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

FORM 10-Q

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

For the quarterly period ended:

June 30, 1999

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)

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

At July 31, 1999, 316,191,883 shares of the registrant's common stock, $5 par value, were outstanding.

This Form 10-Q has 33 pages. The Exhibit Index is included on Page 32.

BB&T CORPORATION
FORM 10-Q
June 30, 1999

INDEX

Part I. FINANCIAL INFORMATION

Item I. *Financial Statements*

BB&T CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands except per share data)

	June 30, 1999	December 31, 1998
Assets		
Cash and due from banks	$ 968,851	$ 997,245
Interest-bearing deposits with banks	5,662	8,925
Federal funds sold and securities purchased under resale agreements or similar arrangements	628,719	103,216
Trading securities	97,896	60,422
Securities available for sale	10,143,528	8,737,936
Securities held to maturity (approximate market values of $99,288 at June 30, 1999, and $179,444 at December 31, 1998)	97,450	174,735
Loans held for sale	539,326	1,035,668
Loans and leases, net of unearned income	24,845,667	23,682,800
Allowance for loan and lease losses	(343,856)	(330,615)
Loans and leases, net	24,501,811	23,352,185
Premises and equipment, net	489,290	471,780
Other assets	1,712,331	1,446,218
Total assets	$39,184,864	$36,388,330
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing deposits	$ 3,477,699	$ 3,465,362
Savings and interest checking	1,638,290	1,783,491
Money rate savings	7,054,675	7,021,556
Time deposits	11,361,761	11,349,083
Other deposits	737,575	638,676
Total deposits	24,270,000	24,258,168
Short-term borrowed funds	6,343,442	3,707,333
Long-term debt	5,162,749	4,964,797
Accounts payable and other liabilities	576,634	534,144
Total liabilities	36,352,825	33,464,442
Shareholders' equity:		
Preferred stock, $5 par, 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, $5 par, 500,000,000 shares authorized; 306,051,309 issued and outstanding at June 30, 1999, and 306,963,976 at December 31, 1998	1,530,257	1,534,820
Additional paid-in capital	104,028	177,098
Retained earnings	1,323,059	1,151,010
Unvested restricted stock and unearned income	(12,580)	(14)
Accumulated other nonshareholder changes in equity, net of deferred income taxes of ($68,198) at June 30, 1999 and $38,366 at December 31, 1998	(112,725)	60,974
Total shareholders' equity	2,832,039	2,923,888
Total liabilities and shareholders' equity	$39,184,864	$36,388,330

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

BB&T CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in thousands except per share data)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1999	**1998**	**1999**	**1998**
Interest Income				
Interest and fees on loans and leases	$ 543,197	$ 514,112	$ 1,070,169	$ 1,014,341
Interest and dividends on securities	153,968	136,020	292,695	272,539
Interest on short-term investments	5,541	3,009	6,998	6,385
Total interest income	702,706	653,141	1,369,862	1,293,265
Interest Expense				
Interest on deposits	210,808	213,175	420,567	422,467
Interest on short-term borrowed funds	59,468	59,607	105,730	114,201
Interest on long-term debt	70,154	56,898	136,912	113,796
Total interest expense	340,430	329,680	663,209	650,464
Net Interest Income	362,276	323,461	706,653	642,801
Provision for loan and lease losses	20,000	23,038	40,000	46,476
Net Interest Income After Provision for Loan and Lease Losses	342,276	300,423	666,653	596,325
Noninterest Income				
Service charges on deposits	47,313	43,324	94,937	85,782
Mortgage banking revenues	32,569	23,261	65,367	38,658
Investment banking & brokerage fees	37,836	11,178	51,605	21,390
Trust revenue	12,957	8,991	25,671	17,722
Agency insurance commissions	16,820	12,231	33,702	26,288
Other insurance commissions	2,642	3,265	5,488	6,281
Other nondeposit fees and commissions	26,448	20,070	48,898	39,032
Securities (losses) gains, net	(3,024)	1,293	(2,963)	3,794
Other income	10,635	11,054	22,675	21,144
Total noninterest income	184,196	134,667	345,380	260,091
Noninterest Expense				
Personnel expense	158,624	124,776	299,817	248,447
Occupancy and equipment expense	47,129	41,731	95,269	80,665
Amortization of intangibles and mortgage servicing rights	16,544	11,238	32,380	21,500
Other noninterest expense	79,822	70,163	156,461	142,312
Total noninterest expense	302,119	247,908	583,927	492,924
Earnings				
Income before income taxes	224,353	187,182	428,106	363,492
Provision for income taxes	71,561	59,143	136,891	115,008
Net income	$ 152,792	$ 128,039	$ 291,215	$ 248,484
Per Common Share				
Net income:				
Basic	$ .50	$ .42	$ .95	$ .82
Diluted	$ .49	$ .41	$ .93	$ .80
Cash dividends paid	$ .175	$ .155	$ .35	$ .31
Average Shares Outstanding				
Basic	306,431,875	302,781,582	306,448,974	303,818,538
Diluted	312,377,609	309,028,401	312,465,148	310,149,293

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

BB&T CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 1999 and 1998
(Unaudited)
(Dollars in thousands)

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings and Other*	Accumulated Other Nonshareholder Changes in Equity	Total Shareholders' Equity
Balance, December 31, 1997, as restated	151,965,992	$ 759,830	$215,041	$1,555,563	$ 52,071	$2,582,505
Add (Deduct)						
Nonshareholder changes in equity:**						
Net income	—	—	—	248,484	—	248,484
Unrealized holding gains (losses) arising during the period	—	—	—	—	2,040	2,040
Less: reclassification adjustment, net of tax of $1,501	—	—	—	—	(2,293)	(2,293)
Net unrealized gains (losses) on securities	—	—	—	—	(253)	(253)
Total nonshareholder changes in equity	—	—	—	248,484	(253)	248,231
Common stock issued	1,974,004	9,870	77,033	—	—	86,903
Redemption of common stock	(2,649,480)	(13,247)	(161,973)	—	—	(175,220)
Cash dividends declared on common stock	—	—	—	(97,148)	—	(97,148)
Other	—	—	—	(11,473)	—	(11,473)
Balance, June 30, 1998	151,290,516	$ 756,453	$130,101	$1,695,426	$ 51,818	$2,633,798
Balance, December 31, 1998, as restated	306,963,976	$1,534,820	$177,098	$1,150,996	$ 60,974	$2,923,888
Add (Deduct)						
Nonshareholder changes in equity:**						
Net income	—	—	—	291,215	—	291,215
Unrealized holding gains (losses) arising during the period	—	—	—	—	(175,490)	(175,490)
Less: reclassification adjustment, net of tax of $(1,172)	—	—	—	—	1,791	1,791
Net unrealized gains (losses) on securities	—	—	—	—	(173,699)	(173,699)
Total nonshareholder changes in equity	—	—	—	291,215	(173,699)	117,516
Common stock issued	5,840,533	29,203	156,808	—	—	186,011
Redemption of common stock	(6,753,200)	(33,766)	(229,878)	—	—	(263,644)
Cash dividends declared on common stock	—	—	—	(119,166)	—	(119,166)
Other	—	—	—	(12,566)	—	(12,566)
Balance, June 30, 1999	306,051,309	$1,530,257	$104,028	$1,310,479	$ (112,725)	$2,832,039

* Other includes unearned income and unvested restricted stock.

** Comprehensive income as defined by SFAS No. 130.

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

BB&T CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 1999 and 1998
(Unaudited)
(Dollars in thousands)

	1999	1998
Cash Flows From Operating Activities:		
Net income	$ 291,215	$ 248,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	40,000	46,476
Depreciation of premises and equipment	36,469	32,100
Amortization of intangibles and mortgage servicing rights	32,380	21,500
Accretion of negative goodwill	(3,121)	(3,121)
Amortization of unearned stock compensation	1,022	339
Discount accretion and premium amortization on securities, net	(355)	1,559
Net decrease (increase) in trading account securities	(25,449)	(3,278)
Loss (gain) on sales of securities, net	2,963	(3,794)
Loss (gain) on disposals of premises and equipment, net	(3,404)	(4,553)
Proceeds from sales of loans held forsale	2,544,414	1,972,011
Purchases of loans held forsale	(659,218)	(944,815)
Origination of loans held for sale, net of principal collected	(1,388,854)	(1,465,928)
Decrease (increase) in:		
Accrued interest receivable	(22,075)	(16,721)
Other assets	(96,387)	(106,258)
Increase (decrease) in:		
Accrued interest payable	13,048	23,256
Accounts payable and other liabilities	114,524	(21,823)
Other, net	1,245	(10,774)
Net cash provided by (used in) operating activities	878,417	(235,340)
Cash Flows From Investing Activities:		
Proceeds from sales of securities available for sale	336,449	879,244
Proceeds from maturities, calls and paydowns of securities available for sale	1,391,147	1,128,119
Purchases of securities available for sale	(3,366,792)	(2,036,986)
Proceeds from maturities, calls and paydowns of securities held to maturity	32,710	41,032
Purchases of securities held to maturity	(2,730)	(4,318)
Lease originations	(63,262)	(45,869)
Lease principal payments	35,463	31,120
Loan originations, net of principal collected	(1,168,754)	(490,706)
Purchases of loans	(5,658)	(91,483)
Net cash acquired in transactions accounted for under the purchase method	139,614	15,097
Purchases and originations of mortgage servicing rights	(53,775)	(33,717)
Proceeds from disposals of premises and equipment	22,654	14,631
Purchases of premises and equipment	(67,308)	(43,556)
Proceeds from sales of foreclosed property	17,627	9,856
Proceeds from sales of other real estate held for development or sale	6,480	7,771
Other	—	(441)
Net cash used in investing activities	(2,746,135)	(620,206)
Cash Flows From Financing Activities:		
Net increase in deposits	11,832	193,046
Net increase (decrease) in short-term borrowed funds	2,510,042	(13,387)
Proceeds from long-term debt	720,564	1,141,207
Repayments of long-term debt	(522,612)	(401,151)
Net proceeds from common stock issued	12,179	22,882
Redemption of common stock	(263,644)	(175,220)
Cash dividends paid on common stock	(106,797)	(91,401)
Net cash provided by financing activities	2,361,564	675,976
Net Increase (Decrease) in Cash and Cash Equivalents	493,846	(179,570)
Cash and Cash Equivalents at Beginning of Period	1,109,386	1,267,253
Cash and Cash Equivalents at End of Period	$ 1,603,232	$ 1,087,683
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 652,799	$ 579,968
Income taxes	35,760	67,333
Noncash financing and investing activities:		
Transfer of securities held to maturity to available for sale	47,265	—
Transfer of loans to foreclosed property	12,416	8,815
Transfer of other real estate owned to fixed assets	1,153	—
Transfer of fixed assets to other real estate owned	582	2,221
Tax benefit from exercise of stock options	12,999	—

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

BB&T CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1999
(Unaudited)

A. Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to present fairly the consolidated balance sheets of BB&T Corporation and subsidiaries ("BB&T" or the "Corporation") as of June 30, 1999 and December 31, 1998; the consolidated statements of income for the three months and the six months ended June 30, 1999 and 1998; the consolidated statements of changes in shareholders' equity for the six months ended June 30, 1999 and 1998; and the consolidated statements of cash flows for the six months ended June 30, 1999 and 1998.

