

WESBANCO INC  
Form 10-Q  
July 30, 2015  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**  
**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2015

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-08467

**WESBANCO, INC.**

(Exact name of Registrant as specified in its charter)

**WEST VIRGINIA**  
(State of incorporation)

**55-0571723**  
(IRS Employer

Identification No.)

**1 Bank Plaza, Wheeling, WV**  
(Address of principal executive offices)

**26003**  
(Zip Code)

Registrant's telephone number, including area code: **304-234-9000**

**NOT APPLICABLE**

(Former name, former address and former fiscal year, if changed since last report)

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

## Edgar Filing: WESBANCO INC - Form 10-Q

to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of July 23, 2015, there were 38,527,670 shares of WesBanco, Inc. common stock, \$2.0833 par value, outstanding.

**Table of Contents**

**WESBANCO, INC.**

**TABLE OF CONTENTS**

<b>Item No.</b>	<b>ITEM</b>	<b>Page No.</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>		
1	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets at June 30, 2015 (unaudited) and December 31, 2014</u>	3
	<u>Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014 (unaudited)</u>	4
	<u>Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2015 and 2014 (unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 (unaudited)</u>	6
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	7
2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
4	<u>Controls and Procedures</u>	51
<b><u>PART II - OTHER INFORMATION</u></b>		
1	<u>Legal Proceedings</u>	52
2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
6	<u>Exhibits</u>	54
	<u>Signatures</u>	55

**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****WESBANCO, INC. CONSOLIDATED BALANCE SHEETS**

<i>(unaudited, in thousands, except shares)</i>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Cash and due from banks, including interest bearing amounts of <b>\$20,402</b> and \$8,405, respectively	<b>\$ 108,738</b>	\$ 94,002
Securities:		
Available-for-sale, at fair value	<b>1,594,658</b>	917,424
Held-to-maturity (fair values of <b>\$864,226</b> and \$619,617, respectively)	<b>848,416</b>	593,670
Total securities	<b>2,443,074</b>	1,511,094
Loans held for sale	<b>11,160</b>	5,865
Portfolio loans, net of unearned income	<b>4,933,645</b>	4,086,766
Allowance for loan losses	<b>(43,419)</b>	(44,654)
Net portfolio loans	<b>4,890,226</b>	4,042,112
Premises and equipment, net	<b>111,692</b>	93,135
Accrued interest receivable	<b>24,739</b>	18,481
Goodwill and other intangible assets, net	<b>492,997</b>	319,506
Bank-owned life insurance	<b>154,980</b>	123,298
Other assets	<b>137,813</b>	89,072
<b>Total Assets</b>	<b>\$ 8,375,419</b>	\$ 6,296,565
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing demand	<b>\$ 1,257,932</b>	\$ 1,061,075
Interest bearing demand	<b>1,156,949</b>	885,037
Money market	<b>989,888</b>	954,957
Savings deposits	<b>1,075,711</b>	842,818
Certificates of deposit	<b>1,778,565</b>	1,305,096
Total deposits	<b>6,259,045</b>	5,048,983
Federal Home Loan Bank borrowings	<b>781,332</b>	223,126
Other short-term borrowings	<b>73,868</b>	80,690
Junior subordinated debt owed to unconsolidated subsidiary trusts	<b>106,196</b>	106,176
Total borrowings	<b>961,396</b>	409,992
Accrued interest payable	<b>2,542</b>	1,620
Other liabilities	<b>57,783</b>	47,780

Edgar Filing: WESBANCO INC - Form 10-Q

<b>Total Liabilities</b>	<b>7,280,766</b>	<b>5,508,375</b>
<b>SHAREHOLDERS EQUITY</b>		
Preferred stock, no par value; 1,000,000 shares authorized; none outstanding		
Common stock, \$2.0833 par value; <b>100,000,000</b> and 50,000,000 shares authorized in 2015 and 2014, respectively; <b>38,546,042</b> and 29,367,511 issued in 2015 and 2014, respectively; outstanding: <b>38,519,170</b> and 29,298,188 shares in 2015 and 2014, respectively	<b>80,304</b>	61,182
Capital surplus	<b>516,990</b>	244,661
Retained earnings	<b>522,388</b>	504,578
Treasury stock ( <b>26,872</b> and 69,323 shares in 2015 and 2014, respectively, at cost)	<b>(867)</b>	(2,151)
Accumulated other comprehensive loss	<b>(21,702)</b>	(18,825)
Deferred benefits for directors	<b>(2,460)</b>	(1,255)
<b>Total Shareholders Equity</b>	<b>1,094,653</b>	788,190
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 8,375,419</b>	\$ 6,296,565

See Notes to Consolidated Financial Statements.

**Table of Contents****WESBANCO, INC. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

<i>(unaudited, in thousands, except shares and per share amounts)</i>	For the Three Months Ended		For the Six Months Ended	
	2015	June 30, 2014	2015	June 30, 2014
<b>INTEREST AND DIVIDEND INCOME</b>				
Loans, including fees	\$ 52,316	\$ 42,546	\$ 100,036	\$ 85,291
Interest and dividends on securities:				
Taxable	10,043	7,452	18,542	14,676
Tax-exempt	4,052	3,435	7,585	6,821
Total interest and dividends on securities	14,095	10,887	26,127	21,497
Other interest income	318	611	954	713
Total interest and dividend income	66,729	54,044	127,117	107,501
<b>INTEREST EXPENSE</b>				
Interest bearing demand deposits	485	395	907	768
Money market deposits	490	466	945	907
Savings deposits	163	133	311	263
Certificates of deposit	2,869	3,422	5,741	7,052
Total interest expense on deposits	4,007	4,416	7,904	8,990
Federal Home Loan Bank borrowings	949	175	1,507	386
Other short-term borrowings	92	350	165	907
Junior subordinated debt owed to unconsolidated subsidiary trusts	888	796	1,784	1,587
Total interest expense	5,936	5,737	11,360	11,870
<b>NET INTEREST INCOME</b>	<b>60,793</b>	<b>48,307</b>	<b>115,757</b>	<b>95,631</b>
Provision for credit losses	2,681	849	3,970	3,048
Net interest income after provision for credit losses	58,112	47,458	111,787	92,583
<b>NON-INTEREST INCOME</b>				
Trust fees	5,476	5,210	11,529	10,858
Service charges on deposits	4,249	4,078	7,918	7,937
Electronic banking fees	3,496	3,267	6,821	6,281
Net securities brokerage revenue	1,842	2,003	3,901	3,832
Bank-owned life insurance	989	1,821	2,244	2,695
Net gains on sales of mortgage loans	407	475	679	628
Net securities gains		165	22	175
Net gain / (loss) on other real estate owned and other assets	152	(165)	185	(52)
Other income	1,461	1,387	2,955	2,936
Total non-interest income	18,072	18,241	36,254	35,290
<b>NON-INTEREST EXPENSE</b>				
Salaries and wages	19,300	16,904	37,636	33,370

Edgar Filing: WESBANCO INC - Form 10-Q

Employee benefits	<b>6,807</b>	5,529	<b>14,123</b>	11,238
Net occupancy	<b>3,243</b>	2,857	<b>6,765</b>	6,348
Equipment	<b>3,017</b>	2,914	<b>5,958</b>	5,698
Marketing	<b>1,715</b>	1,713	<b>2,707</b>	2,716
FDIC insurance	<b>1,040</b>	880	<b>1,950</b>	1,757
Amortization of intangible assets	<b>944</b>	482	<b>1,510</b>	977
Restructuring and merger-related expense	<b>1,115</b>		<b>10,848</b>	
Other operating expenses	<b>9,408</b>	9,025	<b>18,550</b>	18,294
<b>Total non-interest expense</b>	<b>46,589</b>	40,304	<b>100,047</b>	80,398
Income before provision for income taxes	<b>29,595</b>	25,395	<b>47,994</b>	47,475
Provision for income taxes	<b>7,962</b>	6,520	<b>12,482</b>	12,179
<b>NET INCOME</b>	<b>\$ 21,633</b>	\$ 18,875	<b>\$ 35,512</b>	\$ 35,296
<b>EARNINGS PER COMMON SHARE</b>				
Basic	<b>\$ 0.56</b>	\$ 0.65	<b>\$ 0.97</b>	\$ 1.21
Diluted	<b>\$ 0.56</b>	\$ 0.64	<b>\$ 0.97</b>	\$ 1.20
<b>AVERAGE COMMON SHARES OUTSTANDING</b>				
Basic	<b>38,472,229</b>	29,242,180	<b>36,443,951</b>	29,212,347
Diluted	<b>38,531,700</b>	29,321,927	<b>36,504,671</b>	29,293,424
<b>DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 0.23</b>	\$ 0.22	<b>\$ 0.46</b>	\$ 0.44
<b>COMPREHENSIVE INCOME</b>	<b>\$ 13,547</b>	\$ 22,943	<b>\$ 32,635</b>	\$ 42,637

See Notes to Consolidated Financial Statements.

**Table of Contents****WESBANCO, INC. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the Six Months Ended June 30, 2015 and 2014

<i>(unaudited, in thousands, except shares and per share amounts)</i>	Common Stock		Capital Surplus	Retained Earnings	Treasury Stock	Accumulated		Total
	Shares Outstanding	Amount				Other Comprehensive Income (Loss)	Deferred Benefits for Directors	
December 31, 2014	29,298,188	\$ 61,182	\$ 244,661	\$ 504,578	\$ (2,151)	\$ (18,825)	\$ (1,255)	\$ 788,190
Net income				35,512				35,512
Other comprehensive income						(2,877)		(2,877)
Comprehensive income								32,635
Common dividends declared (\$0.46 per share)				(17,702)				(17,702)
Shares issued for acquisition	9,178,531	19,122	274,507					293,629
Treasury shares acquired	(50,224)				(1,638)			(1,638)
Stock options exercised	44,125		(223)		1,396			1,173
Restricted stock granted	48,550		(1,526)		1,526			
Repurchase of stock warrant			(2,247)					(2,247)
Stock compensation expense			613					613
Deferred benefits for directors- net			1,205				(1,205)	
June 30, 2015	38,519,170	\$ 80,304	\$ 516,990	\$ 522,388	\$ (867)	\$ (21,702)	\$ (2,460)	\$ 1,094,653
December 31, 2013	29,175,236	\$ 61,182	\$ 244,974	\$ 460,351	\$ (5,969)	\$ (12,734)	\$ (1,209)	\$ 746,595
Net income				35,296				35,296
Other comprehensive income						7,341		7,341
Comprehensive income								42,637
Common dividends declared (\$0.44 per share)				(12,861)				(12,861)
Treasury shares acquired	(2,258)		49		(69)			(20)
Stock options exercised	63,393		(311)		1,969			1,658
Restricted stock granted	42,554		(1,321)		1,321			
Stock compensation expense			616					616
Deferred benefits for directors- net			22				(22)	
June 30, 2014	29,278,925	\$ 61,182	\$ 244,029	\$ 482,786	\$ (2,748)	\$ (5,393)	\$ (1,231)	\$ 778,625

See Notes to Consolidated Financial Statements.



**Table of Contents****WESBANCO, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(unaudited, in thousands)</i>	For the Six Months Ended	
	2015	June 30, 2014
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 34,541</b>	<b>\$ 41,380</b>
<b>INVESTING ACTIVITIES</b>		
Net increase in loans	(156,166)	(55,683)
Securities available-for-sale:		
Proceeds from sales	560,736	3,491
Proceeds from maturities, prepayments and calls	121,699	117,595
Purchases of securities	(430,858)	(182,501)
Securities held-to-maturity:		
Proceeds from maturities, prepayments and calls	26,021	18,982
Purchases of securities	(173,754)	(29,704)
Proceeds from bank-owned life insurance	1,185	
Cash paid to acquire a business, net of cash acquired	(28,551)	
Purchases of premises and equipment net	(4,835)	(2,659)
Net cash used in investing activities	(84,523)	(130,479)
<b>FINANCING ACTIVITIES</b>		
(Decrease) increase in deposits	(35,196)	55,248
Proceeds from Federal Home Loan Bank borrowings	675,000	115,532
Repayment of Federal Home Loan Bank borrowings	(509,029)	(16,368)
Decrease in other short-term borrowings	(11,822)	(35,609)
Decrease in federal funds purchased		(20,000)
Repayment of junior subordinated debt	(36,083)	
Repurchase of common stock warrant	(2,247)	
Dividends paid to common shareholders	(15,291)	(12,256)
Treasury shares (purchased) sold - net	(614)	1,489
Net cash provided by financing activities	64,718	88,036
Net increase (decrease) in cash and cash equivalents	14,736	(1,063)
Cash and cash equivalents at beginning of the period	94,002	95,551
Cash and cash equivalents at end of the period	\$ 108,738	\$ 94,488
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid on deposits and other borrowings	\$ 12,288	\$ 12,532
Income taxes paid	5,070	7,850
Transfers of loans to other real estate owned	751	1,610
Non-cash transactions related to ESB acquisition	301,933	

See Notes to Consolidated Financial Statements.

---

**Table of Contents****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation** The accompanying unaudited interim financial statements of WesBanco, Inc. and its consolidated subsidiaries ( WesBanco ) have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2014.

WesBanco's interim financial statements have been prepared following the significant accounting policies disclosed in Note 1 of the Notes to the Consolidated Financial Statements of its 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly WesBanco's financial position and results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year.

**Recent accounting pronouncements** In May 2015, the Financial Accounting Standards Board (the FASB ) issued an Accounting Standards Update ( ASU ) (ASU 2015-07) related to disclosures for investments in certain entities that calculate net asset value (NAV) per share (or its equivalent). This update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and modifies certain disclosure requirements. The update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015, and requires retrospective adoption. Early adoption is permitted. The adoption of this pronouncement is not expected to have a material impact on WesBanco's Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-05 that provides guidance on when to account for a cloud computing arrangement as a software license. The guidance applies only to internal-use software that a customer obtains access to in a hosting arrangement if both of the following criteria are met: (1) The customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty, (2) it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this pronouncement is not expected to have a material impact on WesBanco's Consolidated Financial Statements.

In February 2015, the FASB issued ASU 2015-02 that revised the consolidation model, requiring reporting entities to reevaluate whether they should consolidate certain legal entities under the revised model. The amendments in this update modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, and eliminate the presumption that a general partner should consolidate and affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. The pronouncement also provides for a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted. The adoption of this pronouncement is not expected to have a material impact on WesBanco's Consolidated Financial Statements.

In August 2014, the FASB issued ASU 2014-14 related to the classification of certain government-guaranteed mortgage loans upon foreclosure. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based upon the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The pronouncement is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014 and may be adopted under either a modified retrospective transition method or a prospective transition method. However, the same method of transition as elected under ASU 2014-04 must be applied. While early adoption was permitted, WesBanco elected to adopt the ASU in the first quarter of 2015, which was the first interim period after December 31, 2014. The adoption of this pronouncement did not have a material impact on WesBanco's Consolidated Financial Statements.

