in accounting principle	$ 3.14	$ 2.81	$ 3.00	$ 2.80	$ 2.07	$ 2.70	3.1
Cumulative effect of change in accounting principle						.02	NM
Net income	$ 3.14	$ 2.81	$ 3.00	$ 2.80	$ 2.07	$ 2.72	2.9
Cash dividends paid per share	$ 1.76	$ 1.60	$ 1.46	$ 1.34	$ 1.22	$ 1.10	9.9
Book value per share	$ 23.14	$ 21.69	$ 20.49	$ 19.76	$ 18.33	$ 15.70	8.1
Average Balances							
Securities, at amortized cost	$ 23,311	$ 21,348	$ 20,467	$ 18,218	$ 17,058	$ 16,939	6.6
Loans and leases (1)	87,952	79,313	71,517	66,107	57,857	50,851	11.6
Other assets	15,157	13,667	12,628	11,951	10,413	7,989	13.7
Total assets	$ 126,420	$ 114,328	$ 104,612	$ 96,276	$ 85,328	$ 75,779	10.8

Deposits	$ 83,501	$ 77,230	$ 70,346	$ 64,816	$ 56,948	$ 49,118	11.2
Long-term debt	18,045	14,628	11,959	10,886	11,710	12,135	8.3
Other liabilities	12,708	11,018	11,242	9,977	7,775	7,413	11.4
Shareholders' equity	12,166	11,452	11,065	10,597	8,895	7,113	11.3
Total liabilities and shareholders equity	$ 126,420	$ 114,328	$ 104,612	$ 96,276	$ 85,328	$ 75,779	10.8
Period-End Balances							
Total assets	$ 132,618	$ 121,351	$ 109,170	$ 100,509	$ 90,467	$ 80,217	10.6
Loans and leases (1)	91,686	83,591	75,023	68,163	62,305	53,518	11.4
Deposits	86,766	80,971	74,282	67,699	59,350	51,280	11.1
Long-term debt	18,693	15,904	13,119	11,420	10,808	13,588	6.6
Shareholders equity	12,632	11,745	11,129	10,875	9,935	7,388	11.3
Selected Ratios							
Rate of return on:							
Average total assets	1.37%	1.34%	1.58%	1.62%	1.25%	1.72%	
Average shareholders equity	14.25	13.35	14.95	14.71	11.97	18.32	
Dividend payout	55.52	56.34	48.34	47.52	58.37	40.00	
Average equity to average assets	9.62	10.02	10.58	11.01	10.42	9.39	

(1) Loans and leases are net of unearned income and include loans held for sale.
NM= Not meaningful.

CONTROLS AND PROCEDURES

Management s Report on Internal Control Over Financial Reporting

Management of BB&T is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934 as amended (the Exchange Act). The Corporation s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. BB&T s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that in reasonable detail, accurately and fairly reflect the transactions and disposition of the Corporation s assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Corporation are being made only in accordance with the authorizations of BB&T s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation s assets that could have a material impact on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Corporation conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework in Internal Control Integrated Framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the COSO criteria. Based on this evaluation under the COSO criteria, management concluded that the internal control over financial reporting was effective as of December 31, 2007.

As of the end of the period covered by this report, the management of the Corporation, under the supervision and with the participation of the Corporation s Chief Executive Officer and Chief Financial Officer, carried out an evaluation of the Corporation s disclosure controls and procedures as defined in Rule 13a-15(e) of the Exchange Act. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation s disclosure controls and procedures are effective in enabling the Corporation to record, process, summarize and report, in a timely manner, the information that the Corporation is required to disclose in its Exchange Act reports.

There was no change in the Corporation s internal control over financial reporting that occurred during the fourth quarter of 2007 that has materially affected or is likely to materially affect, the Corporation s internal control over financial reporting.