The consolidated financial statements and notes are presented in accordance with the instructions for Form 10-Q. The information contained in the footnotes included in BB&T's latest annual report on Form 10-K, as restated in BB&T's Current Report on Form 8-K filed on April 30, 1999, should be referred to in connection with the reading of these unaudited interim consolidated financial statements. Certain prior year amounts have been reclassified to conform to statement presentations for 1999. The reclassifications had no effect on shareholders' equity or net income.

On June 23, 1998, BB&T's Board of Directors approved a 2-for-1 split in the Corporation's common stock effected in the form of a 100% stock dividend paid August 3, 1998. Accordingly, all per share data and weighted average shares have been restated as appropriate to reflect the split.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Forward-Looking Statements

This report contains forward-looking statements with respect to the financial condition, results of operations and business of BB&T. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of the management of BB&T, and on 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 possibilities: (1) competitive pressures among depository and other financial institutions may increase significantly; (2) changes in the interest rate environment may reduce margins; (3) general economic 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; (4) legislative or regulatory changes, including changes in accounting standards, may adversely affect the businesses in which BB&T is engaged; (5) costs or difficulties related to the integration of the businesses of BB&T and its merger partners may be greater than expected; (6) expected cost savings associated with pending mergers may not be fully realized or realized within the expected time frame; (7) deposit attrition, customer loss or revenue loss following pending mergers may be greater than expected; (8) the Year 2000 issue may not be effectively corrected (see additional discussion following under Second Quarter 1999 Year 2000 Readiness

Disclosure); (9) competitors may have greater financial resources and develop products that enable such competitors to compete more successfully than BB&T; and (10) adverse changes may occur in the securities markets.

B. Nature of Operations

BB&T is a multi-bank holding company headquartered in Winston-Salem, North Carolina. BB&T conducts its operations in North Carolina, South Carolina, Virginia, Maryland, Georgia and the metropolitan Washington, D.C. area through its commercial banking subsidiaries and, to a lesser extent, through its other subsidiaries. BB&T's principal banking subsidiaries, Branch Banking and Trust Company ("BB&T-NC"), Branch Banking and Trust Company of South Carolina ("BB&T-SC") and Branch Banking and Trust Company of Virginia ("BB&T-VA"), provide a wide range of traditional banking services to individuals and commercial customers, including small and mid-size businesses, local governments and their agencies. Substantially all of BB&T's loans are to businesses and individuals in the market areas outlined above. Subsidiaries of the commercial banking subsidiaries offer lease financing to commercial businesses and municipal governments, investment services, (including discount brokerage services, annuities, mutual funds and government and municipal bonds), life insurance, property and casualty insurance on an agency basis and insurance premium financing. Other subsidiaries of the Corporation provide a variety of financial services including automobile lending, equipment financing, factoring, full-service securities brokerage, investment banking and corporate finance services.

C. New Accounting Pronouncements

On January 1, 1998, BB&T adopted SFAS No. 130, "*Reporting Comprehensive Income*," which establishes standards for reporting and displaying comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. Comprehensive income is the nonshareholder related change in equity (net assets) of a company during a period from transactions and other events. The standard does not address issues of recognition or measurement of comprehensive income; therefore, the implementation of the statement did not have an impact on BB&T's consolidated financial position or consolidated results of operations.

On January 1, 1998, BB&T adopted the provisions of SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*," which established standards for the way that business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The standard did not address issues of recognition or measurement; therefore, the implementation of the statement did not have an impact on the consolidated financial position or consolidated results of operations of BB&T.

On January 1, 1998, BB&T adopted the provisions of SFAS No. 132, "*Employers' Disclosures about Pensions and Other Postretirement Benefits*," which revised the disclosure requirements for pensions and other postretirement benefit plans. SFAS No. 132 did not address issues of recognition or measurement and, therefore, the implementation of the statement did not have a material impact on the consolidated financial position or consolidated results of operations of BB&T.

On January 1, 1999, BB&T adopted the American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-1, "*Accounting for Costs of Computer Software Developed or Obtained for Internal Use*." SOP 98-1 requires capitalization of computer software costs that meet certain criteria. The implementation of SOP 98-1 did not have a material effect on BB&T's consolidated financial position or consolidated results of operations.

In June, 1998, the FASB issued SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," which establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in a derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. In June, 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133," which delays the original effective date of SFAS No. 133 until fiscal years beginning after June 15, 2000. Management has not yet quantified the impact of adopting SFAS No. 133, as amended, and has not determined the timing of or method of adoption of the statement. However, the implementation of the statement is not expected to have a material effect on BB&T's consolidated financial position or consolidated results of operations.

On January 1, 1999, BB&T adopted the American Institute of Certified Public Accountants' SOP 98-5, "*Accounting for Start-up Costs*." SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs, requiring start-up costs to be expensed as incurred. The adoption of the statement did not have a material impact on BB&T's consolidated financial position or consolidated results of operations.

On January 1, 1999, BB&T adopted the provisions of SFAS No. 134, "*Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise*." The statement amends SFAS No. 65, "Accounting for Certain Mortgage Banking Activities." The implementation of the statement did not have a material impact on BB&T's consolidated financial position or consolidated results of operations.

D. Mergers and Acquisitions

Completed Mergers and Acquisitions

On March 1, 1998, BB&T completed its merger with Life Bancorp, Inc. ("Life") of Norfolk, Virginia. This transaction was accounted for as a pooling of interests, and, accordingly, the accompanying consolidated financial statements have been restated to reflect the accounts of Life. In conjunction with the merger, BB&T issued approximately 11.6 million shares of common stock in exchange for all of the outstanding shares of Life common stock.

On March 10, 1998, BB&T completed its acquisition of Regency Financial Shares, Incorporated ("Regency") of Richmond, Virginia, in a transaction accounted for as a pooling of interests. In conjunction with the merger, BB&T issued approximately 801,000 shares of common stock in exchange for all of the outstanding shares of Regency.

On June 18, 1998, BB&T completed the acquisition of Dealers' Credit Inc. ("DCI"), of Menomonee Falls, Wisconsin. DCI specializes in extending credit to commercial, agricultural, municipal and consumer users for the purchase of lawn care equipment. The acquisition was accounted for using the purchase method of accounting and, therefore, the accompanying consolidated financial statements include the operating results of DCI only since the date of acquisition. In conjunction with the transaction, BB&T recorded $9.3 million of goodwill, which is being amortized using the straight-line method over 15 years.

On June 30, 1998, BB&T completed its acquisition of W.E. Stanley & Company Inc., and its affiliated companies, (collectively, "Stanley"), an actuarial and benefits consulting and administration firm located in Greensboro, North Carolina. In conjunction with the acquisition, which was accounted for as a purchase, BB&T recorded $10.3 million of goodwill, which is being amortized using the straight-line method over 15 years.

On July 1, 1998, BB&T completed its merger with Franklin Bancorporation Inc. ("Franklin") of Washington, D.C., in a stock transaction accounted for as a pooling of interests. Approximately 4.9 million shares of BB&T common stock were issued in exchange for all of the Franklin common stock outstanding.

On July 7, 1998, BB&T completed a merger with Ballston Bancorp, Inc. ("Ballston") of Washington, D.C., in a transaction accounted for as a pooling of interests. In conjunction with the merger, BB&T issued approximately 824,000 shares of common stock in exchange for all of the outstanding shares of Ballston.

On September 30, 1998, BB&T completed its acquisition of Maryland Federal Bancorp, Inc. ("Maryland Federal") of Hyattsville, Maryland, in a transaction accounted for as a purchase. In conjunction with the merger, BB&T issued 8.7 million shares of BB&T common stock in exchange for all of the outstanding shares of Maryland Federal common stock. BB&T recorded $158.8 million of goodwill, which is being amortized using the straight-line method over a period of 15 years.

On March 5, 1999, BB&T completed a merger with MainStreet Financial Corporation ("MainStreet"), based in Martinsville, Virginia. The transaction was accounted for as a pooling of interests. BB&T issued approximately 16.8 million shares of BB&T common stock in exchange for all of the outstanding shares of MainStreet.

On March 26, 1999, BB&T completed its acquisition of Scott & Stringfellow Financial, Inc. ("Scott & Stringfellow"), an investment banking firm based in Richmond, Virginia. The transaction was accounted for as a purchase. In conjunction with the acquisition, BB&T issued 3.6 million shares of BB&T common stock in exchange for all of the outstanding shares of Scott & Stringfellow common stock. BB&T recorded goodwill totaling $72.8 million, which is being amortized using the straight-line method over a period of 15 years.

On July 9, 1999, BB&T completed its merger with First Citizens Corporation ("First Citizens"), of Newnan, Georgia. The transaction was accounted for as a pooling of interests. In conjunction with the acquisition, BB&T issued 3.2 million shares of BB&T common stock in exchange for all of the outstanding shares of First Citizens.

On July 14, 1999, BB&T completed its merger with Mason-Dixon Bancshares, Inc. ("Mason-Dixon") of Westminster, Maryland. The transaction was accounted for as a pooling of interests. In conjunction with the merger, BB&T issued approximately 6.6 million shares of common stock in exchange for all of the outstanding common stock of Mason-Dixon.