In June 2014, the FASB issued ASU 2014-11 related to repurchase-to-maturity transactions, repurchase financing and disclosures. The pronouncement changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The pronouncement also requires two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to

## Edgar Filing: WESBANCO INC - Form 10-Q

repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The pronouncement is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. While early adoption was not permitted, WesBanco elected to adopt the ASU in the first quarter of 2015, which was the first interim period after December 31, 2014. Early adoption was not permitted. The adoption of this pronouncement did not have a material impact on WesBanco's Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09 related to the recognition of revenue from contracts with customers. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are, (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. The

**Table of Contents**

pronouncement was originally effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016 using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. Early adoption is not permitted. On July 9, 2015, the FASB approved a one-year deferral of the effective date of the update. The update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is now permitted as of the original effective date for interim and annual reporting periods in fiscal years beginning after December 15, 2016. WesBanco is currently evaluating the impact of the adoption of this pronouncement on its Consolidated Financial Statements.

**NOTE 2. MERGERS AND ACQUISITIONS**

On February 10, 2015, WesBanco completed its acquisition of ESB Financial Corporation ( ESB ), and its wholly-owned banking subsidiary, ESB Bank ( ESB Bank ), a Pennsylvania-chartered stock savings bank headquartered in Ellwood City, Pennsylvania. The transaction expanded WesBanco's franchise in the Pittsburgh region of western Pennsylvania from 16 to 38 offices.

On the acquisition date, ESB had \$1.9 billion in assets, excluding goodwill, which included \$700.9 million in loans, and \$486.9 million in securities. The ESB acquisition was valued at \$339.0 million, based on WesBanco's closing stock price on February 10, 2015 of \$32.00, and resulted in WesBanco issuing 9,178,531 shares of its common stock and \$45.0 million in cash and other assets in exchange for ESB common stock. The assets and liabilities of ESB were recorded on WesBanco's balance sheet at their preliminary estimated fair values as of February 10, 2015, the acquisition date, and ESB's results of operations have been included in WesBanco's Consolidated Statements of Income since that date. ESB was merged into WesBanco and ESB Bank was merged into WesBanco Bank, Inc. (the Bank ) on February 10, 2015. Based on a preliminary purchase price allocation, WesBanco recorded \$169.3 million in goodwill and \$5.3 million in core deposit intangibles in its community banking segment, representing the principal change in goodwill and intangibles from December 31, 2014. The fair values for the assets acquired and liabilities assumed are provisional amounts and are currently under review. Due to the timing of the ESB acquisition, WesBanco is still in the process of completing its fair market valuation, including the valuation of certain tangible and intangible assets as well as deferred income taxes. None of the goodwill is deductible for income tax purposes as the acquisition is accounted for as a tax-free exchange for tax purposes. As a result of the full integration of the operations of ESB, it is not practicable to determine the proforma results or revenue and net income included in WesBanco's operating results relating to ESB since the date of acquisition because ESB has been fully integrated into WesBanco's operations, and the operating results of ESB can therefore not be separately identified.

For the six months ended June 30, 2015, WesBanco recorded merger-related expenses of \$10.8 million associated with the ESB acquisition. In 2014 WesBanco recognized \$1.3 million in merger-related expenses in connection with the ESB acquisition.

The purchase price of the ESB acquisition and resulting goodwill is summarized as follows:

<i>(unaudited, in thousands)</i>	<b>February 10, 2015</b>
Purchase Price:	
Fair value of WesBanco shares issued, (net of equity issuance costs of \$0.1 million)	<b>\$ 293,933</b>
Cash consideration for outstanding ESB shares, options and restricted stock	<b>37,036</b>
Settlement of pre-existing loan to ESB	<b>8,000</b>
<b>Total purchase price</b>	<b>\$ 338,969</b>
Fair value of:	
Tangible assets acquired	<b>\$ 1,858,360</b>
Core deposit and other intangible assets acquired	<b>5,346</b>
Liabilities assumed	<b>(1,702,554)</b>
Net cash received in the acquisition	<b>8,485</b>
<b>Fair value of net assets acquired</b>	<b>169,637</b>
<b>Goodwill recognized</b>	<b>\$ 169,332</b>



**Table of Contents**

The following table presents the preliminary allocation of the purchase price of the assets acquired and the liabilities assumed at the date of acquisition, as WesBanco intends to finalize its accounting for the acquisition of ESB during 2015:

<i>(unaudited, in thousands)</i>	February 10, 2015
<b>Assets</b>	
Cash and due from banks	\$ 8,485
Securities	486,891
Loans	700,933
Goodwill and other intangible assets	174,678
Accrued income and other assets <sup>(1)</sup>	670,536
<b>Total Assets</b>	<b>\$ 2,041,523</b>
<b>Liabilities</b>	
Deposits	\$ 1,246,992
Borrowings	433,454
Accrued expenses and other liabilities	22,108
<b>Total liabilities</b>	<b>1,702,554</b>
<b>Purchase price</b>	<b>\$ 338,969</b>

<sup>(1)</sup> Includes receivables of \$560.7 million from the sale of available-for-sale securities prior to the acquisition date.

**NOTE 3. EARNINGS PER COMMON SHARE**

Earnings per common share are calculated as follows:

<i>(unaudited, in thousands, except shares and per share amounts)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Numerator for both basic and diluted earnings per common share:</b>				
Net income	\$ 21,633	\$ 18,875	\$ 35,512	\$ 35,296
<b>Denominator:</b>				
Total average basic common shares outstanding	38,472,229	29,242,180	36,443,951	29,212,347
Effect of dilutive stock options and warrant	59,471	79,747	60,720	81,077
<b>Total diluted average common shares outstanding</b>	<b>38,531,700</b>	<b>29,321,927</b>	<b>36,504,671</b>	<b>29,293,424</b>
Earnings per common share - basic	\$ 0.56	\$ 0.65	\$ 0.97	\$ 1.21
Earnings per common share - diluted	\$ 0.56	\$ 0.64	\$ 0.97	\$ 1.20

All stock options outstanding were included in the computation of diluted earnings per share for the three and six months ended June 30, 2015 and 2014, respectively, as all were considered dilutive.

On February 10, 2015, WesBanco issued 9,178,531 shares to complete its acquisition of ESB. These shares are included in average shares outstanding beginning on that date. For additional information relating to the ESB acquisition, refer to Note 2, Mergers and Acquisitions.



**Table of Contents****NOTE 4. SECURITIES**

The following table presents the fair value and amortized cost of available-for-sale and held-to-maturity securities:

<i>(unaudited, in thousands)</i>	June 30, 2015			Estimated Fair Value	Amortized Cost	December 31, 2014		Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses			Gross Unrealized Gains	Gross Unrealized Losses	
<b>Available-for-sale</b>								
Obligations of government agencies	\$ 80,160	\$ 1,172	\$ (295)	\$ 81,037	\$ 86,964	\$ 1,087	\$ (315)	\$ 87,736
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	1,239,616	3,868	(11,062)	1,232,422	703,535	4,336	(6,758)	701,113
Obligations of states and political subdivisions	88,267	4,592	(88)	92,771	86,073	5,365	(5)	91,433
Corporate debt securities	177,395	262	(343)	177,314	25,974	141	(119)	25,996
Total debt securities	\$ 1,585,438	\$ 9,894	\$ (11,788)	\$ 1,583,544	\$ 902,546	\$ 10,929	\$ (7,197)	\$ 906,278
Equity securities	10,533	581		11,114	10,304	842		11,146
Total available-for-sale securities	\$ 1,595,971	\$ 10,475	\$ (11,788)	\$ 1,594,658	\$ 912,850	\$ 11,771	\$ (7,197)	\$ 917,424
<b>Held-to-maturity</b>								
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	\$ 120,576	\$ 2,501	\$ (1,153)	\$ 121,924	\$ 79,004	\$ 3,262	\$ (246)	\$ 82,020
Obligations of states and political subdivisions	718,230	19,754	(5,270)	732,714	507,927	23,917	(1,043)	530,801
Corporate debt securities	9,610	49	(71)	9,588	6,739	106	(49)	6,796
Total held-to-maturity securities	\$ 848,416	\$ 22,304	\$ (6,494)	\$ 864,226	\$ 593,670	\$ 27,285	\$ (1,338)	\$ 619,617
Total securities	\$ 2,444,387	\$ 32,779	\$ (18,282)	\$ 2,458,884	\$ 1,506,520	\$ 39,056	\$ (8,535)	\$ 1,537,041

At June 30, 2015, and December 31, 2014, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of WesBanco's shareholders' equity.



Edgar Filing: WESBANCO INC - Form 10-Q

The following table presents the fair value of available-for-sale and held-to-maturity securities by contractual maturity at June 30, 2015. In some instances, the issuers may have the right to call or prepay obligations without penalty prior to the contractual maturity date.

<i>(unaudited, in thousands)</i>	June 30, 2015					Total
	One Year or less	One to Five Years	Five to Ten Years	After Ten Years	Mortgage-backed and Equity	
Available-for-sale						
Obligations of government agencies	\$	\$ 25,230	\$ 38,977	\$ 16,830	\$	\$ 81,037
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies (1)					1,232,422	1,232,422
Obligations of states and political subdivisions	4,745	31,657	27,147	29,222		92,771
Corporate debt securities	82,862	56,218	33,344	4,890		177,314
Equity securities (2)					11,114	11,114
<b>Total available-for-sale securities</b>	<b>\$ 87,607</b>	<b>\$ 113,105</b>	<b>\$ 99,468</b>	<b>\$ 50,942</b>	<b>\$ 1,243,536</b>	<b>\$ 1,594,658</b>
Held-to-maturity (3)						
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies (1)	\$	\$	\$	\$	\$ 121,924	\$ 121,924
Obligations of states and political subdivisions	1,877	27,296	319,753	383,788		732,714
Corporate debt securities		1,010	8,578			9,588
<b>Total held-to-maturity securities</b>	<b>\$ 1,877</b>	<b>\$ 28,306</b>	<b>\$ 328,331</b>	<b>\$ 383,788</b>	<b>\$ 121,924</b>	<b>\$ 864,226</b>
<b>Total securities</b>	<b>\$ 89,484</b>	<b>\$ 141,411</b>	<b>\$ 427,799</b>	<b>\$ 434,730</b>	<b>\$ 1,365,460</b>	<b>\$ 2,458,884</b>

(1) Mortgage-backed and collateralized mortgage securities, which have prepayment provisions, are not assigned to maturity categories due to fluctuations in their prepayment speeds.

(2) Equity securities, which have no stated maturity, are not assigned a maturity category.

(3) The held-to-maturity portfolio is carried at an amortized cost of \$848.4 million.

**Table of Contents**

Securities with aggregate fair values of \$1.1 billion and \$706.5 million at June 30, 2015 and December 31, 2014, respectively, were pledged as security for public and trust funds, and securities sold under agreements to repurchase. Proceeds from the sale of available-for-sale securities were \$560.7 million, primarily due to the ESB portfolio restructuring, and \$3.5 million for the six months ended June 30, 2015 and 2014, respectively. Net unrealized (losses) gains on available-for-sale securities included in accumulated other comprehensive income net of tax, as of June 30, 2015 and December 31, 2014 were (\$0.8) million and \$2.9 million, respectively.

The following table presents the gross realized gains and losses on sales and calls of securities for the three and six months ended June 30, 2015 and 2014, respectively.

<i>(unaudited, in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Gross realized gains	\$ 2	\$ 170	\$ 26	\$ 365
Gross realized losses	(2)	(5)	(4)	(190)
<b>Net realized gains (losses)</b>	<b>\$</b>	<b>\$ 165</b>	<b>\$ 22</b>	<b>\$ 175</b>

The following tables provide information on unrealized losses on investment securities that have been in an unrealized loss position for less than twelve months and twelve months or more as of June 30, 2015 and December 31, 2014:

<i>(unaudited, dollars in thousands)</i>	Less than 12 months			June 30, 2015 12 months or more			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
Obligations of government agencies	\$ 37,435	\$ (295)	9	\$	\$		\$ 37,435	\$ (295)	9
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	755,016	(7,346)	138	164,273	(4,869)	33	919,289	(12,215)	171
Obligations of states and political subdivisions	299,339	(4,629)	415	21,889	(729)	33	321,228	(5,358)	448
Corporate debt securities	93,533	(318)	27	4,890	(96)	2	98,423	(414)	29
<b>Total temporarily impaired securities</b>	<b>\$ 1,185,323</b>	<b>\$ (12,588)</b>	<b>589</b>	<b>\$ 191,052</b>	<b>\$ (5,694)</b>	<b>68</b>	<b>\$ 1,376,375</b>	<b>\$ (18,282)</b>	<b>657</b>

<i>(unaudited, dollars in thousands)</i>	Less than 12 months			December 31, 2014 12 months or more			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
Obligations of government agencies	\$ 19,362	\$ (77)	5	\$ 19,757	\$ (238)	4	\$ 39,119	\$ (315)	9
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	78,786	(386)	19	240,055	(6,618)	43	318,841	(7,004)	62
Obligations of states and political subdivisions	12,615	(96)	15	61,548	(952)	93	74,163	(1,048)	108
Corporate debt securities	2,969	(31)	1	4,573	(137)	2	7,542	(168)	3
<b>Total temporarily impaired securities</b>	<b>\$ 113,732</b>	<b>\$ (590)</b>	<b>40</b>	<b>\$ 325,933</b>	<b>\$ (7,945)</b>	<b>142</b>	<b>\$ 439,665</b>	<b>\$ (8,535)</b>	<b>182</b>

## Edgar Filing: WESBANCO INC - Form 10-Q

Unrealized losses on debt securities in the tables represent temporary fluctuations resulting from changes in market rates in relation to fixed yields. Unrealized losses in the available-for-sale portfolio are accounted for as an adjustment, net of taxes, to other comprehensive income in shareholders' equity.

WesBanco does not believe the securities presented above are impaired due to reasons of credit quality, as there are no debt securities rated below investment grade and all are paying principal and interest according to their contractual terms. WesBanco does not intend to sell, nor is it more likely than not that it will be required to sell, loss position securities prior to recovery of their cost, and therefore, management believes the unrealized losses detailed above are temporary and no impairment loss relating to these securities has been recognized.

Securities that do not have readily determinable fair values and for which WesBanco does not exercise significant influence are carried at cost. Cost method investments consist primarily of FHLB of Pittsburgh and FHLB of Cincinnati stock totaling \$35.0 million and \$11.6 million at June 30, 2015 and December 31, 2014, respectively, and are included in other assets in the Consolidated Balance Sheets. Cost method investments are evaluated for impairment whenever events or circumstances suggest that their carrying value may not be recoverable.