The effectiveness of the internal control structure over financial reporting, as of December 31, 2007, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included on page 73, which expresses an unqualified opinion on the effectiveness of the Corporation s internal control over financial reporting as of December 31, 2007.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of BB&T Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders equity and cash flows present fairly, in all material respects, the financial position of BB&T Corporation and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting appearing on page 72. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed 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. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Charlotte, North Carolina

February 28, 2008

Table of Contents

BB&T CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

(Dollars in millions, except per share data, shares in thousands)

	2007	2006
Assets		
Cash and due from banks	$ 2,050	$ 2,024
Interest-bearing deposits with banks	388	435
Federal funds sold and securities purchased under resale agreements or similar arrangements	679	253
Segregated cash due from banks	208	153
Trading securities at fair value	1,009	2,147
Securities available for sale at fair value	22,419	20,721
Loans held for sale	779	680
Loans and leases, net of unearned income	90,907	82,911
Allowance for loan and lease losses	(1,004)	(888)
Loans and leases, net	89,903	82,023
Premises and equipment, net of accumulated depreciation	1,529	1,410
Goodwill	5,194	4,827
Core deposit and other intangible assets	489	454
Residential mortgage servicing rights at fair value	472	484
Other assets	7,499	5,740
Total assets	$ 132,618	$ 121,351
Liabilities and Shareholders Equity		
Deposits:		
Noninterest-bearing deposits	$ 13,059	$ 13,393
Interest checking	1,201	1,333
Other client deposits	35,504	34,062
Client certificates of deposit	26,972	24,987
Other interest-bearing deposits	10,030	7,196
Total deposits	86,766	80,971
Federal funds purchased, securities sold under repurchase agreements and short-term borrowed funds	10,634	8,087
Long-term debt	18,693	15,904
Accounts payable and other liabilities	3,893	4,644
Total liabilities	119,986	109,606
Commitments and contingencies (Notes 6 and 15)		
Shareholders equity:		
Preferred stock, $5 par, 5,000 shares authorized, none issued or outstanding at December 31, 2007 or at December 31, 2006		
Common stock, $5 par, 1,000,000 shares authorized;		
545,955 issued and outstanding at December 31, 2007 and 541,475 issued and outstanding at December 31, 2006	2,730	2,707
Additional paid-in capital	3,087	2,801

Retained earnings	6,919	6,596
Accumulated other comprehensive loss, net of deferred income taxes of $(65) at December 31, 2007 and $(212) at December 31, 2006	(104)	(359)
Total shareholders equity	12,632	11,745
Total liabilities and shareholders equity	$ 132,618	$ 121,351

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

Table of Contents

BB&T CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2007, 2006 and 2005

(Dollars in millions, except per share data, shares in thousands)

	2007	2006	2005
Interest Income			
Interest and fees on loans and leases	$ 6,713	$ 5,941	$ 4,684
Interest and dividends on securities:			
Taxable interest income	1,018	821	739
Tax-exempt interest income	42	31	32
Dividends	70	48	29
Interest on short-term investments	51	52	22
Total interest income	7,894	6,893	5,506
Interest Expense			
Interest on deposits	2,620	2,137	1,252
Interest on federal funds purchased, securities sold under repurchase agreements and short-term borrowed funds	409	301	224
Interest on long-term debt	985	747	505
Total interest expense	4,014	3,185	1,981
Net Interest Income	3,880	3,708	3,525
Provision for credit losses	448	240	217
Net Interest Income After Provision for Credit Losses	3,432	3,468	3,308
Noninterest Income			
Insurance commissions	853	813	714
Service charges on deposits	611	548	543
Investment banking and brokerage fees and commissions	343	317	290
Other nondeposit fees and commissions	184	167	129
Checkcard fees	180	155	128
Trust income	162	154	141
Bankcard fees and merchant discounts	139	122	112
Mortgage banking income	115	108	104
Securities losses, net	(3)	(73)	
Income from bank-owned life insurance	101	93	94
Other noninterest income	89	117	71
Total noninterest income	2,774	2,521	2,326
Noninterest Expense			
Personnel expense	2,094	2,077	1,785
Occupancy and equipment expense	477	449	472
Amortization of intangibles	104	104	112
Professional services	139	120	93
Merger-related and restructuring charges (gains), net	21	18	(11)
Loan processing expenses	111	103	98
Other expenses	690	645	618
Total noninterest expense	3,636	3,516	3,167

Earnings			
Income before income taxes	2,570	2,473	2,467
Provision for income taxes	836	945	813
Net Income	$ 1,734	$ 1,528	$ 1,654
Per Common Share			
Net income			
Basic	$ 3.17	$ 2.84	$ 3.02
Diluted	$ 3.14	$ 2.81	$ 3.00
Cash dividends paid	$ 1.76	$ 1.60	$ 1.46
Average Shares Outstanding			
Basic	547,184	539,140	546,916
Diluted	551,755	543,891	551,380