Under the provisions of SFAS No. 38, "*Accounting for Preacquisition Contingencies of Purchase Enterprises*," BB&T typically provides an allocation period, not to exceed one year, to identify and quantify the assets acquired and liabilities assumed in purchase business combinations. Management currently does not anticipate any material adjustments to the assigned values of the assets and liabilities of acquired companies.

Pending Mergers and Acquisitions

On February 25, 1999, BB&T announced plans to acquire Matewan BancShares, Inc. ("Matewan") of Williamson, West Virginia. On April 27, 1999, BB&T and Matewan approved amendments to the merger agreement that provide for Matewan shareholders to receive .67 shares of BB&T common stock for each share of Matewan common stock held and to receive .8375 shares of BB&T common stock for each share of Matewan Series A convertible preferred stock held. The transaction is expected to be completed in the third quarter of 1999 and accounted for as a purchase.

On April 28, 1999, BB&T announced plans to merge with First Liberty Financial Corp. ("First Liberty") of Macon, Georgia. First Liberty's shareholders will receive between .85 and .87 shares of BB&T common stock for each share of First Liberty stock held. The transaction is expected to be completed in the fourth quarter of 1999 and accounted for as a pooling of interests.

On July 28, 1999, BB&T announced plans to merge with Premier Bancshares, Inc. ("Premier") of Atlanta, Georgia. Premier's shareholders will receive .5155 shares of BB&T common stock for each share of Premier stock held. The transaction is expected to be completed in the first quarter of 2000 and accounted for as a pooling of interests.

BB&T CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

E. Calculation of Earnings Per Common Share

BB&T's basic and diluted earnings per common share amounts were calculated as follows (amounts retroactively adjusted for the 2-for-1 stock split effective August 3, 1998):

BB&T CORPORATION AND SUBSIDIARIES
COMPUTATION OF EARNINGS PER SHARE
For the Periods as Indicated

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	1999	1998	1999	1998
	(Dollars in thousands except per share data)			
Basic Earnings Per Share:				
Weighted average number of common shares outstanding during the period	306,431,875	302,781,582	306,448,974	303,818,538
Net income	$ 152,792	$ 128,039	$ 291,215	$ 248,484
Basic earnings per share	$ .50	$ .42	$ .95	$ .82
Diluted Earnings Per Share:				
Weighted average number of common shares outstanding during the period	306,431,875	302,781,582	306,448,974	303,818,538
Add-				
Dilutive effect of outstanding options (as determined by application of treasury stock method)	5,945,734	6,246,819	6,016,174	6,330,755
Weighted average number of common shares, as adjusted	312,377,609	309,028,401	312,465,148	310,149,293
Net income	$ 152,792	$ 128,039	$ 291,215	$ 248,484
Diluted earnings per share	$ .49	$ .41	$ .93	$ .80

F. Segment Disclosures

BB&T's operations are divided into six reportable business segments: the Banking Network, Mortgage Banking, Trust Services, Agency Insurance, Investment Banking and Brokerage, and Treasury. These operating segments have been identified based primarily on BB&T's existing organizational structure. The segments require unique technology and marketing strategies and offer different products and services. While BB&T is managed as an integrated organization, individual executive managers are held accountable for the operations of the business segments that report to them.

BB&T emphasizes revenue growth by focusing on client service, client relationships and sales effectiveness. The segment results presented herein are based on internal management accounting policies that support these strategic objectives. Unlike financial accounting, there is no comprehensive authoritative body of guidance for management accounting equivalent to generally accepted accounting principles. Therefore, the performance of the segments is not necessarily comparable with BB&T's consolidated results or with similar information presented by any other financial institution. Additionally, because of the interrelationships of the various segments, the information presented is not necessarily indicative of the segments' financial performance if they operated as independent entities.

BB&T's internal reporting system was significantly modified during 1998, and, as a result, prior periods have not been reported because it is not practicable to restate prior period results to conform to the current reporting methods. Also, BB&T has completed various mergers and acquisitions accounted for as poolings of interests, which present additional practical limitations to the presentation of comparable prior period information.

Please refer to BB&T's Annual Report on Form 10-K, as restated in BB&T's Current Report on Form 8-K, filed on April 30, 1999, for a description of internal accounting policies and the basis of segmentation, including a description of the segments presented in the accompanying table. There have been no significant changes in the format presented in those documents.

The following tables disclose selected financial information for BB&T's reportable business segments for the periods as indicated:

For the Three Months Ended June 30, 1999

(dollars in thousands)

	Banking Network	Mortgage Banking	Trust Services	Agency Insurance	Investment Banking and Brokerage	Treasury	All Other Segments	Total Segment Results	Other Revenues and Expenses	Reconciling Items & Eliminations	Consolidated Totals
Net interest income (expense) from external customers	$ 198,879	$ 103,503	$ (8,390)	$ 2,733	$ 2,258	$ 39,183	$ 60,731	$ 398,897	$ 28,029	$ (64,650)[4]	$ 362,276
Net intersegment interest income (expense)	61,736	(76,452)	10,071	—	—	(5,581)	—	(10,226)	(9,785)	20,011 [3]	—
Net interest income	260,615	27,051	1,681	2,733	2,258	33,602	60,731	388,671	18,244	(44,639)	362,276
Provision for loan and lease losses	22,203	687	—	928	—	23	4,127	27,968	456	(8,424)[4]	20,000
Noninterest income from external customers	103,884	32,564	11,689	16,701	39,431	(1,659)	7,358	209,968	11,565	(37,337)[4]	184,196
Intersegment noninterest income	14,009	1,339	160	—	—	128	—	15,636	144	(15,780)[3]	—
Noninterest expense	123,262	15,072	7,008	15,473	38,367	1,545	13,767	214,494	68,533	19,092 [4]	302,119
Intersegment noninterest expense	61,798	4,668	631	770	448	1,553	1,654	71,522	(13,995)	(57,527)[3]	—
Income before income taxes and the charge for capital	171,245	40,527	5,891	2,263	2,874	28,950	48,541	300,291	(25,041)	(50,897)	224,353
Provision for income taxes	64,227	15,298	2,218	855	1,480	11,598	8,139	103,815	(14,188)	(18,066)[4]	71,561
Net income before capital charge	107,018	25,229	3,673	1,408	1,394	17,352	40,402	196,476	(10,853)	(32,831)	152,792
Charge for capital	31,839	3,044	365	—	—	291	—	35,539	324	(35,863)[3]	—
Net income after charge for capital	$ 75,179	$ 22,185	$ 3,308	$ 1,408	$ 1,394	$ 17,061	$ 40,402	$ 160,937	$ (11,177)	$ 3,032	$ 152,792
Identifiable segment assets	$ 19,567,354	$ 5,580,091	$ 17,376	$ 99,873	$ 915,979	$ 11,738,763	$ 2,709,394	$ 40,628,830	$ 2,246,651	$ (3,690,617)[4]	$39,184,864

(1) Financial data for segments below the quantitative thresholds requiring disclosure are attributable to a number of smaller operating segments. Those segments include a sub-prime auto lender, a factoring operation, a commercial lawn care finance company, a home equity finance company and a leasing company.

(2) Other revenues and expenses include amounts incurred by BB&T's support functions not allocated to the various segments. Amounts include any unallocated provision for loan and lease losses and unallocated general corporate expenses, as well as costs associated with BB&T's Year 2000 compliance efforts.

(3) BB&T's reconciliation of total segment results to consolidated results requires the elimination of the internal management accounting practices. These adjustments include the elimination of the FTP credits and charges, the elimination of intersegment capital credits and charges, the elimination of the intersegment noninterest revenues and the elimination of overhead expenses allocated to the various segments.

(4) To reflect elimination entries necessary to consolidated the segment data.

	For the Six Months Ended June 30, 1999										
	Banking Network	Mortgage Banking	Trust Services	Agency Insurance	Investment Banking and Brokerage	Treasury	All Other Segments (1)	Total Segment Results	Other Revenues and Expenses (1)	Reconciling Items & Eliminations	Consolidated Totals
	(dollars in thousands)										
Net interest income (expense) from external customers	$ 380,992	$ 214,297	$ (16,576)	$ 5,482	$ 2,513	$ 79,216	$ 110,730	$ 776,654	$ 44,758	$ (114,759)(4)	$ 706,653
Net intersegment interest income (expense)	134,424	(155,565)	19,871	—	—	(10,072)	—	(11,342)	(13,391)	24,733 (3)	—
Net interest income	515,416	58,732	3,295	5,482	2,513	69,144	110,730	765,312	31,367	(90,026)	706,653
Provision for loan and lease losses	43,941	1,400	—	1,906	—	45	8,237	55,529	1,007	(16,536)(4)	40,000
Noninterest income from external customers	207,106	65,408	23,048	33,497	55,747	(305)	13,617	398,118	14,557	(67,295)(4)	345,380
Intersegment noninterest income	27,603	2,652	321	—	—	270	—	30,846	274	(31,120)(3)	—
Noninterest expense	247,809	30,423	14,437	29,013	49,242	2,618	25,776	399,318	132,020	52,589 (4)	583,927
Intersegment noninterest expense	120,594	9,347	1,260	1,539	896	4,012	3,038	140,686	(28,090)	(112,596)(3)	—
Income before income taxes and the charge for capital	337,781	85,622	10,967	6,521	8,122	62,434	87,296	598,743	(58,739)	(111,898)	428,106
Provision for income taxes	126,766	32,322	4,134	2,462	3,539	22,400	13,348	204,971	(29,726)	(38,354)(4)	136,891
Net income before capital charge	211,015	53,300	6,833	4,059	4,583	40,034	73,948	393,772	(29,013)	(73,544)	291,215
Charge for capital	62,734	6,027	729	—	—	614	—	70,104	621	(70,725)(3)	—
Net income after charge for capital	$ 148,281	$ 47,273	$ 6,104	$ 4,059	$ 4,583	$ 39,420	$ 73,948	$ 323,668	$ (29,634)	$ (2,819)	$ 291,215
Identifiable segment assets	$19,567,354	$5,580,091	$ 17,376	$99,873	$915,979	$11,738,763	$2,709,394	$40,628,830	$2,246,651	$ (3,690,617)(4)	$39,184,864

(1) Financial data for segments below the quantitative thresholds requiring disclosure are attributable to a number of smaller operating segments. Those segments include a sub-prime auto lender, a factoring operation, a commercial lawn care finance company, a home equity finance company and a leasing company.