**Table of Contents****NOTE 5. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES**

The recorded investment in loans is presented in the Consolidated Balance Sheets net of deferred loan fees and costs of \$1.7 million and \$2.4 million at June 30, 2015 and December 31, 2014, respectively.

<i>(unaudited, in thousands)</i>	June 30, 2015	December 31, 2014
Commercial real estate:		
Land and construction	\$ 308,885	\$ 262,643
Improved property	1,885,228	1,682,817
Total commercial real estate	2,194,113	1,945,460
Commercial and industrial	733,478	638,410
Residential real estate	1,241,470	928,770
Home equity	379,740	330,031
Consumer	384,844	244,095
Total portfolio loans	4,933,645	4,086,766
Loans held for sale	11,160	5,865
Total loans	\$ 4,944,805	\$ 4,092,631

The following tables summarize changes in the allowance for credit losses applicable to each category of the loan portfolio:

**Allowance for Credit Losses By Category**  
For the Six Months Ended June 30, 2015 and 2014

<i>(unaudited, in thousands)</i>	Commercial Real Estate- Land and Construction	Commercial Real Estate- Improved Property	Commercial & Industrial	Residential Real Estate	Home Equity	Consumer	Deposit Overdraft	Total
Balance at December 31, 2014:								
Allowance for loan losses	\$ 5,654	\$ 17,573	\$ 9,063	\$ 5,382	\$ 2,329	\$ 4,078	\$ 575	\$ 44,654
Allowance for loan commitments	194	10	112	9	90	40		455
Total beginning allowance for credit losses	5,848	17,583	9,175	5,391	2,419	4,118	575	45,109
Provision for credit losses:								
Provision for loan losses	(551)	633	1,448	25	1,254	580	231	3,620
Provision for loan commitments	13	10	301	3	23			350
Total provision for credit losses	(538)	643	1,749	28	1,277	580	231	3,970
Charge-offs		(1,234)	(1,430)	(944)	(948)	(1,414)	(381)	(6,351)
Recoveries		256	110	301	53	658	118	1,496
Net charge-offs		(978)	(1,320)	(643)	(895)	(756)	(263)	(4,855)

Edgar Filing: WESBANCO INC - Form 10-Q

Balance at June 30, 2015:

Allowance for loan losses	5,103	17,228	9,191	4,764	2,688	3,902	543	43,419
Allowance for loan commitments	207	20	413	12	113	40		805

<b>Total ending allowance for credit losses</b>	<b>\$ 5,310</b>	<b>\$ 17,248</b>	<b>\$ 9,604</b>	<b>\$ 4,776</b>	<b>\$ 2,801</b>	<b>\$ 3,942</b>	<b>\$ 543</b>	<b>\$ 44,224</b>
---	-----------------	------------------	-----------------	-----------------	-----------------	-----------------	---------------	------------------

Balance at December 31, 2013:

Allowance for loan losses	\$ 6,056	\$ 18,157	\$ 9,925	\$ 5,673	\$ 2,017	\$ 5,020	\$ 520	\$ 47,368
Allowance for loan commitments	301	62	130	5	85	19		602

<b>Total beginning allowance for credit losses</b>	<b>6,357</b>	<b>18,219</b>	<b>10,055</b>	<b>5,678</b>	<b>2,102</b>	<b>5,039</b>	<b>520</b>	<b>47,970</b>
--	--------------	---------------	---------------	--------------	--------------	--------------	------------	---------------

Provision for credit losses:

Provision for loan losses	(405)	(511)	1,870	575	392	642	551	3,114
Provision for loan commitments	(20)	(52)	1		5			(66)

<b>Total provision for credit losses</b>	<b>(425)</b>	<b>(563)</b>	<b>1,871</b>	<b>575</b>	<b>397</b>	<b>642</b>	<b>551</b>	<b>3,048</b>
--	--------------	--------------	--------------	------------	------------	------------	------------	--------------

Charge-offs		(728)	(2,384)	(1,207)	(348)	(1,610)	(362)	(6,639)
Recoveries		390	543	248	71	512	134	1,898

<b>Net charge-offs</b>		<b>(338)</b>	<b>(1,841)</b>	<b>(959)</b>	<b>(277)</b>	<b>(1,098)</b>	<b>(228)</b>	<b>(4,741)</b>
------------------------	--	--------------	----------------	--------------	--------------	----------------	--------------	----------------

Balance at June 30, 2014:

Allowance for loan losses	5,651	17,308	9,954	5,289	2,132	4,564	843	45,741
Allowance for loan commitments	281	10	131	5	90	19		536

<b>Total ending allowance for credit losses</b>	<b>\$ 5,932</b>	<b>\$ 17,318</b>	<b>\$ 10,085</b>	<b>\$ 5,294</b>	<b>\$ 2,222</b>	<b>\$ 4,583</b>	<b>\$ 843</b>	<b>\$ 46,277</b>
---	-----------------	------------------	------------------	-----------------	-----------------	-----------------	---------------	------------------

**Table of Contents**

The following tables present the allowance for credit losses and recorded investments in loans by category:

<i>(unaudited, in thousands)</i>	Allowance for Credit Losses and Recorded Investment in Loans							Total
	Commercial Real Estate-Land and Construction	Commercial Real Estate-Improved Property	Commercial and Industrial	Residential Real Estate	Home Equity	Consumer	Over-draft	
<b>June 30, 2015</b>								
Allowance for credit losses:								
Allowance for loans individually evaluated for impairment	\$	\$ 2,891	\$ 1,021	\$	\$	\$	\$	\$ 3,912
Allowance for loans collectively evaluated for impairment	5,103	14,337	8,170	4,764	2,688	3,902	543	39,507
Allowance for loan commitments	207	20	413	12	113	40		805
Total allowance for credit losses	\$ 5,310	\$ 17,248	\$ 9,604	\$ 4,776	\$ 2,801	\$ 3,942	\$ 543	\$ 44,224
Portfolio loans:								
Individually evaluated for impairment <sup>(1)</sup>	\$ 1,040	\$ 18,054	\$ 5,388	\$	\$	\$	\$	\$ 24,482
Collectively evaluated for impairment	307,845	1,867,174	728,090	1,241,470	379,740	384,844		4,909,163
Total portfolio loans	\$ 308,885	\$ 1,885,228	\$ 733,478	\$ 1,241,470	\$ 379,740	\$ 384,844	\$	\$ 4,933,645
<b>December 31, 2014</b>								
Allowance for credit losses:								
Allowance for loans individually evaluated for impairment	\$	\$ 2,765	\$ 1,033	\$	\$	\$	\$	\$ 3,798
Allowance for loans collectively evaluated for impairment	5,654	14,808	8,030	5,382	2,329	4,078	575	40,856
Allowance for loan commitments	194	10	112	9	90	40		455
Total allowance for credit losses	\$ 5,848	\$ 17,583	\$ 9,175	\$ 5,391	\$ 2,419	\$ 4,118	\$ 575	\$ 45,109
Portfolio loans:								
Individually evaluated for impairment <sup>(1)</sup>	\$	\$ 11,469	\$ 2,844	\$	\$	\$	\$	\$ 14,313
Collectively evaluated for impairment	262,643	1,671,348	635,566	928,770	330,031	244,095		4,072,453
Total portfolio loans	\$ 262,643	\$ 1,682,817	\$ 638,410	\$ 928,770	\$ 330,031	\$ 244,095	\$	\$ 4,086,766

<sup>(1)</sup> Commercial loans greater than \$1 million that are reported as non-accrual or as troubled debt restructuring ( TDR ), including acquired with deteriorated credit quality, are individually evaluated for impairment.

## Edgar Filing: WESBANCO INC - Form 10-Q

WesBanco maintains an internal loan grading system to reflect the credit quality of commercial loans. Commercial loan risk grades are determined based on an evaluation of the relevant characteristics of each loan, assigned at the inception of each loan and adjusted thereafter at any time to reflect changes in the risk profile throughout the life of each loan. The primary factors used to determine the risk grade are the reliability and sustainability of the primary source of repayment and overall financial strength of the borrower. This includes an analysis of cash flow available to repay debt, profitability, liquidity, leverage, and overall financial trends. Other factors include management, industry or property type risks, an assessment of secondary sources of repayment such as collateral or guarantees, other terms and conditions of the loan that may increase or reduce its risk, and economic conditions and other external factors that may influence repayment capacity and financial condition.

Commercial real estate land and construction consists of loans to finance investments in vacant land, land development, construction of residential housing, and construction of commercial buildings. Commercial real estate improved property consists of loans for the purchase or refinance of all types of improved owner-occupied and investment properties. Factors that are considered in assigning the risk grade vary depending on the type of property financed. The risk grade assigned to construction and development loans is based on the overall viability of the project, the experience and financial capacity of the developer or builder to successfully complete the project, project specific and market absorption rates and comparable property values, and the amount of pre-sales for residential housing construction or pre-leases for commercial investment property. The risk grade assigned to commercial investment property loans is based primarily on the adequacy of net rental income generated by the property to service the debt, the type, quality, industry and mix of tenants, and the terms of leases, but also considers the overall financial capacity of the investors and their experience in owning and managing investment property. The risk grade assigned to owner-occupied commercial real estate and commercial and industrial loans is based primarily on historical and projected earnings, the adequacy of operating cash flow to service all of the business debt, and the capital resources, liquidity and leverage of the business, but also considers the industry in which the business operates, the business specific competitive advantages or disadvantages, the quality and experience of management, and external influences on the business such as economic conditions. Other factors that are considered for commercial and industrial loans include the type, quality and marketability of non-real estate collateral and whether the structure of the loan increases or reduces its risk. The type, age, condition, location and any environmental risks associated with a property are also considered for all types of commercial real estate. The overall financial condition and repayment capacity of any guarantors is also evaluated to determine the extent to which they mitigate other risks of the loan. The following paragraphs provide descriptions of risk grades that are applicable to commercial real estate and commercial and industrial loans.

Pass loans are those that exhibit a history of positive financial results that are at least comparable to the average for their industry or type of real estate. The primary source of repayment is acceptable and these loans are expected to perform satisfactorily during most economic cycles. Pass loans typically have no significant external factors that are expected to adversely affect these borrowers more than others in the same industry or property type. Any minor unfavorable characteristics of these loans are outweighed or mitigated by other positive factors including but not limited to adequate secondary or tertiary sources of repayment.

Criticized or compromised loans are currently protected but have weaknesses, which, if not corrected, may be inadequately protected at some future date. These loans represent an unwarranted credit risk and would generally not be extended in the normal course of lending. Specific issues which may warrant this grade include declining financial results, increased reliance on secondary sources of repayment or guarantor support and adverse external influences that may negatively impact the business or property.

**Table of Contents**

Substandard and doubtful loans are equivalent to the classifications used by banking regulators. Substandard loans are inadequately protected by the current repayment capacity and equity of the borrower or collateral pledged, if any. Substandard loans have one or more well-defined weaknesses that jeopardize their repayment or collection in full. These loans may or may not be reported as non-accrual. Doubtful loans have all the weaknesses inherent to a substandard loan with the added characteristic that full repayment is highly questionable or improbable on the basis of currently existing facts, conditions and collateral values. However, recognition of loss may be deferred if there are reasonably specific pending factors that will reduce the risk if they occur.

The following tables summarize commercial loans by their assigned risk grade:

	Commercial Loans by Internally Assigned Risk Grade			
	Commercial Real Estate- Land and Construction	Commercial Real Estate- Improved Property	Commercial & Industrial	Total Commercial Loans
<i>(unaudited, in thousands)</i>				
<b>As of June 30, 2015</b>				
Pass	\$ 302,514	\$ 1,830,655	\$ 711,497	\$ 2,844,666
Criticized - compromised	3,664	13,463	11,153	28,280
Classified - substandard	2,707	41,110	10,828	54,645
Classified - doubtful				
Total	\$ 308,885	\$ 1,885,228	\$ 733,478	\$ 2,927,591
<b>As of December 31, 2014</b>				
Pass	\$ 257,218	\$ 1,627,771	\$ 617,742	\$ 2,502,731
Criticized - compromised	3,645	17,873	12,770	34,288
Classified - substandard	1,780	37,173	7,898	46,851
Classified - doubtful				
Total	\$ 262,643	\$ 1,682,817	\$ 638,410	\$ 2,583,870

Residential real estate, home equity and consumer loans are not assigned internal risk grades other than as required by regulatory guidelines that are based primarily on the age of past due loans. WesBanco primarily evaluates the credit quality of residential real estate, home equity and consumer loans based on repayment performance and historical loss rates. The aggregate amount of residential real estate, home equity and consumer loans classified as substandard in accordance with regulatory guidelines were \$15.3 million at June 30, 2015 and \$15.2 million at December 31, 2014, of which \$2.3 and \$2.2 million were accruing, for each period, respectively. The aggregate amount of residential real estate, home equity and consumer loans classified as substandard are not included in the tables above.



---

**Table of Contents**

**Acquired Loans** - Loans acquired in connection with acquisitions are recorded at their acquisition-date fair value in accordance with ASC 805, Business Combinations, with no carryover of related allowance for credit losses. Determining the fair value of the acquired loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Management considers a number of factors in evaluating the acquisition-date fair value including the remaining life of the acquired loans, delinquency status, estimated prepayments, payment options and other loan features, internal risk grade, estimated value of the underlying collateral and interest rate environment.

Loans acquired with deteriorated credit quality are accounted for in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (ASC 310-30), and therefore impaired if, at acquisition, the loans have evidence of credit quality deterioration since origination and it is probable that all contractually required payments will not be collected. At acquisition, WesBanco considers several factors as indicators that an acquired loan has evidence of deterioration in credit quality. These factors include loans 90 days or more past due, loans with an internal risk grade of substandard or below, loans classified as non-accrual by the acquired institution, and loans that have been previously modified as a TDR.

Acquired loans that were not individually determined to be impaired are considered performing and are accounted for in accordance with ASC 310-20, Nonrefundable Fees and Other Costs (ASC 310-20), whereby the premium or discount derived from the fair market value adjustment, on a loan-by-loan or pooled basis, is recognized into interest income on a level yield over the remaining expected life of the loan or pool.

Under the ASC 310-30 model, the excess of cash flows expected to be collected at acquisition over recorded fair value is referred to as the accretable yield and is the interest component of expected cash flow. The accretable yield is recognized into income over the remaining life of the loan if the timing and/or amount of cash flows expected to be collected can be reasonably estimated. If the timing or amount of cash flows expected to be collected cannot be reasonably estimated, the cost recovery method of income recognition is used. The difference between the loan's total scheduled principal and interest payments over all cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the non-accretable difference. The non-accretable difference represents contractually required principal and interest payments which WesBanco does not expect to collect.