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

Table of Contents

BB&T CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the Years Ended December 31, 2007, 2006 and 2005

(Dollars in millions, except per share data, shares in thousands)

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2005	550,406	$ 2,752	$ 3,122	$ 5,112	$ (111)	$ 10,875
Add (Deduct):						
Comprehensive income:						
Net income				1,654		1,654
Unrealized holding gains (losses) arising during the period on securities available for sale, net of tax of $(144)					(250)	(250)
Change in unrealized gains (losses) on securities, net of tax					(250)	(250)
Change in unrecognized gain (loss) on cash flow hedge, net of tax of $5					7	7
Change in minimum pension liability, net of tax of $(2)					(2)	(2)
Total comprehensive income				1,654	(245)	1,409
Common stock issued:						
In purchase acquisitions (1)	1,230	6	44			50
In connection with stock option exercises and other employee benefits, net of cancellations	3,466	17	63			80
Redemption of common stock	(12,000)	(60)	(426)			(486)
Cash dividends declared on common stock, $1.49 per share				(815)		(815)
Excess tax benefit from equity-based awards			16			16
Balance, December 31, 2005	543,102	2,715	2,819	5,951	(356)	11,129
Add (Deduct):						
Comprehensive income:						
Net income				1,528		1,528
Unrealized holding gains (losses) arising during the period on securities available for sale, net of tax of $26					43	43
Reclassification adjustment for losses (gains) on securities available for sale included in net income, net of tax of $27					46	46
Change in unrealized gains (losses) on securities, net of tax					89	89
Change in unrecognized gain (loss) on cash flow hedge, net of tax of $9					13	13
Change in minimum pension liability, net of tax of $1					3	3
Total comprehensive income				1,528	105	1,633
Cumulative effect of adoption of SFAS 158, net of tax of $(68)					(108)	(108)
Common stock issued:						
In purchase acquisitions (1)	17,488	87	670			757
In connection with stock option exercises and other employee benefits, net of cancellations	3,192	16	75			91
Redemption of common stock	(22,307)	(111)	(825)			(936)
Cash dividends declared on common stock, $1.64 per share				(883)		(883)
Excess tax benefit from equity-based awards			4			4

Equity-based compensation expense			58			58
Balance, December 31, 2006	541,475	2,707	2,801	6,596	(359)	11,745
Add (Deduct):						
Comprehensive income:						
Net income				1,734		1,734
Unrealized holding gains (losses) arising during the period on securities available for sale, net of tax of $124					219	219
Reclassification adjustment for losses (gains) on securities available for sale included in net income, net of tax of $1					2	2
Change in unrealized gains (losses) on securities, net of tax					221	221
Change in pension and postretirement liability, net of tax of $22					31	31
Foreign currency translation adjustment					3	3
Total comprehensive income				1,734	255	1,989
Common stock issued:						
In purchase acquisitions (1)	9,083	46	365			411
In connection with stock option exercises and other employee benefits, net of cancellations	2,397	12	52			64
Redemption of common stock	(7,000)	(35)	(219)			(254)
Cash dividends declared on common stock, $1.80 per share				(986)		(986)
Cumulative effect of adoption of FIN 48				(119)		(119)
Cumulative effect of adoption of FSP FAS 13-2				(306)		(306)
Excess tax benefit from equity-based awards			18			18
Equity-based compensation expense			70			70
Balance, December 31, 2007	545,955	$ 2,730	$ 3,087	$ 6,919	$ (104)	$ 12,632

(1) Additional paid-in capital includes the value of replacement stock options issued.

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

Table of Contents

BB&T CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2007, 2006 and 2005

(Dollars in millions)