(2) Other revenues and expenses include amounts incurred by BB&T's support functions not allocated to the various segments. Amounts include any unallocated provision for loan and lease losses and unallocated general corporate expenses, as well as costs associated with BB&T's Year 2000 compliance efforts.

(3) BB&T's reconciliation of total segment results to consolidated results requires the elimination of the internal management accounting practices. These adjustments include the elimination of the FTP credits and charges, the elimination of intersegment capital credits and charges, the elimination of the intersegment noninterest revenues and the elimination of overhead expenses allocated to the various segments.

(4) To reflect elimination entries necessary to consolidated the segment data.

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

ANALYSIS OF FINANCIAL CONDITION

BB&T's total assets at June 30, 1999, were $39.2 billion, a $2.8 billion increase from the balance at December 31, 1998. The balance sheet categories that accounted for most of the increase were loans and leases, including loans held for sale, which grew $666.5 million, securities available for sale, which increased $1.4 billion, Federal funds sold and securities purchased under resale agreements or similar arrangements, which increased $525.5 million, and other assets, which grew $266.1 million compared to year-end 1998. These increases were partially offset by declines in cash and due from banks, which decreased $28.4 million and securities held to maturity, which decreased $77.3 million.

Total deposits at June 30, 1999, remained relatively flat compared to year-end 1998, while short-term borrowed funds increased $2.6 billion and long-term debt increased $198.0 million during the first six months of 1999. Total shareholders' equity decreased $91.8 million during the same time frame.

The factors causing the fluctuations in these balance sheet categories are further discussed in the following paragraphs.

Loans and Leases

BB&T's overall loan growth was solid during the second quarter and the first six months of 1999, with end of period loans, including loans held for sale, increasing 6.6% on an annualized basis since the end of the first quarter of 1999 and 5.4% on an annualized basis since year-end 1998. Average loans increased 8.9% in the second quarter of 1999 compared to the same period in 1998. For the six months, average loans grew 9.9%. The overall growth in loans was reduced by a significant decline in loans held for sale during the second quarter and the first six months of 1999. At June 30, 1999, end of period loans held for sale totaled $539.3 million, down $496.3 million, or 47.9%, from the balance at December 31, 1998. Loans held for sale are subject to significant fluctuations from quarter to quarter based on the volume of mortgage loan production. Excluding the impact of the decrease in loans held for sale, annualized loan growth from December 31, 1998, to June 30, 1999, would have been 9.9%.

BB&T continues to focus lending efforts on commercial and consumer loans, which are generally more profitable than mortgage loans. BB&T's acquisition strategy in recent years has resulted in mergers with a number of thrift institutions, which created a concentration of mortgage loans in the portfolio. Through securitizations and sales of fixed rate mortgage loans, the mix of the loan portfolio has changed in the current year compared to 1998. During the second quarter of 1999, mortgage loans decreased 8.2% on average compared to the second quarter of 1998 and were down 1.5% on average for the first six months. Average commercial loans, including leasing, increased 18.3% in this year's second quarter compared to the second quarter of 1998 and 17.0% for the six month period ending June 30, 1999 compared to 1998. Average consumer loans, which includes sales finance, revolving credit and direct retail, increased 9.6% in the second quarter of 1999 compared to the same period in 1998, and 8.6% comparing the first six months of 1999 and the same period of 1998.

The 1999 loan growth rates include the effects of loans that were acquired through purchase accounting transactions. BB&T acquired $1.0 billion in loans during 1998 through the purchases of DCI, Stanley and Maryland Federal. Excluding the impact of these purchase accounting transactions, average "internal" loan growth for the three months ended June 30, 1999, was 4.7% compared to the second quarter of 1998. By category, excluding these purchase accounting transactions, average mortgage loans decreased 20.8%, commercial loans grew 17.9%, revolving credit increased 7.8% and direct retail loans were up 4.8% in the second quarter of 1999 compared to 1998.

The change in mix and the continued growth of the loan portfolio boosted interest income in the second quarter despite a decline in the average yield earned on loans. The average annualized yields on commercial, consumer and mortgage loans for the second quarter of 1999 were 8.70%, 9.84%, and 7.48%, respectively, resulting in an average yield on the total loan portfolio of 8.72%. This reflects a decrease of 37 basis points from the 9.09% earned on total average loans during the second quarter of 1998.

Securities

Securities available for sale, which totaled $10.1 billion at June 30, 1999, increased $1.4 billion from December 31, 1998. This portfolio of securities had net unrealized losses, net of deferred income taxes, of $112.7 million at June 30, 1999, compared to net unrealized gains of $61.0 million at December 31, 1998. Securities held to maturity totaled $97.5 million, down $77.3 million from year-end 1998. The annualized average yield on the securities portfolio for the second quarter of 1999 was 6.60%, down 17 basis points from the net yield earned in the second quarter of 1998.

Other Interest-Earnings Assets

Federal funds sold and securities purchased under resale agreements or similar arrangements increased $525.5 million during the first six months of 1999, compared to December 31, 1998. These balances are subject to large fluctuations based on the availability of funds. The average yield on other interest-earning assets for the first six months of 1999 was 5.41%, down from 5.72% earned during the first half of 1998.

Other Assets

BB&T's other noninterest-earning assets, excluding premises and equipment, increased $266.1 million from December 31, 1998, to June 30, 1999. The increase results primarily from higher goodwill, which increased $91.8 million during the first six months of the year because of the acquisition of Scott & Stringfellow and a number of insurance agencies. In addition, capitalized mortgage servicing rights increased $31.9 million over the same time frame.

Deposits

Total end of period deposits increased slightly from December 31, 1998 to June 30, 1999; however, average deposits for the first six months of 1999 increased 8.7% compared to the same period in 1998. Average certificates of deposit and other time deposits grew $531.5 million, or 4.5%. Average money rate savings accounts, including investor deposit accounts, grew $1.3 billion, or 23.3%. Noninterest-bearing deposits increased $347.0 million, or 11.6%. Savings and interest checking decreased $233.3 million, or 11.6%.

The growth in average deposits primarily results from purchase accounting transactions and from the ongoing promotion of BB&T's "Investor Deposit Account," which is a money rate savings account that provides greater flexibility than traditional certificate accounts and is more cost effective than certificates of deposit. BB&T acquired $813.3 million of deposits on September 30, 1998, through the purchase of Maryland Federal. On average, investor deposit accounts for the first half of 1999 totaled $3.1 billion, compared to a prior year average of $2.2 billion, an increase of 45.4%.

The annualized average cost for total interest-bearing deposits during the first six months of 1999 was 4.05%, down 35 basis points from the comparable period of 1998.

Short-term Borrowed Funds

As a result of asset growth rates significantly higher than deposit growth rates in recent years, cost-effective alternative funding sources, such as Federal Home Loan Bank ("FHLB") advances, master notes, purchases of Federal funds and sales of securities under repurchase agreements have been increasingly utilized to support balance sheet growth.

During the first six months of 1999, end of period short-term borrowed funds increased $2.6 billion, or 71.1%, compared to year-end 1998. However, on average, short-term borrowed funds increased $246.0 million, or 5.7%. The overall increase in average short-term borrowed funds was composed of an increase in short-term bank notes, offset by declines in Federal funds purchased, securities sold under repurchase agreements and short-term FHLB advances. The average annualized rate paid on short-term borrowed funds was 4.67% for the first six months of 1999, down from 5.33% for the same period in 1998.

Long-term Debt

Long-term debt consists primarily of FHLB advances, medium term bank notes and corporate subordinated debt. These borrowings are currently being utilized because they are relatively cost-effective funding sources and provide BB&T with the flexibility to structure borrowings in a manner that aids in the management of interest rate risk and liquidity. Long-term debt totaled $5.2 billion at June 30, 1999, an increase of $198.0 million, or 4.0%, from the balance at December 31, 1998. On average, long-term debt increased $1.2 billion, or 31.0%, for the first six months of 1999 compared to the first half of 1998. Long-term debt has been utilized for a variety of funding needs, including the repurchase of shares of BB&T's common stock in conjunction with certain acquisitions.

Asset Quality

Nonperforming assets (composed of foreclosed assets, nonaccrual loans and restructured loans) totaled $100.4 million at June 30, 1999, compared to $118.3 million at December 31, 1998. Nonperforming assets, as a percentage of loan-related assets, were .40% at June 30, 1999, compared to .48% at December 31, 1998. Loans 90 days or more past due and still accruing interest totaled $44.2 million compared to a year-end 1998 balance of $54.2 million.

Net charge-offs totaled $26.9 million and amounted to .22% of average loans and leases, on an annualized basis, in the first six months of 1999 compared to $32.3 million, or .29% of average loans and leases, in the corresponding period in 1998. The decrease in net charge-offs as a percentage of average loans and leases results from improved overall asset quality.

The allowance for loan and lease losses was $343.9 million, or 1.35% of loans and leases, at June 30, 1999, compared to $330.6 million, or 1.34% of loans and leases, at December 31, 1998. The slight increase in the allowance as a percentage of total loans and leases results from provisions for loan losses in excess of net charge-offs.

The provision for loan and lease losses for the second quarter of 1999 was $20.0 million, compared to $23.0 million in the second quarter of 1998. For the six months ended June 30, 1999, the provision totaled $40.0 million, a decrease of $6.5 million, or 13.9%, compared to the first half of 1998. The lower provisions were principally the result of lower net charge-offs during 1999 and positive trends in nonaccrual loans and leases and other nonperforming assets.

Asset quality statistics relevant to the last five calendar quarters are presented in the accompanying table.