Over the life of the loan, management continues to estimate cash flows expected to be collected. Decreases in expected cash flows are recognized as impairments through a charge to the provision for loan losses resulting in an increase in the allowance for loan losses. Subsequent improvements in cash flows result in first, reversal of existing valuation allowances recognized subsequent to acquisition, if any, and next, an increase in the amount of accretable yield to be subsequently recognized in interest income on a prospective basis over the loan's remaining life.

In conjunction with the ESB acquisition, WesBanco acquired loans with a book value of \$716.2 million. These loans were recorded at their fair value of \$700.9 million, with \$690.1 million categorized as performing. The fair market value adjustment on performing loans of \$10.0 million at acquisition date is expected to be recognized into interest income on a level yield basis over the remaining expected life of the performing loans.

Loans acquired with deteriorated credit quality with a book value of \$16.1 million and contractually required payments of \$21.7 million were recorded at their estimated fair value of \$10.8 million. The accretable yield on the acquired impaired loans was estimated at \$1.9 million at the acquisition date with \$1.6 million remaining at June 30, 2015. For the six months ended June 30, 2015 accretion recognized in interest income on acquired impaired loans was \$0.3 million. The balance of loans acquired with deteriorated credit quality at June 30, 2015, was \$10.0 million, of which \$8.5 million were categorized as non-accrual and \$1.5 million were categorized as accruing TDRs, while the non-accretable difference was \$9.0 million. At June 30, 2015 no allowance for loan losses has been recognized related to the acquired impaired loans.

**Table of Contents**

The following tables summarize the age analysis of all categories of loans:

	Age Analysis of Loans					Total Loans	90 Days or More Past Due and Accruing (1)
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due		
<i>(unaudited, in thousands)</i>							
<b>As of June 30, 2015</b>							
Commercial real estate:							
Land and construction	\$ 307,522	\$ 252	\$	\$ 1,111	\$ 1,363	\$ 308,885	\$
Improved property	1,870,393	1,304	797	12,734	14,835	1,885,228	180
Total commercial real estate	2,177,915	1,556	797	13,845	16,198	2,194,113	180
Commercial and industrial	729,815	356	896	2,411	3,663	733,478	3
Residential real estate	1,229,198	1,014	3,322	7,936	12,272	1,241,470	1,838
Home equity	375,663	1,212	1,010	1,855	4,077	379,740	228
Consumer	381,146	2,753	618	327	3,698	384,844	222
Total portfolio loans	4,893,737	6,891	6,643	26,374	39,908	4,933,645	2,471
Loans held for sale	11,160					11,160	
Total loans	\$ 4,904,897	\$ 6,891	\$ 6,643	\$ 26,374	\$ 39,908	\$ 4,944,805	\$ 2,471
Impaired loans included above are as follows:							
Non-accrual loans	\$ 21,964	\$ 1,030	\$ 1,641	\$ 23,569	\$ 26,240	\$ 48,204	
TDRs accruing interest <sup>(1)</sup>	12,081	109	434	334	877	12,958	
Total impaired	\$ 34,045	\$ 1,139	\$ 2,075	\$ 23,903	\$ 27,117	\$ 61,162	
<b>As of December 31, 2014</b>							
Commercial real estate:							
Land and construction	\$ 261,356	\$ 20	\$	\$ 1,267	\$ 1,287	\$ 262,643	\$ 71
Improved property	1,665,363	961	4,772	11,721	17,454	1,682,817	
Total commercial real estate	1,926,719	981	4,772	12,988	18,741	1,945,460	71
Commercial and industrial	634,482	1,834	240	1,854	3,928	638,410	22
Residential real estate	915,968	1,237	3,384	8,181	12,802	928,770	1,306
Home equity	325,291	1,877	895	1,968	4,740	330,031	570
Consumer	240,365	2,571	685	474	3,730	244,095	319
Total portfolio loans	4,042,825	8,500	9,976	25,465	43,941	4,086,766	2,288
Loans held for sale	5,865					5,865	
Total loans	\$ 4,048,690	\$ 8,500	\$ 9,976	\$ 25,465	\$ 43,941	\$ 4,092,631	\$ 2,288
Impaired loans included above are as follows:							
Non-accrual loans	\$ 7,562	\$ 2,884	\$ 5,552	\$ 22,820	\$ 31,256	\$ 38,818	
TDRs accruing interest <sup>(1)</sup>	11,016	151	542	357	1,050	12,066	

## Edgar Filing: WESBANCO INC - Form 10-Q

Total impaired	\$	18,578	\$	3,035	\$	6,094	\$	23,177	\$	32,306	\$	50,884
----------------	----	--------	----	-------	----	-------	----	--------	----	--------	----	--------

<sup>(1)</sup> Loans 90 days or more past due and accruing interest exclude TDRs 90 days or more past due and accruing interest.

**Impaired Loans** A loan is considered impaired, based on current information and events, if it is probable that WesBanco will be unable to collect the payments of principal and interest when due according to the contractual terms of the loan agreement. Impaired loans generally included all non-accrual loans and TDRs.

Loans are generally placed on non-accrual when they are 90 days past due unless the loan is well-secured and in the process of collection. Loans may also be placed on non-accrual when full collection of principal is in doubt even if payments on such loans remain current, or may remain on non-accrual if they were past due but subsequently brought current.

Loans are categorized as TDRs when the Bank, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider.

Acquired loans that have experienced a deterioration of credit quality from origination to acquisition for which it is probable that WesBanco will be unable to collect all contractually required payments receivable, including both principal and interest, are considered impaired.

**Table of Contents**

The following tables summarize impaired loans:

	Impaired Loans					
	June 30, 2015			December 31, 2014		
	Unpaid Principal Balance (1)	Recorded Investment	Related Allowance	Unpaid Principal Balance (1)	Recorded Investment	Related Allowance
<i>(unaudited, in thousands)</i>						
<b>With no related specific allowance recorded:</b>						
Commercial real estate:						
Land and construction	\$ 2,711	\$ 2,509	\$	\$ 1,588	\$ 1,488	\$
Improved property	28,520	21,001		16,480	14,684	
Commercial and industrial	5,926	3,461		3,152	2,597	
Residential real estate	19,914	17,967		20,077	18,544	
Home equity	3,293	2,995		2,890	2,663	
Consumer	1,522	1,189		1,287	1,086	
Total impaired loans without a specific allowance	61,886	49,122		45,474	41,062	
<b>With a specific allowance recorded:</b>						
Commercial real estate:						
Land and construction						
Improved property	7,511	7,511	2,891	7,980	7,980	2,765
Commercial and industrial	5,833	4,529	1,021	1,842	1,842	1,033
Total impaired loans with a specific allowance	13,344	12,040	3,912	9,822	9,822	3,798
Total impaired loans	\$ 75,230	\$ 61,162	\$ 3,912	\$ 55,296	\$ 50,884	\$ 3,798

(1) The difference between the unpaid principal balance and the recorded investment generally reflects amounts that have been previously charged-off and fair market value adjustments on acquired impaired loans.

	Impaired Loans							
	For the Three Months Ended				For the Six Months Ended			
	June 30, 2015		June 30, 2014		June 30, 2015		June 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>(unaudited, in thousands)</i>								
<b>With no related specific allowance recorded:</b>								
Commercial real estate:								
Land and construction	\$ 2,493	\$ 2	\$ 2,143	\$ 13	\$ 2,158	\$ 18	\$ 2,283	\$ 15
Improved Property	21,741	240	18,572	133	19,389	463	18,924	153
Commercial and industrial	2,947	49	4,122	57	2,830	62	3,831	89
Residential real estate	18,550	235	18,864	209	18,548	465	19,272	391
Home equity	2,806	21	2,173	16	2,758	41	2,284	35
Consumer	1,261	26	1,135	18	1,202	46	1,150	46
Total impaired loans without a specific allowance	49,798	573	47,009	446	46,885	1,095	47,744	729

**With a specific allowance recorded:**

Edgar Filing: WESBANCO INC - Form 10-Q

Commercial real estate:								
Land and construction								
Improved Property	<b>6,989</b>	<b>56</b>	727	3	<b>7,319</b>	<b>56</b>	727	4
Commercial and industrial	<b>3,149</b>	<b>118</b>	2,537	29	<b>2,713</b>	<b>137</b>	2,206	41
Total impaired loans with a specific allowance								
	<b>10,138</b>	<b>174</b>	3,264	32	<b>10,032</b>	<b>193</b>	2,933	45
Total impaired loans								
	<b>\$ 59,936</b>	<b>\$ 747</b>	\$ 50,273	\$ 478	<b>\$ 56,917</b>	<b>\$ 1,288</b>	\$ 50,677	\$ 774

**Table of Contents**

The following tables present the recorded investment in non-accrual loans and TDRs:

<i>(unaudited, in thousands)</i>	Non-accrual Loans <sup>(1)</sup>	
	June 30, 2015	December 31, 2014
Commercial real estate:		
Land and construction	\$ 1,382	\$ 1,488
Improved property	26,103	20,227
Total commercial real estate	27,485	21,715
Commercial and industrial	7,664	4,110
Residential real estate	10,117	10,329
Home equity	2,251	1,923
Consumer	687	741
Total	\$ 48,204	\$ 38,818

<sup>(1)</sup> Total non-accrual loans include loans that are also restructured. Such loans are also set forth in the following table as non-accrual TDRs.

<i>(unaudited, in thousands)</i>	TDRs					
	June 30, 2015			December 31, 2014		
	Accruing	Non-Accrual	Total	Accruing	Non-Accrual	Total
Commercial real estate:						
Land and construction	\$ 1,127	\$ 501	\$ 1,628	\$	\$ 464	\$ 464
Improved property	2,409	9,761	12,170	2,437	1,850	4,287
Total commercial real estate	3,536	10,262	13,798	2,437	2,314	4,751
Commercial and industrial	326	293	619	329	478	807
Residential real estate	7,850	2,089	9,939	8,215	2,074	10,289
Home equity	744	278	1,022	740	245	985
Consumer	502	218	720	345	309	654
Total	\$ 12,958	\$ 13,140	\$ 26,098	\$ 12,066	\$ 5,420	\$ 17,486

As of June 30, 2015, there were two TDRs greater than \$1.0 million. The concessions granted in the majority of loans reported as accruing and non-accrual TDRs are extensions of the maturity date or the amortization period, reductions in the interest rate below the prevailing market rate for loans with comparable characteristics, and/or permitting interest-only payments for longer than three months.

WesBanco had unfunded commitments to debtors whose loans were classified as impaired of \$1.3 million and \$0 as of June 30, 2015 and December 31, 2014, respectively.

The following table presents details related to loans identified as TDRs during the three and six months ended June 30, 2015 and 2014, respectively:

Edgar Filing: WESBANCO INC - Form 10-Q

	New TDRs <sup>(1)</sup>					
	June 30, 2015			For the Three Months Ended		
	Pre-Modification Outstanding	Post-Modification Outstanding	Number of Modifications	Pre-Modification Outstanding	Post-Modification Outstanding	Number of Modifications
<i>(unaudited, dollars in thousands)</i>						
Commercial real estate:						
Land and construction Improved Property	\$	\$	1	\$	\$	112
Total commercial real estate			1			112
Commercial and industrial						
Residential real estate	1	41	2	70	70	
Home equity						
Consumer			9	100	93	
<b>Total</b>	<b>1</b>	<b>\$ 41</b>	<b>12</b>	<b>\$ 282</b>	<b>\$ 275</b>	

<sup>(1)</sup> Excludes loans that were either paid off or charged-off by period end. The pre-modification balance represents the balance outstanding at the beginning of the period. The post-modification balance represents the outstanding balance at period end.

**Table of Contents**

	New TDRs <sup>(1)</sup>					
	June 30, 2015			June 30, 2014		
	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<i>(unaudited, dollars in thousands)</i>						
Commercial real estate:						
Land and construction	9	\$ 1,239	\$ 1,160		\$	\$
Improved Property	7	9,336	8,784	2	203	201
Total commercial real estate	16	10,575	9,944	2	203	201
Commercial and industrial	2	42	53			
Residential real estate	8	466	455	5	189	185
Home equity	1	7	6			
Consumer	19	279	273	11	138	123
Total	46	\$ 11,369	\$ 10,731	18	\$ 530	\$ 509

<sup>(1)</sup> Excludes loans that were either paid off or charged-off by period end. The pre-modification balance represents the balance outstanding at the beginning of the period. The post-modification balance represents the outstanding balance at period end.

The following tables summarize TDRs which defaulted (defined as past due 90 days) during the six months ended June 30, 2015 and 2014, respectively, that were restructured within the last twelve months prior to June 30, 2015 and 2014, respectively:

	Defaulted TDRs <sup>(1)</sup>			
	June 30, 2015		June 30, 2014	
	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
<i>(unaudited, dollars in thousands)</i>				
Commercial real estate:				
Land and construction		\$		\$
Improved property				
Total commercial real estate				
Commercial and industrial				
Residential real estate			4	236
Home equity	1	42		
Consumer				
Total	1	\$ 42	4	\$ 236

<sup>(1)</sup> Excludes loans that were either charged-off or cured by period end. The recorded investment is as of June 30, 2015 and 2014, respectively. TDRs that defaulted during the six month period that were restructured within the last twelve months represented less than 1.0% of the total TDR balance at June 30, 2015. These loans are placed on non-accrual status unless they are both well-secured and in the process of collection. At June 30, 2015, the loan in the table above was not accruing interest.



## Edgar Filing: WESBANCO INC - Form 10-Q

The following table summarizes other real estate owned and repossessed assets included in other assets:

<i>(unaudited, in thousands)</i>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Other real estate owned	<b>\$ 5,912</b>	<b>\$ 4,920</b>
Repossessed assets	<b>256</b>	<b>162</b>
<b>Total other real estate owned and repossessed assets</b>	<b>\$ 6,168</b>	<b>\$ 5,082</b>

Residential real estate included in other real estate owned at June 30, 2015 and December 31, 2014 was \$1.9 million and \$0.6 million, respectively. At June 30, 2015, formal foreclosure proceedings were in process on residential real estate loans totaling \$3.6 million.

**Table of Contents****NOTE 6. PENSION PLAN**

The following table presents the net periodic pension cost for WesBanco's Defined Benefit Pension Plan (the Plan) and the related components:

(unaudited, in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Service cost - benefits earned during year	\$ 836	\$ 725	\$ 1,663	\$ 1,442
Interest cost on projected benefit obligation	1,214	1,183	2,415	2,353
Expected return on plan assets	(1,928)	(1,802)	(3,835)	(3,585)
Amortization of prior service cost	6	11	12	22
Amortization of net loss	793	367	1,577	730
Net periodic pension cost	\$ 921	\$ 484	\$ 1,832	\$ 962

The Plan covers all employees of WesBanco and its subsidiaries who were hired on or before August 1, 2007 who satisfy minimum age and length of service requirements, and is not available to employees hired after such date.

A minimum required contribution of \$3.1 million is due for 2015 which could be all or partially offset by the Plan's \$34.9 million available credit balance. A voluntary contribution of \$3.5 million was made in June 2015.