	2007	2006	2005
Cash Flows From Operating Activities:			
Net income	$ 1,734	$ 1,528	$ 1,654
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	448	240	217
Depreciation	179	188	191
Amortization of intangibles	104	104	112
Equity-based compensation	70	58	
Discount accretion and premium amortization on long-term debt, net	121	126	115
Loss on sales of securities, net	3	73	
Gain on disposals of premises and equipment, net	(2)	(31)	(5)
Net decrease (increase) in trading account securities	1,138	(1,434)	(372)
Net (increase) decrease in loans held for sale	(383)	7	(7)
Increase in other assets, net	(1,505)	(539)	(614)
(Decrease) increase in accounts payable and other liabilities, net	(873)	503	305
(Increase) decrease in segregated cash due from banks	(55)	(68)	37
Excess tax benefit from equity-based awards			16
Other, net	72	12	59
Net cash provided by operating activities	1,051	767	1,708
Cash Flows From Investing Activities:			
Proceeds from sales of securities available for sale	2,500	2,730	1,334
Proceeds from maturities, calls and paydowns of securities available for sale	5,604	1,670	3,311
Purchases of securities available for sale	(8,987)	(5,076)	(5,818)
Originations and purchases of loans and leases, net of principal collected	(6,286)	(6,550)	(7,348)
Net cash (paid) acquired in business combinations	(141)	38	(124)
Proceeds from disposals of premises and equipment	17	84	31
Purchases of premises and equipment	(256)	(250)	(198)
Proceeds from sales of foreclosed property or other real estate held for sale	87	85	82
Other, net		(18)	(12)
Net cash used in investing activities	(7,462)	(7,287)	(8,742)
Cash Flows From Financing Activities:			
Net increase in deposits	4,824	4,475	6,588
Net increase (decrease) in federal funds purchased, securities sold under repurchase agreements and short-term borrowed funds	1,004	1,286	(126)
Proceeds from issuance of long-term debt	5,831	3,176	2,593
Repayment of long-term debt	(3,709)	(798)	(921)
Net proceeds from common stock issued	64	91	80
Redemption of common stock	(254)	(936)	(486)
Cash dividends paid on common stock	(962)	(863)	(801)
Excess tax benefit from equity-based awards	18	4	
Net cash provided by financing activities	6,816	6,435	6,927
Net Increase (Decrease) in Cash and Cash Equivalents	405	(85)	(107)
Cash and Cash Equivalents at Beginning of Year	2,712	2,797	2,904

Cash and Cash Equivalents at End of Year	$ 3,117	$ 2,712	$ 2,797
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for:			
Interest	$ 3,978	$ 3,069	$ 1,911
Income taxes	2,233	791	780
Noncash investing and financing activities:			
Transfer of loans to foreclosed property	179	85	58
Transfer of fixed assets to other real estate owned	16	8	11
Securitization of mortgage loans		51	210
Transfer of loans held for sale to loans held for investment	264		
Common stock issued in business combinations	411	757	50

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

Table of Contents

BB&T CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

NOTE 1. Summary of Significant Accounting Policies

General

BB&T Corporation (BB&T , the Company or Parent Company) is a financial holding company organized under the laws of North Carolina. BB&T conducts operations through its principal bank subsidiary, Branch Banking and Trust Company (Branch Bank) and its nonbank subsidiaries.

The accounting and reporting policies of BB&T Corporation and its subsidiaries are in accordance with accounting principles generally accepted in the United States of America. Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The following is a summary of BB&T s more significant accounting policies.

Nature of Operations

BB&T is a financial holding company headquartered in Winston-Salem, North Carolina. BB&T conducts its operations primarily through Branch Bank, which has branches in North Carolina, South Carolina, Virginia, Maryland, Georgia, West Virginia, Tennessee, Kentucky, Florida, Alabama, Indiana and Washington, D.C. Branch Bank provides a wide range of banking services to individuals and businesses, and offers a variety of loans to businesses and consumers. Such loans are made primarily to individuals residing in the market areas described above or to businesses located within BB&T s geographic footprint. Branch Bank also markets a wide range of deposit services to individuals and businesses. Branch Bank offers, either directly, or through its subsidiaries, lease financing to businesses and municipal governments; factoring; discount brokerage services, annuities and mutual funds; life insurance, property and casualty insurance, health insurance and commercial general liability insurance on an agency basis and through a wholesale insurance brokerage operation; insurance premium financing; permanent financing arrangements for commercial real estate; loan servicing for third-party investors; direct consumer finance loans to individuals; and trust services. The direct nonbank subsidiaries of BB&T provide a variety of financial services including automobile lending, equipment financing, full-service securities brokerage, payroll processing, asset management and capital markets services.

Principles of Consolidation

The consolidated financial statements of BB&T include the accounts of BB&T Corporation and those subsidiaries that are majority owned by BB&T and over which BB&T exercises control. In consolidation, all significant intercompany accounts and transactions are eliminated. The results of operations of companies acquired are included only from the dates of acquisition. All material wholly owned and majority owned subsidiaries are consolidated unless accounting principles generally accepted in the United States of America require otherwise.