ASSET QUALITY ANALYSIS
(Dollars in thousands)

	As of / For the Three Months Ended				
	6/30/99	3/31/99	12/31/98	9/30/98	6/30/98
Allowance For Loan & Lease Losses					
Beginning balance	$337,983	$330,615	$328,244	$308,968	$301,191
Allowance for acquired loans	169	—	—	15,542	1,269
Provision for loan and lease losses	20,000	20,000	22,765	21,229	23,038
Net charge-offs	(14,296)	(12,632)	(20,394)	(17,495)	(16,530)
Ending balance	$343,856	$337,983	$330,615	$328,244	$308,968
Risk Assets					
Nonaccrual loans and leases	$ 77,084	$ 86,457	$ 88,847	$ 89,067	$ 84,062
Foreclosed real estate	14,042	18,969	17,428	21,778	20,761
Other foreclosed property	8,487	10,539	11,548	11,669	14,189
Restructured loans	747	520	522	525	528
Total nonperforming assets	$100,360	$116,485	$118,345	$123,039	$119,540
Loans 90 days or more past due and still accruing	$ 44,195	$ 40,948	$ 54,226	$ 51,107	$ 52,881
Asset Quality Ratios					
Nonaccrual loans and restructured loans & leases as a percentage of total loans and leases	.31%	.35%	.36%	.37%	.36%
Total nonperforming assets as a percentage of:					
Total assets	.26	.31	.33	.34	.35
Loans and leases plus foreclosed property	.40	.47	.48	.51	.51
Net charge-offs as a percentage of average loans and leases	.23	.21	.33	.30	.29
Allowance for loan and lease losses as a percentage of loans and leases	1.35	1.35	1.34	1.36	1.32
Ratio of allowance for loan and lease losses to:					
Net charge-offs	6.00x	6.60x	4.09x	4.73x	4.66x
Nonaccrual and restructured loans and leases	4.42	3.89	3.70	3.66	3.65

All items referring to loans and leases include loans held for sale and are net of unearned income. Applicable ratios are annualized.

MARKET RISK MANAGEMENT

As a financial intermediary, BB&T's market risk exposure is principally interest rate risk. A primary objective in interest rate risk management is to minimize the effect that changes in interest rates on interest-sensitive assets and interest-sensitive liabilities have on net interest income. Management uses active balance sheet management as an efficient and cost-effective means of controlling interest rate risk. This is accomplished through strategic pricing of asset and liability accounts. The expected result of this process is the development of appropriate maturity and repricing opportunities in those accounts to produce consistent earnings during changing interest rate environments. The Asset / Liability Management Committee ("ALCO") monitors loan, investment and liability portfolios to ensure comprehensive management of interest rate risk.

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 ALCO to determine and achieve the most appropriate volume and mix of earning assets and interest-bearing liabilities, as well as ensure an adequate level of liquidity and capital, within the context of corporate performance goals. The ALCO also sets policy guidelines and establishes long-term strategies with respect to interest rate risk exposure and liquidity. The ALCO 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.

The majority of assets and liabilities of financial institutions 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 the efforts of the Board of Governors of the Federal Reserve System ("FRB") to regulate money and credit conditions 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, BB&T is positioned to respond to changing interest rates and inflationary trends.

Management uses Interest Sensitivity Simulation Analysis ("Simulation") to measure the sensitivity of 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 current volumes and rates, maturities, repricing opportunities and anticipated growth of asset and liability portfolios. The model calculates an earnings estimate based on current and projected portfolio balances and interest rates. This level of detail is needed to simulate the effect that changes in interest rates and portfolio balances will have on the earnings of BB&T. This method is subject to the accuracy of the assumptions that underlie the process, but it provides a better illustration of true earnings potential than other analyses such as static or dynamic gap.

The asset/liability management process involves various analyses. Management determines the most likely outlook for the economy and interest rates by analyzing environmental factors including regulatory changes, monetary and fiscal policies and the overall state of the economy. 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 all considered, given the current environmental situation. This data is combined with various interest rate scenarios to provide management with information necessary to analyze interest sensitivity and to aid in the development of strategies to reach performance goals.

The following table represents the interest sensitivity position of BB&T as of June 30, 1999. This position can be modified by management within a relatively short time period if necessary through the use of various techniques, including securitizing assets, changing funding and investment strategies and utilizing derivative financial instruments. 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 and deposit volumes and pricing; customer preferences; and capital plans. This tabular data does not reflect the impact of any changes in the credit quality of BB&T's assets. To attempt to quantify the potential change in net interest income, given a change in interest rates, various interest rate scenarios are applied to projected balances of assets and liabilities incorporating the projected effect of maturities and repricing opportunities. The resulting change in net interest income reflects the level of sensitivity that net interest income has in relation to changing interest rates.

Interest Sensitivity Simulation Analysis

Interest Rate Scenario Linear	Prime Rate	Annualized Hypothetical Percentage Change in Net Interest Income
+ 3.00%	12.00%	-2.85%
+ 1.50	9.50	-1.95
-1.50	7.50	.72
-3.00	5.00	.67

Management has established parameters for asset/liability management which prescribe a maximum impact on net interest income of 3% for a 150 basis point parallel change in interest rates over three months from the most likely interest rate scenario, and a maximum of 6% for a 300 basis point change over 12 months. It is management's ongoing objective to effectively manage the impact of changes in interest rates and minimize the resulting effect on earnings as evidenced by the preceding table. At June 30, 1999, the sensitivity of BB&T's net interest income to changes in interest rates was within management's targets, as illustrated in the accompanying table.

Derivatives and Off-Balance Sheet Financial Instruments

BB&T utilizes a variety of derivative financial instruments to manage various financial risks. These instruments include financial forward and futures contracts, options written and purchased, interest rate caps and floors and interest rate swaps. Management accounts for these financial instruments as hedges when the following conditions are met: (1) the specific assets, liabilities, firm commitments or anticipated transactions (or an identifiable group of essentially similar items) to be hedged expose BB&T to interest rate risk or price risk; (2) the financial instrument reduces that exposure; (3) the financial instrument is designated as a hedge at inception; and (4) at the inception of the hedge and throughout the hedge period, there is a high correlation of changes in the fair value or the net interest income associated with the financial instrument and the hedged items.

BB&T's derivative contracts are typically written in amounts referred to as notional amounts. Notional amounts do not represent amounts to be exchanged between parties and are not a measure of financial risks, but only provide the basis for calculating payments between the counterparties. On June 30, 1999, BB&T had outstanding interest rate swaps, caps, floors and collars with notional amounts totaling $2.0 billion. The estimated fair value of open contracts used for risk management purposes reflected net unrealized gains of $15.2 million at June 30, 1999.

BB&T uses derivative contracts to hedge specified assets or groups of assets, liabilities or groups of liabilities, forward commitments and anticipated transactions. BB&T's derivatives are primarily used to hedge commercial loans, adjustable rate mortgage loans, commercial swaps, retail certificates of deposit and fixed rate debt.

The net interest payable or receivable on interest rate swaps and floors that are designated as hedges is accrued and recognized as an adjustment to the interest income or expense of the related asset or liability. For interest rate forwards, futures and options qualifying as a hedge, gains and losses are deferred and are recognized in income as an adjustment of yield. Gains and losses from early terminations of derivatives are deferred and amortized as yield adjustments over the shorter of the remaining term of the hedged asset or liability or the remaining term of the derivative instrument. Upon disposition or settlement of the asset or liability being hedged, deferral accounting is discontinued and any gains or losses are recognized in income. Derivative financial instruments that fail to qualify as a hedge are carried at fair value with gains and losses recognized in current earnings.

A derivative is a financial instrument that derives its cash flows, and therefore its value, from an underlying instrument, index or reference rate. Credit risk arises when amounts receivable from a counterparty exceed those payable. The risk of loss with any counterparty is limited to a small fraction of the notional amount. BB&T deals only with national market makers with strong credit ratings in its derivatives activities. BB&T further controls the risk of loss by subjecting counterparties to credit reviews and approvals similar to those used in making loans and other extensions of credit. All of the interest rate swaps, caps and floors to which BB&T is a party settle monthly, quarterly or semiannually. Accordingly, the amount of off-balance sheet credit exposure to which BB&T is exposed at any time is immaterial. Further, BB&T has netting agreements with the dealers with which it does business. Because of these netting agreements, BB&T had a minimal amount of off-balance sheet credit exposure at June 30, 1999.

SFAS No. 119, *"Disclosures About Derivative Financial Instruments and Fair Value of Financial Instruments,"* requires, among other things, certain quantitative and qualitative disclosures with regard to the amounts, nature and terms of derivative financial instruments. The following tables set forth certain information concerning BB&T's interest rate swaps, caps, floors and collars at June 30, 1999:

Interest Rate Swaps, Caps, Floors and Collars
June 30, 1999
(Dollars in thousands)

Type	Notional Amount	Receive Rate	Pay Rate	Net Unrealized Gains
Receive fixed swaps	$ 785,000	6.49%	5.06%	$ 9,233
Pay fixed swaps	175,014	4.99	5.36	5,213
Caps, floors & collars	997,250	—	—	772
Total	$1,957,264	5.51 %	5.39 %	$ 15,218

Year-to-date Activity	Receive Fixed Swaps	Pay Fixed Swaps	Basis Swaps, Caps, Floors & Collars	Total
Balance, December 31, 1998	$1,266,200	$1,180,146	$1,297,250	$3,743,596
Additions	30,000	39,870	—	69,870
Maturities/amortizations	(511,200)	(1,045,002)	(300,000)	(1,856,202)
Terminations	—	—	—	—
Balance, June 30, 1999	$ 785,000	$ 175,014	$ 997,250	$1,957,264

Maturity Schedule*	One Year or Less	One to Five Years	After Five Years	Total
Receive fixed swaps	$ 225,000	$ 270,000	$ 290,000	$ 785,000
Pay fixed swaps	5,465	101,976	67,573	175,014
Caps, floors & collars	250,000	747,250	—	997,250
Total	$ 480,465	$1,119,226	$ 357,573	$1,957,264

* Maturities are based on full contract extensions.

CAPITAL ADEQUACY AND RESOURCES

The maintenance of appropriate levels of capital is a management priority and is closely monitored. BB&T's principal capital planning goals are to provide an adequate return to shareholders while retaining a sufficient base to support future growth and comply with all regulatory standards.

Total shareholders' equity was $2.8 billion at June 30, 1999 and $2.9 billion at December 31, 1998. BB&T's book value per common share at June 30, 1999, was $9.25 compared to $9.53 at December 31, 1998.