## **Table of Contents**

### **NOTE 7. FAIR VALUE MEASUREMENT**

Fair value estimates are based on quoted market prices, if available, quoted market prices of similar assets or liabilities, or the present value of expected future cash flows and other valuation techniques. These valuations are significantly affected by discount rates, cash flow assumptions, and risk assumptions used. Therefore, fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the instruments.

Fair value is determined at one point in time and is not representative of future value. These amounts do not reflect the total value of a going concern organization. Management does not have the intention to dispose of a significant portion of its assets and liabilities and therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

The following is a discussion of assets and liabilities measured at fair value on a recurring basis and valuation techniques applied:

Securities available-for-sale: The fair value of securities available-for-sale which are measured on a recurring basis are determined primarily by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other similar securities. These securities are classified within level 1 or 2 in the fair value hierarchy. Certain equity securities that are lightly traded in over-the-counter markets are classified as level 2 in the fair value hierarchy, as quoted market prices may not be available on the fair value measurement date. Positions that are not traded in active markets for which valuations are generated using assumptions not observable in the market or management's best estimate are classified within level 3 of the fair value hierarchy. This includes certain specific municipal debt issues for which the credit quality and discount rate must be estimated.

We may be required from time to time to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or market accounting or write-downs of individual assets.

Impaired loans: Impaired loans are carried at the lower of cost or the fair value of the collateral for collateral-dependent loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The use of independent appraisals, discounted cash flow models and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral and impaired loans are therefore classified within level 3 of the fair value hierarchy.

Other real estate owned and repossessed assets: Other real estate owned and repossessed assets are carried at the lower of the investment in the assets or the fair value of the assets less estimated selling costs. The use of independent appraisals and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral, and therefore other real estate owned and repossessed assets are classified within level 3 of the fair value hierarchy.

Loans held for sale: Loans held for sale are carried, in aggregate, at the lower of cost or fair value. The use of a valuation model using quoted prices of similar instruments are significant inputs in arriving at the fair value and therefore loans held for sale are classified within level 2 of the fair value hierarchy.

**Table of Contents**

The following tables set forth WesBanco's financial assets and liabilities that were accounted for at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as of June 30, 2015 and December 31, 2014:

	June 30, 2015 Fair Value Measurements Using:			
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (level 3)
<i>(unaudited, in thousands)</i>				
<b>Recurring fair value measurements</b>				
Securities - available-for-sale				
Obligations of government agencies	\$ 81,037	\$	\$ 81,037	\$
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	1,232,422		1,232,422	
Obligations of state and political subdivisions	92,771		92,771	
Corporate debt securities	177,314		177,314	
Equity securities	11,114	8,315	2,799	
Total securities - available-for-sale	\$ 1,594,658	\$ 8,315	\$ 1,586,343	\$
Total recurring fair value measurements	\$ 1,594,658	\$ 8,315	\$ 1,586,343	\$
<b>Nonrecurring fair value measurements</b>				
Impaired loans	\$ 8,128	\$		\$ 8,128
Other real estate owned and repossessed assets	6,168			6,168
Loans held for sale	11,160		11,160	
Total nonrecurring fair value measurements	\$ 25,456	\$	\$ 11,160	\$ 14,296
<b>December 31, 2014 Fair Value Measurements Using:</b>				
	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (level 3)
<i>(unaudited, in thousands)</i>				
<b>Recurring fair value measurements</b>				
Securities - available-for-sale				
Obligations of government agencies	\$ 87,736	\$	\$ 87,736	\$
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	701,113		701,113	
Obligations of state and political subdivisions	91,433		91,433	
Corporate debt securities	25,996		25,996	
Equity securities	11,146	8,440	2,706	

Edgar Filing: WESBANCO INC - Form 10-Q

Total securities - available-for-sale	\$ 917,424	\$ 8,440	\$ 908,984	\$
<b>Total recurring fair value measurements</b>	<b>\$ 917,424</b>	<b>\$ 8,440</b>	<b>\$ 908,984</b>	<b>\$</b>
<b>Nonrecurring fair value measurements</b>				
Impaired loans	\$ 6,024	\$	\$	\$ 6,024
Other real estate owned and repossessed assets	5,082			5,082
Loans held for sale	5,865		5,865	
<b>Total nonrecurring fair value measurements</b>	<b>\$ 16,971</b>	<b>\$</b>	<b>\$ 5,865</b>	<b>\$ 11,106</b>

WesBanco's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between level 1, 2 or 3 for the six months ended June 30, 2015 or 2014.

**Table of Contents**

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which WesBanco has utilized level 3 inputs to determine fair value:

<i>(unaudited, in thousands)</i>	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
<b>June 30, 2015:</b>				
Impaired loans	\$ 8,128	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0% to (42.2%) / (16.6%)
			Liquidation expenses <sup>(2)</sup>	(2.9%) to (8.0%) / (6.7%)
Other real estate owned and repossessed assets	6,168	Appraisal of collateral <sup>(1), (3)</sup>		
<b>December 31, 2014:</b>				
Impaired loans	\$ 6,024	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0% to (39.7%) / (6.7%)
			Liquidation expenses <sup>(2)</sup>	(1.2%) to (8.0%) / (6.7%)
Other real estate owned and repossessed assets	5,082	Appraisal of collateral <sup>(1), (3)</sup>		

<sup>(1)</sup> Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

<sup>(2)</sup> Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of appraisal adjustments and liquidation expenses are presented as a percent of the appraisal.

<sup>(3)</sup> Includes estimated liquidation expenses and numerous dissimilar qualitative adjustments by management which are not identifiable.

**Table of Contents**

The estimated fair values of WesBanco's financial instruments are summarized below:

	Carrying Amount	Fair Value Estimate	Fair Value Measurements at June 30, 2015		
			Quoted Prices in Active Markets for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (level 3)
<i>(unaudited, in thousands)</i>					
<b>Financial Assets</b>					
Cash and due from banks	\$ 108,738	\$ 108,738	\$ 108,738	\$	\$
Securities available-for-sale	1,594,658	1,594,658	8,315	1,586,343	
Securities held-to-maturity	848,416	864,226		863,507	719
Net loans	4,890,226	4,883,371			4,883,371
Loans held for sale	11,160	11,160		11,160	
Accrued interest receivable	24,739	24,739	24,739		
Bank-owned life insurance	154,980	154,980	154,980		
<b>Financial Liabilities</b>					
Deposits	6,259,045	6,269,284	4,480,480	1,788,804	
Federal Home Loan Bank borrowings	781,332	783,072		783,072	
Other borrowings	73,868	73,866	70,991	2,875	
Junior subordinated debt	106,196	78,628		78,628	
Accrued interest payable	2,542	2,542	2,542		

	Carrying Amount	Fair Value Estimate	Fair Value Measurements at December 31, 2014		
			Quoted Prices in Active Markets for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (level 3)
<i>(unaudited, in thousands)</i>					
<b>Financial Assets</b>					
Cash and due from banks	\$ 94,002	\$ 94,002	\$ 94,002	\$	\$
Securities available-for-sale	917,424	917,424	8,440	908,984	
Securities held-to-maturity	593,670	619,617		618,895	722
Net loans	4,042,112	4,047,648			4,047,648
Loans held for sale	5,865	5,865		5,865	
Accrued interest receivable	18,481	18,481	18,481		
Bank-owned life insurance	123,298	123,298	123,298		
<b>Financial Liabilities</b>					
Deposits	5,048,983	5,056,828	3,743,887	1,312,941	
Federal Home Loan Bank borrowings	223,126	225,456		225,456	
Other borrowings	80,690	80,696	77,534	3,162	
Junior subordinated debt	106,176	79,212		79,212	
Accrued interest payable	1,620	1,620	1,620		

The following methods and assumptions were used to measure the fair value of financial instruments recorded at cost on WesBanco's consolidated balance sheets:

*Cash and due from banks:* The carrying amount for cash and due from banks is a reasonable estimate of fair value.

*Securities held-to-maturity:* Fair values for securities held-to-maturity are determined in the same manner as securities available-for-sale which is described above.

## Edgar Filing: WESBANCO INC - Form 10-Q

*Net loans:* Fair values for loans are estimated using a discounted cash flow methodology. The discount rates take into account interest rates currently being offered to customers for loans with similar terms, the credit risk associated with the loan and other market factors, including liquidity. The valuation of the loan portfolio reflects discounts that WesBanco believes are consistent with transactions occurring in the marketplace for both performing and distressed loan types. The carrying value that fair value is compared to is net of the allowance for loan losses and other associated premiums and discounts. Due to the significant judgment involved in evaluating credit quality, loans are classified within level 3 of the fair value hierarchy.

*Accrued interest receivable:* The carrying amount of accrued interest receivable approximates its fair value.



**Table of Contents**

*Bank-owned life insurance:* The carrying value of bank-owned life insurance represents the net cash surrender value of the underlying insurance policies, should these policies be terminated. Management believes that the carrying value approximates its fair value.

*Deposits:* The carrying amount is considered a reasonable estimate of fair value for demand, savings and other variable rate deposit accounts. The fair value of fixed maturity certificates of deposit is estimated by a discounted cash flow method using rates currently offered for deposits of similar remaining maturities.

*Federal Home Loan Bank borrowings:* The fair value of FHLB borrowings is based on rates currently available to WesBanco for borrowings with similar terms and remaining maturities.

*Other borrowings:* The carrying amount of federal funds purchased and overnight sweep accounts generally approximate fair value. Other repurchase agreements are based on quoted market prices if available. If market prices are not available, for certain fixed and adjustable rate repurchase agreements, then quoted market prices of similar instruments are used.

*Junior subordinated debt owed to unconsolidated subsidiary trusts:* Due to the pooled nature of these instruments, which are not actively traded, estimated fair value is based on recent similar transactions of single-issuer trust preferred securities.

*Accrued interest payable:* The carrying amount of accrued interest payable approximates its fair value.

*Off-balance sheet financial instruments:* Off-balance sheet financial instruments consist of commitments to extend credit, including letters of credit. Fair values for commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the counterparties. The estimated fair value of the commitments to extend credit and letters of credit are insignificant and therefore are not presented in the above tables.

**Table of Contents****NOTE 8. COMPREHENSIVE INCOME**

The activity in accumulated other comprehensive income for the six months ended June 30, 2015 and 2014 is as follows:

<i>(unaudited, in thousands)</i>	Accumulated Other Comprehensive Income <sup>(1)</sup>			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available-for-Sale	Unrealized Gains on Securities Transferred from Available-for-Sale to Held-to-Maturity	Total
Balance at December 31, 2014	\$ (22,776)	\$ 2,892	\$ 1,059	\$ (18,825)
Other comprehensive income before reclassifications		(3,711)		(3,711)
Amounts reclassified from accumulated other comprehensive income	981	(13)	(134)	834
Period change	981	(3,724)	(134)	(2,877)
Balance at June 30, 2015	\$ (21,795)	\$ (832)	\$ 925	\$ (21,702)
Balance at December 31, 2013	\$ (7,966)	\$ (6,126)	\$ 1,358	\$ (12,734)
Other comprehensive income before reclassifications		7,194		7,194
Amounts reclassified from accumulated other comprehensive income	475	(157)	(171)	147
Period change	475	7,037	(171)	7,341
Balance at June 30, 2014	\$ (7,491)	\$ 911	\$ 1,187	\$ (5,393)

<sup>(1)</sup> All amounts are net of tax. Related income tax expense or benefit is calculated using a combined Federal and State income tax rate approximating 37%.

The following table provides details about amounts reclassified from accumulated other comprehensive income for the three and six months ended June 30, 2015 and 2014:

Details about Accumulated Other Comprehensive Income Components <i>(unaudited, in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,		Affected Line Item in the Statement of Net Income
	2015	2014	2015	2014	
Securities available-for-sale <sup>(1)</sup> :					
Net securities gains reclassified into earnings	\$ (2)	\$ (170)	\$ (20)	\$ (248)	Net securities gains (Non-interest income)
Related income tax expense	1	63	7	91	Provision for income taxes

Edgar Filing: WESBANCO INC - Form 10-Q

Net effect on accumulated other comprehensive income for the period	(1)	(107)	(13)	(157)	
<b>Securities held-to-maturity <sup>(1)</sup>:</b>					
Amortization of unrealized gain transferred from available-for-sale	(107)	(132)	(214)	(270)	Interest and dividends on securities (Interest and dividend income)
Related income tax expense	39	48	80	99	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	(68)	(84)	(134)	(171)	
<b>Defined benefit pension plan <sup>(2)</sup>:</b>					
Amortization of net loss and prior service costs	799	378	1,589	752	Employee benefits (Non-interest expense)
Related income tax benefit	(293)	(139)	(608)	(277)	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	506	239	981	475	
<b>Total reclassifications for the period</b>	<b>\$ 437</b>	<b>\$ 48</b>	<b>\$ 834</b>	<b>\$ 147</b>	

(1) For additional detail related to unrealized gains on securities and related amounts reclassified from accumulated other comprehensive income see Note 4, Securities.

(2) Included in the computation of net periodic pension cost. See Note 6, Pension Plan for additional detail.

**Table of Contents****NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES**

**Commitments** In the normal course of business, WesBanco offers off-balance sheet credit arrangements to enable its customers to meet their financing objectives. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. WesBanco's exposure to credit losses in the event of non-performance by the other parties to the financial instruments for commitments to extend credit and standby letters of credit is limited to the contractual amount of those instruments. WesBanco uses the same credit policies in making commitments and conditional obligations as for all other lending. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The allowance for credit losses associated with commitments was \$0.8 million and \$0.5 million as of June 30, 2015 and December 31, 2014, respectively, and is included in other liabilities on the Consolidated Balance Sheets.

Letters of credit are conditional commitments issued by banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including normal business activities, bond financing and similar transactions. Letters of credit are considered guarantees. The liability associated with letters of credit was \$0.2 million as of June 30, 2015 and December 31, 2014, respectively.

Contingent obligations to purchase loans funded by other entities include affordable housing plan guarantees and credit card guarantees. Affordable housing plan guarantees are performance guarantees for various building project loans. The guarantee amortizes as the loan balances decrease. Credit card guarantees are credit card balances not owned by WesBanco, whereby the Bank guarantees the performance of the cardholder.

The following table presents total commitments to extend credit, guarantees and various letters of credit outstanding:

<i>(unaudited, in thousands)</i>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
Lines of credit	<b>\$ 1,111,712</b>	\$ 984,352
Loans approved but not closed	<b>333,624</b>	116,757
Overdraft limits	<b>107,619</b>	95,965
Letters of credit	<b>26,295</b>	23,362
Contingent obligations to purchase loans funded by other entities	<b>9,324</b>	8,312

**Contingent Liabilities** WesBanco is a party to various legal and administrative proceedings and claims. While any litigation contains an element of uncertainty, management does not believe that a material loss related to such proceedings or claims pending or known to be threatened is reasonably possible.