BB&T evaluates variable interests in entities for which voting interests are not an effective means of identifying controlling financial interests. Variable interests are those in which the value of the interest changes with the fair value of the net assets of the entity exclusive of variable interests. If the results of the evaluation indicate the existence of a primary beneficiary and the entity does not effectively disperse risks among the parties involved, that primary beneficiary is required to consolidate the entity. Likewise, if the evaluation indicates that the requirements for consolidation are not met and the entity has previously been consolidated, then the entity would be deconsolidated.

BB&T has variable interests in certain entities that were not required to be consolidated, including affordable housing partnership interests, historic tax credit partnerships, other partnership interests and trusts that have issued capital securities.

BB&T accounts for unconsolidated partnership investments using the equity method of accounting. In addition to affordable housing partnerships, which represent the majority of unconsolidated investments in variable interest entities, BB&T also has investments and future funding commitments to venture capital and

BB&T CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

other entities. The maximum potential exposure to losses relative to investments in variable interest entities is generally limited to the sum of the outstanding balance, future funding commitments and any related loans to the entity. Loans to these entities are underwritten in substantially the same manner as are other loans and are generally secured.

BB&T has investments in certain entities for which BB&T does not have controlling interest. For these investments, the Company records its interest using the equity method with its portion of income or loss being recorded in other noninterest income in the Consolidated Statements of Income. BB&T periodically evaluates these investments for impairment.

Reclassifications

In certain instances, amounts reported in prior years consolidated financial statements have been reclassified to conform to the current presentation. Such reclassifications had no effect on previously reported shareholders equity or net income.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses and the reserve for unfunded lending commitments, valuation of mortgage servicing rights, valuation of goodwill, intangible assets and other purchase accounting related adjustments, benefit plan obligations and expenses, and tax assets, liabilities and expense.

Business Combinations

BB&T accounts for all business combinations using the purchase method of accounting. Under this method of accounting, the accounts of an acquired entity are included with the acquirer s accounts as of the date of acquisition with any excess of purchase price over the fair value of the net assets acquired (including identifiable intangibles) capitalized as goodwill. BB&T typically provides an allocation period not to exceed one year to finalize the purchase price allocations related to its business combinations. Management currently does not anticipate material adjustments to the assigned values of the assets and liabilities of acquired companies.

To consummate an acquisition, BB&T typically issues common stock and / or pays cash, depending on the terms of the merger agreement. The value of common shares issued in connection with purchase business combinations is determined based on the market price of the securities issued over a reasonable period of time, not to exceed three days before and three days after the measurement date.

In connection with mergers and acquisitions, BB&T typically issues options to purchase shares of its common stock in exchange for options outstanding of the acquired entities at the time the merger is completed. To the extent vested, the options are considered to be part of the purchase price paid. There is no change in the aggregate intrinsic value of the options issued compared to the intrinsic value of the options held immediately before the exchange, nor does the ratio of the exercise price per option to the market value per share change.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, Federal funds sold and securities purchased under resale agreements or similar arrangements. Cash and cash equivalents have maturities of three months or less. Accordingly, the carrying amount of such instruments is considered a reasonable estimate of fair value.

Table of Contents

BB&T CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Securities

At date of purchase, BB&T classifies marketable investment securities as held to maturity, available for sale or trading. Interest income and dividends on securities are recognized in interest income on an accrual basis. Premiums and discounts on debt securities are amortized as an adjustment to interest income using the interest method.

Debt securities acquired with both the intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost.

Debt securities, which may be sold to meet liquidity needs arising from unanticipated deposit and loan fluctuations, changes in regulatory capital requirements, or unforeseen changes in market conditions, are classified as available for sale. Equity securities classified as available for sale are primarily stock issued by the Federal Home Loan Bank of Atlanta and are carried at cost, which approximates fair value. All other securities available for sale are reported at estimated fair value, with unrealized gains and losses reported as accumulated other comprehensive income or loss, net of deferred income taxes, in the shareholders equity section of the Consolidated Balance Sheets. Gains or losses realized from the sale of securities available for sale are determined by specific identification and are included in noninterest income.