The minimum required ratios of Tier 1 capital (total shareholders' equity excluding unrealized gains or losses on securities available for sale, net of taxes, and nonqualifying intangible assets) and total capital (Tier 1 capital, a qualifying portion of the allowance for loan and lease losses and qualifying subordinated debt) to risk-weighted assets are defined by Federal Bank Regulatory guidelines. An 8.00% minimum of total capital to risk-weighted assets is required. One-half of the 8.00% minimum must consist of Tier 1 capital under regulatory guidelines. The Tier 1 leverage ratio, established by Federal Bank Regulatory guidelines, measures Tier 1 capital to average total assets less nonqualifying intangibles. The regulatory minimum for the Tier 1 leverage ratio is 3.00% to 5.00% depending upon Federal bank regulatory agency evaluation of an organization's overall safety and soundness. BB&T's capital adequacy ratios for the last five quarters are presented in the accompanying table:

CAPITAL ADEQUACY RATIOS

	1999		1998		
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Risk-based capital ratios:					
Tier 1 capital	9.4%	9.7%	10.3%	10.5%	10.5%
Total capital	13.5	14.2	15.0	15.3	15.6
Tier 1 leverage ratio	6.6	6.9	7.0	7.3	7.0

ANALYSIS OF RESULTS OF OPERATIONS

Net income for the second quarter of 1999 totaled $152.8 million, an increase of 19.3% over the $128.0 million earned during the second quarter of 1998. On a diluted per share basis, earnings for the three months ended June 30, 1999 were $.49, compared to $.41 for the same period in 1998, an increase of 19.5%. BB&T's operating results for the second quarter of 1999 produced an annualized return on average assets of 1.60% and an annualized return on average shareholders' equity of 20.70% compared to prior year ratios of 1.50% and 19.52%, respectively.

For the first half of 1999, net income totaled $291.2 million, an increase of 17.2% compared to the $248.5 million earned in the first six months of 1998. On a diluted per share basis, BB&T earned $.93 in the six months, compared to $.80 last year, an increase of 16.3%.

BB&T's earnings for the first six months of both 1999 and 1998 were adversely affected by costs of a nonrecurring nature principally associated with consummating mergers and acquisitions. During the first quarter of 1998, BB&T recorded $6.0 million in after-tax expenses primarily associated with the Life merger. These charges included professional fees, as well as costs in connection with the reduction of staffing levels, early retirement packages and other personnel-related expenses. During the first quarter of 1999, $10.4 million in after-tax charges were recorded in conjunction with completing the MainStreet merger. These costs included professional fees, personnel-related expenses and occupancy and equipment costs.

Excluding the impact of these merger-related charges on operating results, BB&T would have had net income for the first six months of 1999 of $301.6 million, an increase of 18.5%, compared to the $254.5 million earned in the first half of 1998. On a diluted per share basis, earnings for the first six months of 1999 excluding these changes were $.97, compared to $.82 earned last year, an increase of 18.3%. Earnings before nonrecurring expenses for the first half of 1999 produced an annualized return on average assets of 1.62% and a return on average equity of 20.62%, compared to prior year ratios of 1.52% and 19.44%, respectively.

BB&T's growth in recurring earnings resulted from four principal factors. First, BB&T's noninterest income continues to grow at a very strong pace, increasing 36.8% for the three months ended June 30, 1999, compared to the same period in 1998, and 32.8% for the six months ended June 30, 1999, compared to the first half of 1998. The components of noninterest income that are producing this growth are further described in the following sections. Second, as discussed above, BB&T has experienced positive growth in loans and securities during the second quarter, which resulted in a 13.0% increase in net interest income on a fully taxable equivalent ("FTE") basis in the second quarter of 1999, compared to the second quarter of 1998. For the first six months of 1999, net interest income FTE has increased 10.6% compared to the same period in 1998. Third, BB&T has continued to effectively manage the growth of noninterest expenses. Excluding the effect of acquisitions accounted for by the purchase method of accounting, recurring noninterest expense increased 4.5% in the second quarter of 1999 and 5.8% for the six months of 1999 compared to the same periods in 1998. Fourth, improved overall asset quality and lower credit losses have allowed BB&T to record lower provisions for loan losses during 1999.

Net Interest Income and Net Interest Margin

Net interest income on an FTE basis was $383.6 million for the second quarter of 1999 compared to $339.5 million for the same period in 1998, a 13.0% increase. For the first half of 1999, net interest income FTE totaled $746.2 million, compared to $674.4 million in 1998, an increase of 10.6%. For the three months ended June 30, 1999, average interest-earning assets increased $3.8 billion, or 12.0%, to $35.8 billion over the second quarter of 1998, while average interest-bearing liabilities increased by $3.5 billion. During the same time period, the net interest margin increased from 4.25% in the second quarter of 1998 to 4.29% in the current quarter. The 4 basis point increase in margin was primarily the result of lower funding costs.

The following tables set forth the major components of net interest income and the related yields for the second quarter of 1999 compared to the second quarter of 1998, and the six months ended June 30, 1999 and 1998, and the variances between the periods caused by changes in interest rates versus changes in volumes.

Net Interest Income and Rate / Volume Analysis
For the Three Months Ended June 30, 1999 and 1998

Fully Taxable Equivalent - (Dollars in thousands)	Average Balances 1999	Average Balances 1998	Yield / Rate 1999	Yield / Rate 1998	Income / Expense 1999	Income / Expense 1998	Increase (Decrease)	Change due to Rate	Change due to Volume
Assets									
Securities(1):									
U.S. Treasury, government and other (5)	$ 9,702,642	$ 8,402,370	6.56%	6.67%	$159,020	$140,129	$18,891	$ (2,450)	$21,341
States and political subdivisions	519,717	228,239	7.51	8.36	9,764	4,770	4,994	(526)	5,520
Total securities (5)	10,222,359	8,630,609	6.61	6.72	168,784	144,899	23,885	(2,976)	26,861
Other earning assets (2)	394,035	216,175	5.64	5.60	5,541	3,018	2,523	22	2,501
Loans and leases, net of unearned income (1)(3)(4)(5)	25,200,396	23,146,329	8.74	9.03	549,709	521,240	28,469	(16,716)	45,185
Total earning assets	35,816,790	31,993,113	8.10	8.38	724,034	669,157	54,877	(19,670)	74,547
Non-earning assets	2,576,790	2,155,854							
Total assets	$38,393,580	$34,148,967							
Liabilities and Shareholders' Equity									
Interest-bearing deposits:									
Savings and interest-checking	$ 1,760,553	$ 1,959,573	1.57	1.96	6,893	9,589	(2,696)	(1,788)	(908)
Money rate savings	6,954,090	5,750,932	2.78	2.94	48,139	42,149	5,990	(2,441)	8,431
Time deposits	12,346,889	11,782,029	5.06	5.50	155,776	161,437	(5,661)	(13,170)	7,509
Total interest-bearing deposits	21,061,532	19,492,534	4.01	4.39	210,808	213,175	(2,367)	(17,399)	15,032
Short-term borrowed funds	5,140,023	4,495,242	4.64	5.32	59,468	59,607	(139)	(8,112)	7,973
Long-term debt	5,238,732	3,903,859	5.36	5.84	70,154	56,898	13,256	(4,923)	18,179
Total interest-bearing liabilities	31,440,287	27,891,635	4.34	4.74	340,430	329,680	10,750	(30,434)	41,184
Noninterest-bearing deposits	3,385,402	3,069,532							
Other liabilities	607,239	556,759							
Shareholders' equity	2,960,652	2,631,041							
Total liabilities and shareholders' equity	$38,393,580	$34,148,967							
Average interest rate spread			3.76	3.64					
Net yield on earning assets			4.29%	4.25%	$383,604	$339,477	$44,127	$10,764	$33,363
Taxable equivalent adjustment					$ 21,328	$ 16,016			

(1) Yields related to securities, loans and leases exempt from both Federal and state income taxes, Federal income taxes only or state income taxes only are stated on a taxable equivalent basis assuming tax rates in effect for the periods presented.
(2) Includes Federal funds sold and securities purchased under resale agreements or similar arrangements.
(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 is included as income.
(5) Includes assets which were held for sale or available for sale at amortized cost and trading securities at estimated fair value.

Net Interest Income and Rate / Volume Analysis
For the Six Months Ended June 30, 1999 and 1998

Fully Taxable Equivalent - (Dollars in thousands)	Average Balances 1999	Average Balances 1998	Yield / Rate 1999	Yield / Rate 1998	Income / Expense 1999	Income / Expense 1998	Increase (Decrease)	Change due to Rate	Change due to Volume
Assets									
Securities(1):									
U.S. Treasury, government and other (5)	$ 9,244,178	$ 8,338,023	6.54%	6.72%	$ 302,369	$ 279,971	$22,398	$(7,332)	$29,730
States and political subdivisions	443,042	233,355	7.59	8.40	16,815	9,803	7,012	(1,020)	8,032
Total securities (5)	9,687,220	8,571,378	6.60	6.77	319,184	289,774	29,410	(8,352)	37,762
Other earning assets (2)	260,878	226,321	5.41	5.72	6,998	6,421	577	(364)	941
Loans and leases, net of unearned income (1)(3)(4)(5)	25,020,404	22,766,441	8.72	9.09	1,083,189	1,028,651	54,538	(44,307)	98,845
Total earning assets	34,968,502	31,564,140	8.10	8.44	1,409,371	1,324,846	84,525	(53,023)	137,548
Non-earning assets	2,538,481	2,158,982							
Total assets	$37,506,983	$33,723,122							
Liabilities and Shareholders' Equity									
Interest-bearing deposits:									
Savings and interest-checking	$ 1,772,604	$ 2,005,882	1.61	1.96	14,121	19,501	(5,380)	(3,273)	(2,107)
Money rate savings	6,901,406	5,598,218	2.80	2.99	95,779	82,877	12,902	(5,439)	18,341
Time deposits	12,275,390	11,743,915	5.10	5.50	310,667	320,089	(9,422)	(23,506)	14,084
Total interest-bearing deposits	20,949,400	19,348,015	4.05	4.40	420,567	422,467	(1,900)	(32,218)	30,318
Short-term borrowed funds	4,567,574	4,321,572	4.67	5.33	105,730	114,201	(8,471)	(14,718)	6,247
Long-term debt	5,106,913	3,897,052	5.38	5.87	136,912	113,796	23,116	(9,923)	33,039
Total interest-bearing liabilities	30,623,887	27,566,639	4.36	4.76	663,209	650,464	12,745	(56,859)	69,604
Noninterest-bearing deposits	3,334,633	2,987,654							
Other liabilities	599,155	528,140							
Shareholders' equity	2,949,308	2,640,689							
Total liabilities and shareholders' equity	$37,506,983	$33,723,122							
Average interest rate spread			3.74	3.68					
Net yield on earning assets			4.28%	4.29%	$ 746,162	$ 674,382	$71,780	$ 3,836	$67,944
Taxable equivalent adjustment					$ 39,509	$ 31,581			

(1) Yields related to securities , loans and leases exempt from both Federal and state income taxes, Federal income taxes only or state income taxes only are stated on a taxable equivalent basis assuming tax rates in effect for the periods presented.
(2) Includes Federal funds sold and securities purchased under resale agreements or similar arrangements.
(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 is included as income.
(5) Included assets which were held for resale or available for sale at amortized cost and trading securities at estimated fair value.