**Table of Contents****NOTE 10. BUSINESS SEGMENTS**

WesBanco operates two reportable segments: community banking and trust and investment services. WesBanco's community banking segment offers services traditionally offered by full-service commercial banks, including commercial demand, individual demand and time deposit accounts, as well as commercial, mortgage and individual installment loans, and certain non-traditional offerings, such as insurance and securities brokerage services. The trust and investment services segment offers trust services as well as various alternative investment products including mutual funds. The market value of assets managed or held in custody by the trust and investment services segment was approximately \$3.8 billion at both June 30, 2015 and 2014. These assets are held by WesBanco in fiduciary or agency capacities for their customers and therefore are not included as assets on WesBanco's Consolidated Balance Sheets.

Condensed financial information by business segment is presented below:

<i>(unaudited, in thousands)</i>	Community Banking	Trust and Investment Services	Consolidated
<b>For the Three Months ended June 30, 2015:</b>			
Interest income	\$ 66,729	\$	\$ 66,729
Interest expense	5,936		5,936
Net interest income	60,793		60,793
Provision for credit losses	2,681		2,681
Net interest income after provision for credit losses	58,112		58,112
Non-interest income	12,596	5,476	18,072
Non-interest expense	43,568	3,021	46,589
Income before provision for income taxes	27,140	2,455	29,595
Provision for income taxes	6,980	982	7,962
Net income	\$ 20,160	\$ 1,473	\$ 21,633
<b>For the Three Months ended June 30, 2014:</b>			
Interest income	\$ 54,044	\$	\$ 54,044
Interest expense	5,737		5,737
Net interest income	48,307		48,307
Provision for credit losses	849		849
Net interest income after provision for credit losses	47,458		47,458
Non-interest income	13,031	5,210	18,241
Non-interest expense	37,367	2,937	40,304
Income before provision for income taxes	23,122	2,273	25,395
Provision for income taxes	5,611	909	6,520
Net income	\$ 17,511	\$ 1,364	\$ 18,875
<b>For the Six Months ended June 30, 2015:</b>			
Interest income	\$ 127,117	\$	\$ 127,117
Interest expense	11,360		11,360
Net interest income	115,757		115,757

Edgar Filing: WESBANCO INC - Form 10-Q

Provision for credit losses	3,970		3,970
Net interest income after provision for credit losses	111,787		111,787
Non-interest income	24,725	11,529	36,254
Non-interest expense	93,863	6,184	100,047
Income before provision for income taxes	42,649	5,345	47,994
Provision for income taxes	10,344	2,138	12,482
Net income	\$ 32,305	\$ 3,207	\$ 35,512

**For the Six Months ended June 30, 2014:**

Interest income	\$ 107,501	\$	\$ 107,501
Interest expense	11,870		11,870
Net interest income	95,631		95,631
Provision for credit losses	3,048		3,048
Net interest income after provision for credit losses	92,583		92,583
Non-interest income	24,432	10,858	35,290
Non-interest expense	74,193	6,205	80,398
Income before provision for income taxes	42,822	4,653	47,475
Provision for income taxes	10,318	1,861	12,179
Net income	\$ 32,504	\$ 2,792	\$ 35,296

Total non-fiduciary assets of the trust and investment services segment were \$3.7 million and \$3.9 million at June 30, 2015 and 2014, respectively. All other assets, including goodwill and other intangible assets, were allocated to the community banking segment.

---

**Table of Contents**

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

Management's Discussion and Analysis ( MD&A ) represents an overview of the results of operations and financial condition of WesBanco for the three and six months ended June 30, 2015. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

**FORWARD-LOOKING STATEMENTS**

Forward-looking statements in this report relating to WesBanco's plans, strategies, objectives, expectations, intentions and adequacy of resources, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The information contained in this report should be read in conjunction with WesBanco's Form 10-K for the year ended December 31, 2014 and documents subsequently filed by WesBanco with the Securities and Exchange Commission ( SEC ), including WesBanco's Form 10-Q for the quarter ended March 31, 2015, which are available at the SEC's website, [www.sec.gov](http://www.sec.gov) or at WesBanco's website, [www.wesbanco.com](http://www.wesbanco.com). Investors are cautioned that forward-looking statements, which are not historical fact, involve risks and uncertainties, including those detailed in WesBanco's most recent Annual Report on Form 10-K filed with the SEC under Risk Factors in Part I, Item 1A. Such statements are subject to important factors that could cause actual results to differ materially from those contemplated by such statements, including, without limitation, the effects of changing regional and national economic conditions; changes in interest rates, spreads on earning assets and interest-bearing liabilities, and associated interest rate sensitivity; sources of liquidity available to WesBanco and its related subsidiary operations; potential future credit losses and the credit risk of commercial, real estate, and consumer loan customers and their borrowing activities; actions of the Federal Reserve Board, the Federal Deposit Insurance Corporation, the SEC, the Financial Institution Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investors Protection Corporation, and other regulatory bodies; potential legislative and federal and state regulatory actions and reform, including, without limitation, the impact of the implementation of the Dodd-Frank Act; adverse decisions of federal and state courts; fraud, scams and schemes of third parties; internet hacking; competitive conditions in the financial services industry; rapidly changing technology affecting financial services; marketability of debt instruments and corresponding impact on fair value adjustments; and/or other external developments materially impacting WesBanco's operational and financial performance. WesBanco does not assume any duty to update forward-looking statements.

**OVERVIEW**

WesBanco is a multi-state bank holding company operating through 142 branches, one loan production office and 130 ATM machines in West Virginia, Ohio and western Pennsylvania, offering retail banking, corporate banking, personal and corporate trust services, brokerage services, mortgage banking and insurance. WesBanco's businesses are significantly impacted by economic factors such as market interest rates, federal monetary and regulatory policies, local and regional economic conditions and the competitive environment's effect upon WesBanco's business volumes. WesBanco's deposit levels are affected by numerous factors including personal savings rates, personal income, and competitive rates on alternative investments, as well as competition from other financial institutions within the markets we serve and liquidity needs of WesBanco. Loan levels are also subject to various factors including construction demand, business financing needs, consumer spending and interest rates, as well as loan terms offered by competing lenders.

On February 10, 2015, WesBanco completed the acquisition of ESB, a Pennsylvania savings bank holding company headquartered in Ellwood City, Lawrence County, northwest of Pittsburgh, PA, with approximately \$1.9 billion in assets and 23 offices in four southwestern PA counties, three of which were in the Pittsburgh Metropolitan Statistical Area ( MSA ). WesBanco now has \$8.4 billion in total assets; the transaction expanded WesBanco's franchise in western Pennsylvania from 16 to 38 offices with approximately \$1.7 billion in total deposits. ESB's results were included in WesBanco's results from the date of the consummation of the merger.

**APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

WesBanco's critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of June 30, 2015 have remained unchanged from the disclosures presented in WesBanco's Annual Report on Form 10-K for the year ended December 31, 2014 within the section Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Table of Contents****RESULTS OF OPERATIONS****EARNINGS SUMMARY**

Net income for the three months ended June 30, 2015 was \$21.6 million, while diluted earnings per share were \$0.56, compared to \$18.9 million or \$0.64 per diluted share for the second quarter of 2014, representing an increase of 14.6%. Net income for the first half of 2015 was \$35.5 million or \$0.97 per diluted share compared to \$35.3 million or \$1.20 per diluted share for the same period of 2014, representing an increase of 0.6%. Net income for the three months ended June 30, 2015, excluding after-tax merger-related expenses of \$0.7 million, was \$22.4 million (non-GAAP measure) compared to \$18.9 million for the second quarter of 2014, representing an increase of 18.5%. Diluted earnings per share, excluding after-tax merger-related expenses, were \$0.58 (non-GAAP measure), compared to \$0.64 per share for the second quarter of 2014. For the six month period ending June 30, 2015, net income excluding after-tax merger-related expenses of \$7.1 million, was \$42.6 million (non-GAAP measure) compared to \$35.3 million for the first half of last year, representing an increase of 20.6%. Diluted earnings per share, excluding after-tax merger-related expenses, totaled \$1.17 (non-GAAP measure), compared to \$1.20 per share for the first six months of 2014. For the three and six month periods, temporary extra operating costs of \$0.3 million and \$0.8 million, after tax, were incurred between ESB closing and branch systems conversion.

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015		2014		2015		2014	
	Diluted Earnings		Diluted Earnings		Diluted Earnings		Diluted Earnings	
( <i>unaudited, dollars in thousands, except per share amounts</i> )	Net Income	Per Share	Net Income	Per Share	Net Income	Per Share	Net Income	Per Share
Net income (Non-GAAP) <sup>(1)</sup>	\$ 22,358	\$ 0.58	\$ 18,875	\$ 0.64	\$ 42,563	\$ 1.17	\$ 35,296	\$ 1.20
Less: After tax merger-related expenses	(725)	(0.02)			(7,051)	(0.20)		
Net income (GAAP)	\$ 21,633	\$ 0.56	\$ 18,875	\$ 0.64	\$ 35,512	\$ 0.97	\$ 35,296	\$ 1.20

(1) The above non-GAAP financial measures used by WesBanco provide information useful to investors in understanding WesBanco's operating performance and trends, and facilitate comparisons with the performance of WesBanco's peers. Net interest income increased \$12.5 million or 25.8% in the second quarter of 2015 compared to the second quarter of 2014 due to a 33.2% increase in average earning assets, primarily from the ESB acquisition, and through a 7.8% increase in average loan balances, exclusive of ESB, somewhat offset by a 20 basis point decrease in the net interest margin. Year-to-date, net interest income increased \$20.1 million or 21.0%. The net interest margin decreased to 3.44% in the second quarter compared to 3.64% in the same quarter of 2014. The decrease in the net interest margin is primarily due to a 51 basis point decline in the average rate earned on securities due to lower yields on ESB's retained securities portfolio and other purchased securities. The lower securities rates were due to the low interest rate environment and were somewhat mitigated by a significantly smaller decrease in rates on loans of only 10 basis points, and a reduction in funding costs of 11 basis points. Funding costs continued to decrease in 2015 as a result of a 33 basis point decrease in the average rate on CDs as higher-rate CDs matured. Overall, average deposits increased by 23.9% in the second quarter of 2015 compared to the same quarter of 2014 with a rate decrease of 12 basis points. Increased average FHLB borrowings in the first half of 2015 were generally short to medium-term maturities resulting in a decrease in the second quarter rate by 203 basis points compared to the second quarter of 2014. In addition, the average rate on other borrowings decreased 98 basis points through the prepayment of a higher-rate \$22.0 million repurchase agreement with another bank in the third quarter of 2014, and through maturities. The decline in the net interest margin is also due to asset and liability mix shifts post-ESB, with a greater percentage of lower-yielding investment securities and a greater percentage of CDs versus lower-cost deposit types. Excluding accretion of various purchase accounting adjustments relating to recent acquisitions and the interest recognized on a tax refund in 2014, the net interest margin would have been 3.32% and 3.38% in the second quarter and year-to-date periods of 2015, respectively, compared to 3.57% and 3.58% for the same periods of 2014.

The provision for credit losses was \$2.7 million in the second quarter of 2015 compared to \$0.8 million in the same quarter of 2014. Year-to-date, the provision was \$4.0 million compared to \$3.0 million in the first six months of 2014. Net charge-offs for the first half of 2015 were \$4.9 million or 0.21% of average portfolio loans compared to \$4.7 million or 0.25% in first half of 2014. The increase in both the provision and charge-offs were primarily due to one non-energy industry-related commercial credit placed on nonaccrual and charged-down by \$1.3 million. Portfolio growth also impacted the provision. However, other credit quality metrics, including the loans acquired from ESB, continue to improve overall.



## Edgar Filing: WESBANCO INC - Form 10-Q

For the second quarter of 2015, non-interest income was relatively unchanged compared to the second quarter of 2014 primarily due to a \$1.0 million bank-owned life insurance death benefit recorded in the second quarter of 2014. However, excluding such death benefit, non-interest income increased in the second quarter of 2015 by \$0.8 million or 4.8%. Trust fees increased \$0.3 million or 5.1% for the quarter from higher fees, customer development initiatives and overall market improvements. Total trust assets of \$3.8 billion at June 30, 2015 were unchanged from June 30, 2014. Service charges on deposits increased \$0.2 million or 4.2% from the addition of ESB and an overall higher fee schedule. Electronic banking fees increased \$0.2 million or 7.0%. Net gains on sales of other assets improved by \$0.3 million due to gains on sales of other real estate in 2015 and decreased losses on other assets. For the first six months of 2015, non-interest income increased by \$1.0 million or 2.7%, reflecting similar trends as in the second quarter, however trust fees and electronic banking fees increased 6.2% and 8.6% respectively, compared to the first half of 2014.

In the second quarter of 2015, net revenue growth of 18.5% outpaced non-interest expense growth of 12.8%, excluding merger-related expenses, compared to the second quarter of 2014. As a result, the efficiency ratio (net of merger-related expenses) improved in the current quarter to 56.1% from 58.9% in the second quarter of 2014. Overall non-interest expense from the combined company increased \$6.3 million in the second quarter, principally from the acquisition, and \$1.1 million of merger-related expenses. Excluding merger-related expenses, non-interest expense increased \$5.2 million or 12.8%. Salaries and wages increased \$2.4 million or 14.2%, due to a 17.4% increase in average full-time equivalent employees and routine annual adjustments to compensation, partially offset by increased deferrals of loan costs. Employee benefits expense increased \$1.3 million or

**Table of Contents**

23.1%, primarily from increased pension, health insurance, social security contributions and other benefit plan costs. Net occupancy increased \$0.4 million principally due to increased building-related costs including utilities and depreciation. Amortization of intangible assets increased \$0.5 million or 95.9% from additional ESB intangible assets, primarily related to core deposits. For the first half of 2015, non-interest expense for the combined company increased by \$8.8 million or 10.9%, excluding merger-related expenses, compared to the first half of 2014. Increases were also primarily from salaries and wages, employee benefits, occupancy and amortization of intangibles.

The provision for federal and state income taxes was \$12.5 million in 2015 compared to \$12.2 million in the first half of 2014. The increase in income tax expense was due to an increase in pre-tax income, partially offset by a \$0.5 million benefit relating to the completion of an IRS audit which closed the 2011 and 2012 tax years, which resulted in an effective tax rate of 26.0% for 2015 compared to 25.7% for 2014.