BB&T evaluates each held to maturity and available-for-sale security in a loss position for other-than-temporary impairment. In its evaluation BB&T considers such factors as the length of time and the extent to which the market value has been below cost, the financial condition of the issuer, and BB&T s ability and intent to hold the security to an expected recovery in market value. Unrealized losses for other-than-temporary impairment on debt and equity securities are recognized in current period earnings.

Trading account securities, which include both debt and equity securities, are reported at fair value. Unrealized market value adjustments, fees, and realized gains or losses from trading account activities (determined by specific identification) are included in noninterest income. Interest income on trading account securities is included in interest and dividends from securities.

Loans Held for Sale

Loans held for sale, which are primarily mortgage loans, are reported at the lower of cost or market value on an aggregate loan portfolio basis. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold including any deferred origination fees and costs, adjusted for any servicing asset or liability retained. Gains and losses on sales of mortgage loans are included in mortgage banking income.

Loans and Leases

Loans and leases that management has the intent and ability to hold for the foreseeable future are reported at their outstanding principal balances net of any unearned income, charge-offs, unamortized fees and costs on originated loans and unamortized premiums or discounts on purchased loans. The net amount of nonrefundable loan origination fees and certain direct costs associated with the lending process are deferred and amortized to interest income over the contractual lives of the loans using methods which approximate the interest method. Discounts and premiums are amortized or accreted to interest income over the estimated life of the loans using methods that approximate the interest method. Commercial loans and substantially all installment loans accrue interest on the unpaid balance of the loans.

Lease receivables consist primarily of investments in leveraged lease transactions and direct financing leases on rolling stock, equipment and real property. Direct financing lease receivables are stated at the total amount of future minimum lease payments receivable plus estimated residual values and initial direct costs, less unearned income. Leveraged leases are also carried net of non-recourse debt. Income is recognized over the lives of the lease contracts using the interest method. BB&T also enters into operating leases as lessor. Operating lease

BB&T CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

equipment is carried at cost less accumulated depreciation and is depreciated to the estimated residual value using the straight-line method over the lesser of the lease term or projected economic life of the equipment. BB&T estimates the residual value at the inception of each lease. In addition, BB&T reviews residual values at least annually, and monitors the residual realizations at the end of the lease term. If the review of the estimated residual values indicates potential impairment and this decline is other than temporary, such impairment is recognized in current period earnings. Estimated residual values are evaluated using information that includes both internal and external appraisals and historical residual realization experience.

BB&T classifies loans and leases past due when the payment of principal and interest based upon contractual terms is greater than 30 days delinquent.

Nonperforming Assets

Nonperforming assets include loans and leases on which interest is not being accrued and foreclosed property. Foreclosed property consists of real estate and other assets acquired as a result of customers loan defaults. BB&T s policies related to when loans are placed on nonaccrual status conform to guidelines prescribed by bank regulatory authorities. Commercial loans and leases are placed on nonaccrual status when concern exists that principal or interest is not fully collectible, or generally when principal or interest becomes 90 days past due, whichever occurs first. Consumer loans and mortgage loans are placed on nonaccrual status at varying intervals, based on the type of product, when principal and interest becomes between 90 days and 180 days past due. Specialized lending loans are placed on nonaccrual status generally when principal and interest becomes 90 days past due. Certain loans past due 90 days or more may remain on accrual status if management determines that it does not have concern over the collectibility of principal and interest. Generally, when loans are placed on nonaccrual status, interest receivable is reversed against interest income in the current period. Interest payments received thereafter are applied as a reduction to the remaining principal balance as long as concern exists as to the ultimate collection of the principal. Loans and leases are removed from nonaccrual status when they become current as to both principal and interest and concern no longer exists as to the collectibility of principal and interest.

Assets acquired as a result of foreclosure are carried at the lower of cost or net realizable value. Net realizable value equals fair value less estimated selling costs. Cost is determined based on the sum of unpaid principal, accrued but unpaid interest if not required to be reversed and acquisition costs associated with the loan. Any excess of cost over net realizable value at the time of foreclosure is charged to the allowance for loan and lease losses. Generally, such properties are valued periodically and if the carrying value is greater than the net realizable value, a valuation reserve is established. Routine maintenance costs, declines in market value and net losses on disposal are included in other noninterest expense.

Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments

The allowance for loan and lease losses and reserve for unfunded lending commitments are management s best estimate of probable credit losses that are inherent in the loan and lease portfolios and off-balance sheet lending commitments at the balance sheet date. The Company determines the allowance for loan and lease losses and the reserve for unfunded lending commitments based on an ongoing evaluation. This evaluation is inherently subjective because it requires material estimates, including the amounts and timing of cash flows expected to be received on impaired loans. Those estimates are susceptible to significant change. Changes to the allowance for loan and lease losses and the reserve for unfunded lending commitments are made by charges to the provision for credit losses, which is reflected in the Consolidated Statements of Income. Loans or lease balances deemed to be uncollectible are charged off against the allowance for loan and lease losses. Recoveries of amounts previously charged-off are credited to the allowance for loan and lease losses.

The allowance for loan and lease losses is the accumulation of various components that are calculated based on various methodologies. BB&T s allowance for loan and lease losses consists of (1) a component for individual loan impairment recognized and measured pursuant to Statement of Financial Accounting Standards (SFAS) No. 114, *Accounting by Creditors for Impairment of a Loan,* (SFAS No. 114), and (2) components of collective loan impairment recognized pursuant to SFAS No. 5, *Accounting for Contingencies,* (SFAS No. 5).

BB&T CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

BB&T maintains specific reserves for individually impaired loans pursuant to SFAS No. 114. A loan is impaired when, based on current information and events, it is probable that BB&T will be unable to collect all amounts due (interest as well as principal) according to the contractual terms of the loan agreement. Specific reserves are determined on a loan by loan basis based on management s best estimate of BB&T s exposure, given the current payment status of the loan, the present value of expected payments and the value of any underlying collateral.

Management s estimate of the SFAS No. 5 component of the allowance for loan and lease losses is based on one or more sets of observable data that management believes are most reflective of the underlying credit losses being estimated. This evaluation is principally based on historical charge-off experience, but also includes information derived from BB&T s credit ratings systems; internal observable data related to trends within the loan and lease portfolios, including credit quality, geographic, borrower and industry concentrations, aging of the portfolio, growth and loan portfolios of acquired companies; volatility adjustments to reflect changes in historical net charge-off rates and changes in probabilities of default; external observable data related to industry and general economic trends; and any significant, relevant changes to policies or procedures.

The methodology used to determine the reserve for unfunded lending commitments is inherently similar to that used to determine the SFAS No. 5 component of the allowance for loan and lease losses described above, adjusted for factors specific to binding commitments, including the probability of funding and exposure at default.

While management uses the best information available to establish the allowance for loan and lease losses and the reserve for unfunded lending commitments, future adjustments may be necessary if economic conditions differ substantially from the assumptions used in performing the valuations or, if required by regulators, based upon information available to them at the time of their examinations.

Premises and Equipment

Premises, equipment, capital leases and leasehold improvements are stated at cost less accumulated depreciation or amortization. Land is stated at cost. In addition, purchased software and costs of computer software developed for internal use are capitalized provided certain criteria are met. Depreciation and amortization are computed principally using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the lesser of the lease terms, including certain renewals which were deemed probable at lease inception, or the estimated useful lives of the improvements. Capitalized leases are amortized by the same methods as premises and equipment over the estimated useful lives or lease terms, whichever is less. Obligations under capital leases are amortized using the interest method to allocate payments between principal reduction and interest expense. Rent expense and rental income on operating leases is recorded using the straight-line method over the appropriate lease terms.

Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements generally have maturities ranging from 1 day to 36 months. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the borrowing. The terms of repurchase agreements may require BB&T to provide additional collateral if the fair value of the securities underlying the borrowings declines during the term of the agreement.

Income Taxes

Deferred income taxes have been provided when different accounting methods have been used in determining income for income tax purposes and for financial reporting purposes. Deferred tax assets and liabilities are recognized based on future tax consequences attributable to differences arising from the financial statement carrying values of assets and liabilities and their tax bases. In the event of changes in the tax laws, deferred tax assets and liabilities are adjusted in the period of the enactment of those changes, with the cumulative effects included in the current year s income tax provision.