Noninterest Income

Noninterest income for the three months ended June 30, 1999, was $184.2 million compared to $134.7 million for the same period in 1998, an increase of 36.8%. Excluding the impact of purchase accounting acquisitions, BB&T's noninterest income would have increased 14.7% in the second quarter of 1999 compared to 1998. For the six months ended June 30, 1999, noninterest income totaled $345.4 million, an increase of $85.3 million, or 32.8%, compared to the first half of 1998.

BB&T experienced growth in all significant areas of noninterest income. Service charges on deposits, mortgage banking revenues, investment banking and brokerage fees, agency insurance commissions and other fees and commissions all showed strong gains during the period. The percentage of total revenues (tax-equivalent net interest income plus noninterest income excluding securities gains or losses) derived from noninterest income, was 32.8% for the three months ended June 30, 1999, up from 28.2% for the second quarter of 1998. For the six months, the percentage of total revenues derived from noninterest income was 31.8%, compared to 27.5% for the first six months of 1998.

Service charges on deposits increased $4.0 million, or 9.2%, for the second quarter of 1999, compared to the second quarter of 1998. The primary factor contributing to this growth was an increase in the number of accounts subject to service charges. The largest components of the growth within service charges on deposits included account analysis fees on commercial transaction accounts, service charges on commercial and personal accounts and overdraft charges on commercial accounts. For the six months ended June 30, 1999, service charges on deposits increased $9.2 million, or 10.7%, compared to 1998.

Trust income increased $4.0 million, or 44.1%, for the three months ended June 30, 1999, from the same period a year ago. Approximately 15% of the increase resulted from the acquisition of W.E. Stanley at the end of the second quarter of 1998. Also, assets under management have increased to $10.3 billion, an increase of approximately 13.2% from the second quarter of 1998. The remaining increase reflects internal growth, driven principally by increased general trust services income and higher mutual fund fees. For the six months ended June 30, 1999, trust income increased $7.9 million, or 44.9%.

Investment banking and brokerage fees increased $26.7 million in the second quarter of 1999 compared to the second quarter of 1998 because of the March 26, 1999, acquisition of Scott & Stringfellow. Scott & Stringfellow was accounted for as a purchase; therefore, the earnings of Scott & Stringfellow were only included in BB&T's accounts in periods following the acquisition. For the six months ended June 30, 1999, investment banking and brokerage fees increased $30.2 million, or 141.3%. Scott & Stringfellow contributed $28.3 million to the increase.

Agency insurance commissions increased $4.6 million, or 37.5%, in the second quarter of 1999 compared to the same three-month period of 1998. This resulted from growth in property and casualty insurance commissions, contingent insurance commissions and the purchase of additional agencies. BB&T has the largest independent insurance agency system in the Carolinas, and the second largest bank-owned insurance agency network in the country. Over the past several quarters, the network has expanded both the types of products offered and the number of agencies in the network. BB&T acquired five insurance agencies and the entire book of business of a sixth agency. For the six months ended June 30, 1999, agency insurance commissions increased $7.4 million, or 28.2%.

Income from mortgage banking activities increased $9.3 million, or 40.0%, for the three months ended June 30, 1999, compared to the same period in 1998. The increase resulted from significantly higher volumes of mortgage loans originated in 1998 and sold during 1999. Mortgage banking operations also benefited from higher mortgage loan servicing fee income and underwriting fee income, as well as a significant increase in gains on mortgage loans sold. For the six months ended June 30, 1999, mortgage banking income increased $26.7 million, or 69.1%.

Other nondeposit fees and commissions increased by $6.4 million, or 31.8%, to a level of $26.4 million for the three months ended June 30, 1999, compared with $20.1 million for the second quarter of 1998. The components generating the increase in nondeposit fees and commissions were revenues from merchant discounts, bankcard-related fees, higher overlimit fees and increased international income. For the six months ended June 30, 1999, other nondeposit fees and commissions increased $9.9 million, or 25.3%.

Other income decreased 3.8% in the second quarter of 1999 compared to 1998, and increased $1.5 million, or 7.2%, for the six months principally from check sales revenues and earnings from BB&T-owned life insurance policies.

Noninterest Expense

Noninterest expenses totaled $302.1 million for the second quarter of 1999 compared to $247.9 million for the same period a year ago, an increase of 21.9%. For the six months, noninterest expenses totaled $583.9 million, an increase of 18.5% compared to the first half of 1998. Noninterest expense for the first quarter of 1999 includes $15.8 million of nonrecurring expenses associated with the acquisition of MainStreet, while the first three months of 1998 include $7.8 million of costs resulting from the merger with Life. Excluding these merger costs from both years, noninterest expenses increased $83.0 million, or 17.1%, for the six months ended June 30, 1999, compared to the same period in 1998. Excluding the effects of business combinations accounted for as purchases that have been completed since June 30, 1998, noninterest expenses for the second quarter and six months of 1999 would have increased 4.5% and 5.8%, respectively, from the comparable periods in 1998. BB&T's efficiency ratio, which measures the percentage of recurring expenses to total net revenues on an FTE basis, was 52.8% for the second quarter of 1999 and 51.8% for the first six months of 1999, compared to 52.3% and 52.0%, respectively, in 1998.

Personnel expense, the largest component of noninterest expense, was $158.6 million for the second quarter of 1999 compared to $124.8 million for the same period in 1998, an increase of $33.8 million, or 27.1%. This growth results from annual salary adjustments, which typically begin in April, higher incentive compensation costs and the effect of acquisitions accounted for as purchases completed since June 30, 1998. For the six months ended June 30, 1999, personnel expense totaled $299.8 million, an increase of $51.4 million, or 20.7%. Excluding the impact of acquisitions accounted for as purchases, personnel expense would have increased $12.1 million, or 5.0%, during the first six months of 1999.

Occupancy and equipment expense for the three months ended June 30, 1999, totaled $47.1 million, an increase of $5.4 million, or 12.9%, compared to 1998. This increase was principally due to acquisitions accounted for as purchases, costs associated with the maintenance of computer equipment and other furniture and equipment costs. For the six months ended June 30, 1999, occupancy and equipment expense increased $14.6 million, or 18.1%. Excluding the impact of acquisitions accounted for as purchases, net occupancy and equipment expense would have increased $6.1 million, or 7.5%, during the first six months of 1999.

The amortization of intangible assets and mortgage servicing rights totaled $16.5 million for the three months ended June 30, 1999, a $5.3 million, or 47.2% increase from the amount incurred in the second quarter of 1998. This increase was the result of a $540,000 increase in amortization of mortgage loan servicing rights and increased amortization of goodwill totaling $4.8 million due to acquisitions consummated using purchase accounting. Total goodwill and other intangibles, including mortgage servicing rights, have increased from $340.1 million at June 30, 1998 to $626.2 million at June 30, 1999. For the six months ended June 30, 1999, the amortization of intangible assets and mortgage servicing rights increased $10.9 million, or 50.6%.

Other noninterest expenses for the second quarter of 1999 totaled $79.8 million, an increase of $9.7 million, or 13.8%, compared to 1998. This increase was primarily due to purchase accounting acquisitions and higher expenses at Craigie and Regional Acceptance. For the six months ended June 30, 1999, other noninterest expenses increased $14.1 million, or 9.9%, compared to the first half of 1998.

Provision for Income Taxes

The provision for income taxes totaled $71.6 million for the second quarter of 1999, an increase of $12.4 million, or 21.0%, compared to the second quarter of 1998. For the six months ended June 30, 1999, the provision for income taxes totaled $136.9 million, an increase of $21.9 million, or 19.0%, compared to the first half of 1998. The effective tax rates on pretax income were 31.9% and 31.6% for the three months ended June 30, 1999 and 1998, respectively, and were 32.0% and 31.6% for the six months ended June 30, 1999 and 1998, respectively.

PROFITABILITY MEASURES

	1999		1998		
	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter
Return on average assets	1.60%	1.53%	1.45%	1.54%	1.50%
Return on average common equity	20.70	19.11	17.90	19.96	19.52
Net interest margin	4.29	4.28	4.28	4.36	4.25
Efficiency ratio (taxable equivalent)*	52.8	50.7	52.5	51.6	52.3

* Excludes securities gains (losses), foreclosed property expense and nonrecurring items.

Second Quarter 1999 Year 2000 Readiness Disclosure

The Year 2000 issue is pervasive and presents both technical and business risks affecting most, if not all, of BB&T's business activities. The "Year 2000 Issue" is a general term used to describe the various problems that may result from the improper processing of dates and date-sensitive calculations by computers and equipment with embedded microchips as the Year 2000 approaches. These problems generally arise because most of the world's computer hardware and software has historically used only two digits to identify the applicable year. Any computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. These problems may also arise from other sources as well, such as the use of special codes and conventions in software that make use of the date field. If not corrected, this could result in system errors or failures causing disruptions of normal business operations.

BB&T began planning its Year 2000 strategy in 1996. Management determined that it would be required to modify or replace significant portions of BB&T's information technology platform and other systems in order for them to be Year 2000 ready. Computer systems that have the ability to process dates before, during and after January 1, 2000, without malfunction are considered to be "Year 2000 Ready." In early 1997, BB&T formed a Year 2000 Program Office, which operates as a joint effort between BB&T and outside service providers. The mission of the Program Office is to address Year 2000 issues affecting BB&T's various systems. The program office management committee meets regularly to review and document the progress of the Year 2000 project.