**NET INTEREST INCOME****TABLE 1. NET INTEREST INCOME**

<i>(unaudited, dollars in thousands)</i>	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net interest income	\$ 60,793	\$ 48,307	\$ 115,757	\$ 95,631
Taxable equivalent adjustments to net interest income	2,182	1,850	4,084	3,673
Net interest income, fully taxable equivalent	\$ 62,975	\$ 50,157	\$ 119,841	\$ 99,304
Net interest spread, non-taxable equivalent	3.23%	3.41%	3.27%	3.39%
Benefit of net non-interest bearing liabilities	0.09%	0.10%	0.09%	0.10%
Net interest margin	3.32%	3.51%	3.36%	3.49%
Taxable equivalent adjustment	0.12%	0.13%	0.13%	0.14%
Net interest margin, fully taxable equivalent	3.44%	3.64%	3.49%	3.63%

Net interest income, which is WesBanco's largest source of revenue, is the difference between interest income on earning assets, primarily loans and securities, and interest expense on liabilities (deposits and short and long-term borrowings). Net interest income is affected by the general level and changes in interest rates, the steepness and shape of the yield curve, changes in the amount and composition of interest earning assets and interest bearing liabilities, as well as the frequency of repricing of existing assets and liabilities. Net interest income increased \$12.5 million or 25.8% in the second quarter of 2015 compared to the second quarter of 2014 due to a 33.2% increase in average earning assets, primarily from the acquisition, and through a 7.8% increase in average loan balances, exclusive of ESB, partially offset by a 20 basis point decrease in the net interest margin. Year-to-date, net interest income increased \$20.1 million or 21.0%. Average loan balances increased by \$1.0 billion or 25.7% from the second quarter of 2014, of which \$293.4 million of the increase was from organic loan growth. Total average deposits increased by \$1.2 billion or 23.9% as all major categories within deposits increased. Excluding the ESB acquisition, average certificates of deposit, which have the highest interest cost among interest bearing deposits, decreased by \$182.4 million or 12.6%, while all other deposit types increased by \$201.6 million or 5.4%. These lower-cost and non-interest bearing deposit increases were the result of marketing campaigns, customer incentives, wealth management and business initiatives as well as deposits from Marcellus and Utica shale gas bonus and royalty payments. The net interest margin decreased to 3.44% in the second quarter of 2015 compared to 3.64% in the same quarter of 2014, primarily due to a 51 basis point decline in the average rate earned on securities due to lower yields on ESB's retained securities portfolio and other purchased securities. The decrease in the margin is also due to asset and liability mix shifts post-ESB, with a greater percentage of lower-yielding investment securities and a greater percentage of CDs versus lower-cost deposit types. The cost of funds continued to improve, declining 11 basis points from the second quarter of 2014 due primarily to a 33 basis point decrease in the average rate on CDs, increases in the percentage of lower-cost and non-interest bearing deposit balances to total deposits and lower rates on FHLB and other borrowings. Excluding accretion of various purchase accounting adjustments related to recent acquisitions and the interest recognized on a tax refund in 2014, the net interest margin would have been 3.32% and 3.38% in the second quarter and year-to-date periods of 2015, respectively, compared to 3.57% and 3.58% for the same periods of 2014.

Interest income increased in the second quarter of 2015 by \$12.7 million or 23.5% and by \$19.6 million or 18.2% in the first half of 2015 compared to the same periods in 2014 due to higher average balances of earning assets acquired both in the ESB acquisition and organically,

## Edgar Filing: WESBANCO INC - Form 10-Q

partially offset by lower yields on loans and on the investment portfolio. Rates decreased 10 basis points in the second quarter on average loan balances from reduced rates on acquired, newly-originated and contractually-repricing assets due to the necessity of offering lower rates on quality credits in an increasingly competitive and low interest rate environment. However, the increase in average loan balances helped to mitigate the effect of the lower rates, as rates earned on loans are higher than those on securities. In the second quarter of 2015, average loans represented 66.7% of average earning assets, decreasing from 70.7% in the same quarter of 2014 due to the acquired ESB loan portfolio being smaller than the acquired investment portfolio. Total securities yields decreased by 51 basis points in the second quarter of 2015 from the same period in 2014 due to lower yields on ESB's retained securities portfolio and other purchased securities at current lower available interest rates. The former ESB securities portfolio was also restructured and not fully invested until June which accounted for approximately \$0.8 million in potential interest income. Within the investment portfolio, the average rate declined on taxable and tax-exempt securities by 37 and 60 basis points, respectively, from the second quarter of 2014. The average balance of tax-exempt securities, which provide the highest yield within securities, increased \$135.9 million or 33.4% over the last year, but were only 22.6% of total average securities in the second quarter of 2015 compared to 25.7% in the second quarter of 2014, further contributing to the overall lower yield on total securities. Taxable securities balances increased by \$684.2 million or 58.1% from the second quarter of 2014 as a significant portion of the acquired securities consisted of 10-15 year residential mortgage pools. Shorter-term mortgage pools reduce the average life of the portfolio, particularly for the portion accounted for as available-for-sale, positioning the Bank for possible future increases in interest rates, while maintaining required levels of pledgeable securities.

**Table of Contents**

Portfolio loans increased \$987.5 million in the twelve months ended June 30, 2015 with \$700.9 million from the ESB acquisition and \$286.6 million from loan growth exclusive of ESB as originations continued to outpace paydowns. Organic loan growth from December 31, 2014, annualized, was 7.2%, primarily due to \$825 million in loan originations for the first half of 2015 compared to \$625 million for the first half of last year. Loan growth occurred in all major categories with approximately 25.1% of the growth in commercial and industrial loans. Loan growth was driven by increased business activity, additional commercial and residential lending personnel in our urban markets, focused marketing efforts, and continued improvement in loan origination processes.

Interest expense increased \$0.2 million or 3.5% in the second quarter of 2015 and, despite the acquisition of ESB's deposits of \$1.2 billion, decreased \$0.5 million or 4.3% in the first six months of 2015 compared to the same periods in 2014. The increase in the second quarter was due to an increase in the average balance of FHLB borrowings, generally short to medium term, offset somewhat by a continued reduction in the rate paid on interest bearing liabilities. Total average interest bearing liabilities increased \$1.5 billion or 33.2% in the second quarter due to deposits from the ESB acquisition, increased organic deposits and the increased short to medium-term FHLB borrowings. The average rate paid on interest bearing liabilities decreased 11 basis points in the second quarter of 2015 compared to the same period in 2014. Rates paid on overall interest bearing deposits declined by 12 basis points to 0.31% in the second quarter predominantly due to a 33 basis point decline in rates on certificates of deposit, as a result of management reducing offered rates and the repricing, through purchase accounting, of acquired CDs on the acquisition date at lower market rates. The rates paid on other deposit types remained nearly unchanged in the second quarter. Changes in the deposit funding mix somewhat offset the decrease in the rates paid, with average certificates of deposit increasing to 28.9% of total average deposits compared to 27.9% in the second quarter of last year, due exclusively to the acquisition of ESB. WesBanco continues to focus on reducing rate offerings and growing customers with multiple banking relationships, as opposed to single service certificates of deposit customers. The average balance of FHLB and other borrowings increased in the second quarter of 2015 to 10.0% of total interest bearing liabilities from 2.9% in the same period of 2014. Increased average FHLB borrowings at lower borrowing rates reduced the second quarter rate by 203 basis points compared to the second quarter of 2014. In addition, the average rate on other borrowings decreased 98 basis points through the prepayment of a higher-rate \$22.0 million repurchase agreement with another bank in the third quarter of 2014, and through maturities.

**Table of Contents****TABLE 2. AVERAGE BALANCE SHEETS AND NET INTEREST MARGIN ANALYSIS**

<i>(unaudited, dollars in thousands)</i>	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015		2014		2015		2014	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
<b>ASSETS</b>								
Due from banks - interest bearing	\$ 17,291	0.16%	\$ 24,134	0.33%	\$ 19,959	0.16%	\$ 37,567	0.22%
Loans, net of unearned income <sup>(1)</sup>	4,902,309	4.28%	3,898,740	4.38%	4,725,764	4.27%	3,886,334	4.43%
Securities: <sup>(2)</sup>								
Taxable	1,861,123	2.16%	1,176,963	2.53%	1,641,531	2.26%	1,159,072	2.53%
Tax-exempt <sup>(3)</sup>	542,654	4.60%	406,718	5.20%	499,102	4.68%	403,275	5.20%
Total securities	2,403,777	2.71%	1,583,681	3.22%	2,140,633	2.82%	1,562,347	3.22%
Other earning assets <sup>(4)</sup>	23,515	5.29%	10,853	21.82%	19,993	9.38%	11,209	11.97%
Total earning assets <sup>(3)</sup>	7,346,892	3.76%	5,517,408	4.06%	6,906,349	3.82%	5,497,457	4.07%
Other assets	932,695		702,230		890,051		705,703	
Total Assets	\$ 8,279,587		\$ 6,219,638		\$ 7,796,400		\$ 6,203,160	
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>								
Interest bearing demand deposits	\$ 1,175,022	0.17%	\$ 905,080	0.18%	\$ 1,094,115	0.17%	\$ 896,347	0.17%
Money market accounts	1,027,245	0.19%	974,731	0.19%	1,005,218	0.19%	960,153	0.19%
Savings deposits	1,072,988	0.06%	824,641	0.06%	1,018,449	0.06%	816,720	0.06%
Certificates of deposit	1,848,654	0.62%	1,444,224	0.95%	1,744,271	0.66%	1,474,247	0.96%
Total interest bearing deposits	5,123,909	0.31%	4,148,676	0.43%	4,862,053	0.33%	4,147,467	0.44%
Federal Home Loan Bank borrowings	484,505	0.79%	24,926	2.82%	361,427	0.84%	29,949	2.60%
Other borrowings	100,099	0.37%	104,109	1.35%	106,647	0.31%	109,687	1.67%
Junior subordinated debt	129,189	2.76%	106,151	3.01%	124,128	2.90%	106,146	3.02%
Total interest bearing liabilities <sup>(1)</sup>	5,837,702	0.41%	4,383,862	0.52%	5,454,255	0.42%	4,393,249	0.54%
Non-interest bearing demand deposits	1,282,327		1,022,331		1,233,328		1,002,822	
Other liabilities	59,256		40,393		107,473		41,104	
Shareholders equity	1,100,302		773,052		1,001,344		765,985	
Total Liabilities and Shareholders Equity	\$ 8,279,587		\$ 6,219,638		\$ 7,796,400		\$ 6,203,160	
Taxable equivalent net interest spread		3.35%		3.54%		3.40%		3.53%
Taxable equivalent net interest margin		3.44%		3.64%		3.49%		3.63%

(1) Gross of allowance for loan losses and net of unearned income. Includes non-accrual and loans held for sale. Loan fees included in interest income on loans totaled \$0.3 million and \$0.8 million for the three months ended June 30, 2015 and 2014, respectively, and \$0.7 million and \$1.7 million for the six months ended June 30, 2015 and 2014, respectively. Additionally, loan accretion included in net interest

## Edgar Filing: WESBANCO INC - Form 10-Q

income on loans acquired from prior acquisitions was \$1.1 million and \$0.3 million for the three months ended June 30, 2015 and 2014, respectively, and \$1.9 million and \$0.7 million for the six months ended June 30, 2015 and 2014, respectively, while accretion on interest bearing liabilities from prior acquisitions was \$1.7 million and \$0.2 million for the three months ended June 30, 2015 and 2014, respectively, and \$1.9 million and \$0.4 million for the six months ended June 30, 2015 and 2014, respectively.

- (2) Average yields on available-for-sale securities are calculated based on amortized cost and include premium amortization and discount accretion from prior acquisitions.
- (3) Taxable equivalent basis is calculated on tax-exempt securities using a tax rate of 35% for each year presented.
- (4) Interest income on other earning assets includes \$0.5 million of interest on a federal income tax refund for the three and six months ended June 30, 2014.

**Table of Contents****TABLE 3. RATE/VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME AND INTEREST EXPENSE**

<i>(unaudited, in thousands)</i>	Three Months Ended June 30, 2015 Compared to June 30, 2014			Six Months Ended June 30, 2015 Compared to June 30, 2014		
	Volume	Rate	Net Increase (Decrease)	Volume	Rate	Net Increase (Decrease)
Increase (decrease) in interest income:						
Due from banks - interest bearing	\$ (4)	\$ (9)	\$ (13)	\$ (16)	\$ (10)	\$ (26)
Loans, net of unearned income	10,729	(959)	9,770	16,376	(1,631)	14,745
Taxable securities	3,821	(1,230)	2,591	6,310	(2,444)	3,866
Tax-exempt securities <sup>(1)</sup>	1,614	(665)	949	2,316	(1,141)	1,175
Other earning assets	372	(652)	(280)	436	(169)	267
<b>Total interest income change <sup>(1)</sup></b>	<b>16,532</b>	<b>(3,515)</b>	<b>13,017</b>	<b>25,422</b>	<b>(5,395)</b>	<b>20,027</b>
Increase (decrease) in interest expense:						
Interest bearing demand deposits	112	(22)	90	165	(26)	139
Money market accounts	25	(1)	24	42	(4)	38
Savings deposits	38	(8)	30	62	(14)	48
Certificates of deposit	810	(1,363)	(553)	1,143	(2,454)	(1,311)
Federal Home Loan Bank borrowings	988	(214)	774	1,549	(428)	1,121
Other borrowings	(13)	(245)	(258)	(24)	(718)	(742)
Junior subordinated debt	163	(71)	92	260	(63)	197
<b>Total interest expense change</b>	<b>2,123</b>	<b>(1,924)</b>	<b>199</b>	<b>3,197</b>	<b>(3,707)</b>	<b>(510)</b>
<b>Net interest income increase (decrease) <sup>(1)</sup></b>	<b>\$ 14,409</b>	<b>\$ (1,591)</b>	<b>\$ 12,818</b>	<b>\$ 22,225</b>	<b>\$ (1,688)</b>	<b>\$ 20,537</b>

(1) Taxable equivalent basis is calculated on tax-exempt securities using a tax rate of 35% for each year presented.

**PROVISION FOR CREDIT LOSSES**

The provision for credit losses is the amount to be added to the allowance for credit losses after net charge-offs have been deducted to bring the allowance to a level considered appropriate to absorb probable losses in the loan portfolio. The provision for credit losses also includes the amount to be added to the reserve for loan commitments to bring that reserve to a level considered appropriate to absorb probable losses on unfunded commitments. The provision for credit losses was \$2.7 million in the second quarter of 2015 compared to \$0.8 million in the same quarter of 2014. Year-to-date, the provision was \$4.0 million compared to \$3.0 million in the first six months of 2014. Net charge-offs for the first half of 2015 were \$4.9 million or 0.21% of average portfolio loans compared to \$4.7 million or 0.25% in first half of 2014. The increase in both the provision and charge-offs was primarily due to one non-energy industry-related commercial credit placed on nonaccrual and charged-down by \$1.3 million. Portfolio growth also impacted the provision. However, other credit quality metrics, including the loans acquired in the ESB acquisition, continue to improve overall. Non-performing loans, including TDRs, as well as criticized and classified loans and delinquencies, improved as a percentage of total portfolio loans from their pre-acquisition levels in the fourth quarter of 2014 and from the second quarter of 2014. (Please see the Allowance for Credit Losses section of this MD&A for additional discussion).