Table of Contents

BB&T CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments

A derivative is a financial instrument that derives its cash flows, and therefore its value, by reference to an underlying instrument, index or referenced interest rate. These instruments include interest rate swaps, caps, floors, collars, financial forwards and futures contracts, swaptions, when-issued securities, foreign exchange contracts and options written and purchased. BB&T uses derivatives primarily to manage economic risk related to securities, business loans, mortgage servicing rights and mortgage banking operations, Federal funds purchased, other time deposits, long-term debt and institutional certificates of deposit. BB&T also uses derivatives to facilitate transactions on behalf of its clients. The fair value of derivatives in a gain or loss position is included in other assets or liabilities, respectively, on the Consolidated Balance Sheets.

BB&T classifies its derivative financial instruments as either (1) a hedge of an exposure to changes in the fair value of a recorded asset or liability (fair value hedge), (2) a hedge of an exposure to changes in the cash flows of a recognized asset, liability or forecasted transaction (cash flow hedge), or (3) derivatives not designated as hedges. Changes in the fair value of derivatives not designated as hedges are recognized in current period earnings.

BB&T uses the long-haul method to assess hedge effectiveness. BB&T documents, both at inception and over the life of the hedge, at least quarterly, its analysis of actual and expected hedge effectiveness. This analysis includes techniques such as regression analysis and hypothetical derivatives under method 2 of DIG Issue G7 to demonstrate that the hedge has been, and is expected to be, highly effective in off-setting corresponding changes in the fair value or cash flows of the hedged item. For cash flow hedges involving interest rate caps and collars, this analysis also includes consideration of the criteria under the response to question 2 of DIG Issue G20. For a qualifying fair value hedge, changes in the value of the derivatives that have been highly effective as hedges are recognized in current period earnings along with the corresponding changes in the fair value of the designated hedged item attributable to the risk being hedged. For a qualifying cash flow hedge, the portion of changes in the fair value of the derivatives that have been highly effective are recognized in other comprehensive income until the related cash flows from the hedged item are recognized in earnings. For qualifying cash flow hedges involving interest rate caps and collars, the initial fair value of the premium paid is allocated and recognized in the same future period that the hedged forecasted transaction impacts earnings.

For either fair value hedges or cash flow hedges, ineffectiveness may be recognized in noninterest income to the extent that changes in the value of the derivative instruments do not perfectly offset changes in the value of the hedged items. If the hedge ceases to be highly effective, BB&T discontinues hedge accounting and recognizes the changes in fair value in current period earnings. If a derivative that qualifies as a fair value or cash flow hedge is terminated or the designation removed, the realized or then unrealized gain or loss is recognized into income over the original hedge period (fair value hedge) or period in which the hedged item affects earnings (cash flow hedge). Immediate recognition in earnings is required upon sale or extinguishment of the hedged item (fair value hedge) or if it is probable that the hedged cash flows will not occur (cash flow hedge).

Derivatives used to manage economic risk not designated as hedges primarily represent economic risk management instruments of mortgage servicing rights and mortgage banking operations, with gains or losses included in mortgage banking income. In connection with its mortgage banking activities, BB&T enters into loan commitments to fund residential mortgage loans at specified rates and for specified periods of time. To the extent that BB&T s interest rate lock commitments relate to loans that will be held for sale upon funding, they are also accounted for as derivatives, with gains or losses included in mortgage banking income. Gains and losses on other derivatives used to manage economic risk are primarily associated with client derivative activity and included in other income.

Per Share Data

Basic net income per common share is computed by dividing net income applicable to common shares by the weighted average number of shares of common stock outstanding during the years presented. Diluted net income per common share is computed by dividing net income by the weighted average number of shares of common stock, common stock equivalents and other potentially dilutive securities outstanding.

Table of Contents

BB&T CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill and Other Intangible Assets

Goodwill represents the cost in excess of the fair value of net assets acquired (including identifiable intangibles) in transactions accounted for as purchases. BB&T allocates goodwill to the business that receives significant benefits from the acquisition. In accordance with provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill is not amortized over an estimated useful life, but rather is tested at least annually for impairment. BB&T performs its impairment testing in the fourth quarter of each year and more frequently if circumstances exist that indicate a possible reduction in the fair value of the business below its carrying value. BB&T measures impairment using the present value of estimated future cash flows. The analysis is based upon available information regarding expected future cash flows and discount rates. Discount rates are based upon the cost of capital specific to the industry in which the reporting unit operates. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, a second analysis is performed to measure the fair value of all assets and liabilities. If, based on the second analysis