Year 2000 Project

BB&T's Year 2000 strategy is divided into five major phases: inventory, assessment, remediation, testing and change / clean management ("Year 2000 Project"). During the inventory and assessment phases, BB&T identified all specific systems that required modification or replacement and assessed the steps necessary to remediate the Year 2000 Issue. In the remediation phase, the systems requiring remediation were replaced, modified or retired, as appropriate. The testing phase included internal and external testing with third parties to ensure that the remediated systems will accurately process dates and date data before, on and after January 1, 2000. Finally, the change / clean management phase includes placing the remediated systems back into production and the implementation of processes and procedures to monitor and to protect remediated systems from alterations that might affect Year 2000 readiness.

In order to carry out the Year 2000 project, BB&T divided its internal and external systems into three major categories: core business systems, distributed business systems and non-information technology systems. The core business systems are those systems that run on BB&T's mainframe. The distributed systems are those systems that do not run on the mainframe. The non-information technology systems are those systems that have embedded microchips or microprocessors controlling the function of equipment; such as elevators, fire and security systems, etc. These three categories are further broken down into mission-critical and non-mission-critical systems. BB&T prioritized its systems for remediation based on their overall importance to the operations of BB&T. Mission-critical systems are those systems that are critical to the operations of BB&T and / or vital to the business continuity of BB&T. While the Year 2000 Project addressed all internal and external systems used by BB&T to conduct its business, the highest priority was given to mission-critical systems.

State of Readiness

BB&T's current state of readiness as of August 12, 1999, is as follows:

Core business systems mission-critical: All phases have been completed and the change / clean management phase has been implemented. BB&T has placed 100% of remediated core business systems back into production.

Distributed business systems mission-critical: All phases have been completed and the change / clean management phase has been implemented. BB&T has placed 100% of remediated mission-critical distributed business systems back into production.

Non-information technology systems mission-critical: Embedded technology controls certain building security and operations, such as power management, elevators and security systems. All facilities, including buildings, equipment and other infrastructure using embedded technology have been evaluated. Those buildings in which critical processes are performed have been confirmed as Year 2000 Ready.

BB&T's Year 2000 readiness plans and status have been reviewed during compliance audits by various state and Federal regulators. These reviews have not resulted in any significant findings of deficiency by regulators and BB&T has met all regulatory deadlines during the Year 2000 project.

Risks

The failure to correct a mission-critical Year 2000 problem could result in an interruption in, or a failure of, certain normal business activities and operations. Such failures could materially and adversely affect BB&T's financial condition or results of operations. Management presently believes that the modifications to existing systems and, in certain circumstances, conversions to new systems, will minimize the effects on BB&T of the Year 2000 issue.

Third Party Assessments

BB&T relies on numerous third parties and conducts formal communications on an ongoing basis with these third parties to determine the extent to which BB&T may be vulnerable to their failure to remediate their own Year 2000 issues. These third parties include providers of core and distributed systems-related products and services; external agents, which include government agencies and other agents requiring systems interfaces; infrastructure-related third parties, including utilities and telecommunications providers, landlords and miscellaneous suppliers; and capital markets partners, which includes any third parties requiring financial settlement. During the fourth quarter of 1998 and early in 1999, BB&T mailed in excess of 2,500 surveys to these third parties in order to assess the status of their Year 2000 readiness. These surveys included 227 third parties considered mission-critical to BB&T's operations. Information has been obtained from 99% of these mission-critical third parties. Risk assessments have been completed on the mission-critical third parties, and appropriate measures to minimize risk to the extent possible have been undertaken with those vendors that have been determined to represent high levels of risk to BB&T. Among those that have responded, management has determined that less than 1% represent a high risk to BB&T. For these third parties, appropriate contingency plans have been developed and are constantly being monitored and revised accordingly. However, BB&T has no viable alternative for certain suppliers, such as utilities and telecommunications providers. Also, as with all financial institutions, BB&T places a high degree of reliance on the systems of other institutions, including governmental agencies, to settle transactions.

BB&T also relies on clients to make preparations for the Year 2000 to protect their business operations from interruptions that could threaten their ability to honor their financial commitments. During 1998, BB&T developed and implemented revised underwriting policies to address Year 2000 issues for our large commercial clients and new commercial clients. Adherence to these policies is required for credits in excess of $1 million and encouraged for other significant clients. BB&T distributed in excess of 4,000 questionnaires to clients in order to assess the state of their Year 2000 Readiness. Lenders were required to follow up with their clients to ensure the accuracy of the responses to the questionnaires. Based on the results of these questionnaires, clients were assigned a Year 2000 "risk grade". Among these lending relationships, BB&T rated approximately 3.3% of the commercial loan portfolio as representing a high risk to BB&T, and the remaining clients were determined to represent low risk to BB&T. For clients that were judged to represent significant risks to BB&T, management is monitoring their progress in addressing their own Year 2000 Readiness and assessing their ability to meet their financial obligations. These risk assessments are updated quarterly for larger clients and potential new clients.

BB&T is also assessing potential Year 2000 risks associated with its fiduciary activities. When making investment decisions or recommendations, BB&T considers Year 2000 issues in our analyses, and may take steps to investigate Year 2000 Readiness in assessing certain assets held in trust.

Despite these efforts, because of the general uncertainty inherent in the Year 2000 issue, there can be no assurance that the systems of other organizations upon which BB&T's operations rely will be timely converted, or that a failure to convert by another company, or a conversion that is incompatible with BB&T's systems, would not have a materially adverse effect on BB&T. In view of the uncertainties surrounding the impact of the Year 2000 issue, management considers BB&T's most reasonably likely worst case scenario to be the loss of basic infrastructure services, such as utilities and telecommunications.

Contingency Business and Event Planning

During 1998 and 1999, management took action to enhance existing business resumption plans to address potential Year 2000 disruptions. Each line of business had significant involvement in the preparation of supplemental Year 2000 contingency / event plans designed to address specific business functions. BB&T completed its Year 2000 contingency / event planning as of June 30, 1999. All of the plans have been tested and additional testing of mission-critical plans will be conducted as the Year 2000 approaches. The plans will be modified as needed as BB&T continues to obtain information relating to its own systems and the systems of its significant third parties.

In addition to its contingency planning efforts, BB&T is designing and implementing a Corporate Command Center to monitor, coordinate and report on enterprise-wide Year 2000 activities. The Command Center will be the central communications point for branches, business offices and management, and will coordinate any corrective actions or activation of contingency plans should Year 2000 disruptions occur.

Costs

The projected total incremental cost of the Year 2000 project is currently estimated at approximately $30 million and is being funded through operating cash flows. As of June 30, 1999, a cumulative total of approximately $25.8 million had been spent on the assessment of and efforts in connection with the Year 2000 project, of which $4.5 million represented internal personnel and other costs.

Information about BB&T's Year 2000 Project, other than historical information, should be considered forward looking in nature and subject to various risks, uncertainties and assumptions. The costs of the project and the date on which BB&T plans to complete Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party modification plans and other factors. However, there can be no assurance that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, the ability to locate and correct all relevant computer codes, the inability to control third party vendor and customer modification plans, the ability of BB&T to implement suitable contingency plans, Congressional legislation, regulatory action and similar uncertainties.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

The nature of the business of BB&T's banking subsidiaries ordinarily results in a certain amount of litigation. The subsidiaries of BB&T are involved in various legal proceedings, all of which are considered incidental to the normal conduct of business. Management believes that the liabilities arising from these proceedings will not have a materially adverse effect on the consolidated financial position or consolidated results of operations of BB&T.

Item 4. *Submission of Matters to a Vote of Security Holders*

BB&T held its annual meeting of the shareholders on April 27, 1999, to consider and vote upon the following matters:

(1) To elect seven Directors for three-year terms expiring in 2002. Of shares represented by proxy, votes in favor were 211,923,602; and votes withheld were 1,650,320.
(2) To ratify the reappointment of Arthur Andersen LLP as the Corporation's independent auditors for 1999. Of shares represented by proxy, votes in favor were 212,382,333; votes opposed were 391,207; and abstentions were 936,252.
(3) To transact such other business as may properly come before the meeting. Of shares represented by proxy, votes in favor were 207,283,719; votes opposed were 4,803,292; and abstentions were 1,511,525.

Item 6. *Exhibits and Reports on Form 8-K*

(a) Exhibit 11—"Computation of Earnings Per Share" is included herein as Note E.

Exhibit 27—"Financial Data Schedule" is included in the electronically-filed document as required.

(b) Current Reports on Form 8-K

On April 9, 1999, BB&T filed a Current Report on Form 8-K under Item 5 to announce that BB&T and Matewan had agreed to extend the due diligence period associated with their proposed merger through April 28, 1999. On April 12, 1999, BB&T filed a Current Report on Form 8-K under Item 5 to report the results of operations for the first quarter of 1999. On April 28, 1999, BB&T filed an amendment to the Form 8-K, originally filed February 25, 1999, to disclose renegotiated terms of the proposed acquisition of Matewan by BB&T. On April 28, 1999, BB&T filed a Current Report on Form 8-K under Item 5 to report that the Board of Directors had authorized the repurchase of up to 10 million shares of BB&T common stock in connection with specific business combinations to be accounted for as purchases. On April 28, 1999, BB&T filed a Current Report on Form 8-K under Item 5 to report that BB&T had entered into a definitive agreement to acquire First Liberty Financial Corp. of Macon, Georgia. On April 30, 1999, BB&T filed a Current Report on Form 8-K under Item 5 to restate BB&T's Annual Report on Form 10-K for the accounts of MainStreet Financial Corporation, which was acquired on March 5, 1999, and accounted for as a pooling of interests. On July 14, 1999, BB&T filed a Form 8-K under Item 5 to report the results of operations for the second quarter of 1999.

SIGNATURES

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

BB&T CORPORATION
(Registrant)

Date: August 12, 1999

By: /s/ Scott E. Reed
Scott E. Reed, Senior Executive Vice President and Chief Financial Officer

Date: August 12, 1999

By: /s/ Sherry A. Kellett
Sherry A. Kellett, Senior Executive Vice President and Controller
(Principal Accounting Officer)