**Table of Contents****NON-INTEREST INCOME****TABLE 4. NON-INTEREST INCOME**

<i>(unaudited, dollars in thousands)</i>	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	\$ Change	% Change	2015	2014	\$ Change	% Change
Trust fees	\$ 5,476	\$ 5,210	\$ 266	5.1%	\$ 11,529	\$ 10,858	\$ 671	6.2%
Service charges on deposits	4,249	4,078	171	4.2%	7,918	7,937	(19)	(0.2%)
Electronic banking fees	3,496	3,267	229	7.0%	6,821	6,281	540	8.6%
Net securities brokerage revenue	1,842	2,003	(161)	(8.0%)	3,901	3,832	69	1.8%
Bank-owned life insurance	989	1,821	(832)	(45.7%)	2,244	2,695	(451)	(16.7%)
Net gains on sales of mortgage loans	407	475	(68)	(14.3%)	679	628	51	8.1%
Net securities gains		165	(165)	(100.0%)	22	175	(153)	(87.4%)
Net gain / (loss) on other real estate owned and other assets	152	(165)	317	192.1%	185	(52)	237	455.8%
Net insurance services revenue	668	662	6	0.9%	1,531	1,404	127	9.0%
Other	793	725	68	9.4%	1,424	1,532	(108)	(7.0%)
<b>Total non-interest income</b>	<b>\$ 18,072</b>	<b>\$ 18,241</b>	<b>\$ (169)</b>	<b>(0.9%)</b>	<b>\$ 36,254</b>	<b>\$ 35,290</b>	<b>\$ 964</b>	<b>2.7%</b>

Non-interest income is a significant source of revenue and an important part of WesBanco's results of operations. WesBanco offers its customers a wide range of retail, commercial, investment and electronic banking services, which are viewed as a vital component of WesBanco's ability to attract and maintain customers, as well as providing additional fee income beyond normal spread-related income to WesBanco. For the first six months of 2015, non-interest income increased \$1.0 million or 2.7% compared to 2014. The increase was primarily due to improved trust fee income and electronic banking fees, while bank owned-life insurance income was down \$0.5 million due to decreased death benefits year over year. For the second quarter non-interest income decreased \$0.2 million primarily due to decreased bank-owned life insurance death benefits, while trust fees and asset gains increased. Service charges on deposits also increased due to the addition of ESB and an overall higher fee schedule.

Trust fees increased \$0.3 million or 5.1% compared to the second quarter of 2014, and \$0.7 million or 6.2% compared to the first six months as average assets under management continued to increase from customer development initiatives and overall market improvements. Total trust assets were \$3.8 billion at June 30, 2015 and 2014. At June 30, 2015, trust assets include managed assets of \$3.2 billion and non-managed (custodial) assets of \$0.6 billion. Assets managed for the WesMark Funds, a proprietary group of mutual funds that is advised by WesBanco's trust and investment services group, were \$947.8 million as of June 30, 2015 and \$941.3 million at June 30, 2014 and are included in trust managed assets.

Service charges on deposits increased \$0.2 million or 4.2% compared to the second quarter of 2014 due to the larger customer deposit base from the recent acquisition and an overall higher fee schedule, somewhat offset by lower customer usage patterns.

Electronic banking fees, which include debit card interchange fees, continued to grow, increasing 8.6% compared to the first half of 2014, due to a higher volume of debit card transactions from the acquisition and WesBanco's legacy customers. The volume increase is due to marketing and process initiatives and as customers move more towards electronic transactions and a higher percentage of customers using these products.

Net gains on sales of mortgage loans increased 8.1% in the first half of 2015 compared to 2014. Total mortgage production was \$153.6 million in the first half of 2015, up 27.7% from the comparable 2014 period. Mortgages sold into the secondary market represented \$58.5 million or 38.1% of overall mortgage loan production in the first half of 2015 compared to \$45.7 million or 38.0% in the first half of 2014.

Gain/(loss) on other real estate and other assets increased from the second quarter and first half of 2014 primarily due to a \$0.2 million write-down of computer equipment in 2014 resulting from the implementation of a company-wide modernization of communication infrastructure in 2014.





**Table of Contents****NON-INTEREST EXPENSE****TABLE 5. NON-INTEREST EXPENSE**

<i>(unaudited, dollars in thousands)</i>	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2015	2014	\$ Change	% Change	2015	2014	\$ Change	% Change
Salaries and wages	\$ 19,300	\$ 16,904	\$ 2,396	14.2%	\$ 37,636	\$ 33,370	\$ 4,266	12.8%
Employee benefits	6,807	5,529	1,278	23.1%	14,123	11,238	2,885	25.7%
Net occupancy	3,243	2,857	386	13.5%	6,765	6,348	417	6.6%
Equipment	3,017	2,914	103	3.5%	5,958	5,698	260	4.6%
Marketing	1,715	1,713	2	0.1%	2,707	2,716	(9)	(0.3%)
FDIC insurance	1,040	880	160	18.2%	1,950	1,757	193	11.0%
Amortization of intangible assets	944	482	462	95.9%	1,510	977	533	54.6%
Restructuring and merger-related expenses	1,115		1,115	0.0%	10,848		10,848	0.0%
Miscellaneous, franchise, and other taxes	1,520	1,612	(92)	(5.7%)	3,081	3,237	(156)	(4.8%)
Postage	869	851	18	2.1%	1,657	1,692	(35)	(2.1%)
Consulting, regulatory, accounting and advisory fees	1,136	874	262	30.0%	2,488	2,018	470	23.3%
Other real estate owned and foreclosure expenses	(155)	180	(335)	(186.1%)	14	439	(425)	(96.8%)
Legal fees	675	711	(36)	(5.1%)	1,216	1,369	(153)	(11.2%)
Communications	422	353	69	19.5%	768	873	(105)	(12.0%)
ATM and interchange expenses	1,069	1,071	(2)	(0.2%)	2,091	2,173	(82)	(3.8%)
Supplies	781	601	180	30.0%	1,418	1,227	191	15.6%
Other	3,091	2,772	319	11.5%	5,817	5,266	551	10.5%
Total non-interest expense	\$ 46,589	\$ 40,304	\$ 6,285	15.6%	\$ 100,047	\$ 80,398	\$ 19,649	24.4%

Non-interest expense increased \$6.3 million in the second quarter, principally from the acquisition, and \$1.1 million of merger-related expenses. Excluding merger-related expenses, non-interest expense increased \$5.2 million or 12.8%. Salaries and wages increased \$2.4 million or 14.2%, primarily due to a 17.4% increase in average full-time equivalent employees, while employee benefits expense increased \$1.3 million or 23.1%, primarily from increased pension, health insurance, social security contributions and other benefit plan costs. Net occupancy increased \$0.4 million principally due to increased building-related costs. Amortization of intangible assets increased \$0.5 million from additional ESB intangible assets. For the first half of 2015, non-interest expense increased by \$8.8 million or 10.9%, excluding merger related expenses, compared to the first half of 2014. Increases in the second quarter and first half of 2015 were primarily in salaries and wages, employee benefits, occupancy and amortization of intangibles from operating the 23 ESB offices. Even with the acquisition, other expenses including franchise tax, postage, legal and ATM expenses were down from last year due to efficiencies applied in several of our vendor contracts and lower REO costs. The merger of ESB's information systems into WesBanco's resulted in additional cost savings, beyond those noted above, in the latter part of the second quarter which, along with other identified cost savings, will benefit future earnings.

Salaries and wages increased \$2.4 million or 14.2% from the second quarter of 2014 and \$4.3 million or 12.8% over the first half of 2014 due to a 17.4% increase in average full-time equivalent employees and routine annual adjustments to compensation, partially offset by increased deferrals of loan costs. Salaries and wages in the first half of 2015 also include \$0.8 million related to temporary post-merger personnel costs incurred as a result of the timing of the April 24 weekend systems and branch conversions. Employee benefit expenses increased 25.7% year-to-date, primarily from increased pension, health insurance, social security contributions and other benefit plan costs including the addition of ESB's personnel.

Net occupancy and equipment expense increased \$0.7 million or 5.6% in the first half of 2015 due to increased building-related costs including utilities, depreciation and other maintenance costs resulting primarily from the 23 ESB offices. In addition, new teller cash recycling machines continue to be introduced into our branches, which have improved the speed of customer service, improved cash controls and reduced full-time equivalent employees.

Amortization of intangible assets increased \$0.5 million in the first half of 2015 due to the ESB acquisition, which added approximately \$5.3 million in core deposit intangibles and \$2.2 million in non-compete agreements with former ESB executives with contracts ranging from one to

four years.

Restructuring and merger-related expenses of \$10.8 million in 2015 related to the ESB acquisition include \$7.7 million in executive change-in-control and employee severance expenses, \$1.7 million in investment banking services, \$0.5 million in audit and valuation services, \$0.4 million in marketing expenses, \$0.3 million in legal expenses and \$0.2 million of various other merger-related expenses.

Other real estate owned and foreclosure expenses decreased \$0.4 million in 2015 compared to 2014 due to lower foreclosure and liquidation activity even as related assets increased. Other real estate owned and repossessed assets increased \$1.1 million from the second quarter of 2014 to \$6.2 million due to the ESB acquisition, which added approximately \$1.4 million.

## **Table of Contents**

Communications expense decreased 12.0% from the first half of 2014, despite increased costs related to the acquisition, due to the implementation of a company-wide modernization of the communication infrastructure during 2014.

## **INCOME TAXES**

The provision for federal and state income taxes was \$12.5 million in 2015 compared to \$12.2 million in the first half of 2014. The increase in income tax expense was due to an increase in pre-tax income, partially offset by a \$0.5 million benefit relating to the completion of an IRS audit which closed the 2011 and 2012 tax years, which resulted in an effective tax rate of 26.0% for 2015 compared to 25.7% for 2014. The effective tax rate is anticipated to range between 26.5% and 27.5% for the remainder of 2015.

## **FINANCIAL CONDITION**

Total assets increased 33.0% during the first six months of 2015, while deposits and shareholders' equity increased 24.0% and 38.9%, respectively, compared to December 31, 2014 primarily due to the acquisition of ESB. Total portfolio loans increased \$846.9 million or 20.7% with \$700.9 million from the ESB acquisition and the remaining \$146.0 million from WesBanco's originations outpacing pay downs, which were a result of increased business activity, additional lending personnel, focused marketing efforts, an expanded presence in larger urban markets, and continued improvement in the loan origination process. Deposits increased \$1.2 billion from the ESB acquisition. Organic deposits were virtually unchanged as savings, demand and money market deposits increased 4.6%, 0.3% and 0.1%, respectively, while certificates of deposit decreased 6.9% due to lower rate offerings on maturities. The increase in demand deposits and savings deposits were attributable to marketing, incentives paid to customers, focused retail and business strategies to obtain more account relationships, and customers' preference for short-term maturities, coupled with initial deposits from bonus and royalty payments for Marcellus and Utica shale gas payments from energy companies in WesBanco's southwestern Pennsylvania, eastern Ohio and northern West Virginia markets. Total borrowings increased 134.5% during the first six months of 2015. FHLB borrowings increased \$558.2 million from December 31, 2014, due primarily to \$124.7 million in new borrowings, coupled with \$433.5 million in FHLB borrowings provided from the ESB acquisition. New borrowings were utilized to manage WesBanco's normal liquidity needs, including loan and investment funding, as well as certificates of deposit runoff. Total shareholders' equity increased by approximately \$306.5 million or 38.9%, compared to December 31, 2014, primarily due to \$293.6 million of common stock issued in the ESB acquisition and net income exceeding dividends for the period by \$17.8 million, which was partially offset by a \$2.9 million decrease in accumulated other comprehensive income.

**Table of Contents****TABLE 6. COMPOSITION OF SECURITIES (1)**

<i>(unaudited, dollars in thousands)</i>	June 30, 2015	December 31, 2014	\$ Change	% Change
<b>Available-for-sale (at fair value)</b>				
Obligations of government agencies	\$ 81,037	\$ 87,736	\$ (6,699)	(7.6)
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	1,232,422	701,113	531,309	75.8
Obligations of states and political subdivisions	92,771	91,433	1,338	1.5
Corporate debt securities	177,314	25,996	151,318	582.1
<b>Total debt securities</b>	<b>1,583,544</b>	<b>906,278</b>	<b>677,266</b>	<b>74.7</b>
Equity securities	11,114	11,146	(32)	(0.3)
<b>Total available-for-sale securities</b>	<b>\$ 1,594,658</b>	<b>\$ 917,424</b>	<b>\$ 677,234</b>	<b>73.8</b>
<b>Held-to-maturity (at amortized cost)</b>				
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	\$ 120,576	\$ 79,004	\$ 41,572	52.6
Obligations of states and political subdivisions	718,230	507,927	210,303	41.4
Corporate debt securities	9,610	6,739	2,871	42.6
<b>Total held-to-maturity securities</b>	<b>848,416</b>	<b>593,670</b>	<b>254,746</b>	<b>42.9</b>
<b>Total securities</b>	<b>\$ 2,443,074</b>	<b>\$ 1,511,094</b>	<b>\$ 931,980</b>	<b>61.7</b>
<b>Available-for-sale securities:</b>				
Weighted average yield at the respective period end <sup>(2)</sup>	2.06%	2.34%		
As a % of total securities	65.3%	60.7%		
Weighted average life (in years)	4.0	4.0		
<b>Held-to-maturity securities:</b>				
Weighted average yield at the respective period end <sup>(2)</sup>	4.17%	4.67%		
As a % of total securities	34.7%	39.3%		
Weighted average life (in years)	5.8	5.1		
<b>Total securities:</b>				
Weighted average yield at the respective period end <sup>(2)</sup>	2.79%	3.27%		
As a % of total securities	100.0%	100.0%		
Weighted average life (in years)	4.6	4.4		

(1) At June 30, 2015 and December 31, 2014, there were no holdings of any one issuer, other than the U.S. government and certain federal or federally-related agencies, in an amount greater than 10% of WesBanco's shareholders' equity.

(2) Weighted average yields have been calculated on a taxable-equivalent basis using the federal statutory tax rate of 35%.

Total investment securities, which are a source of liquidity for WesBanco as well as a contributor to interest income, increased by \$932.0 million or 61.7% from December 31, 2014 to June 30, 2015. This increase is attributable to the ESB acquisition, from both inherited securities of \$486.9 million and newly purchased securities in the three to four month period thereafter totaling \$604.6 million to replace those securities sold from ESB's portfolio prior to closing. Partially offsetting the acquired securities and purchases in the first six months of 2015 were maturities, paydowns, and calls that totaled \$147.7 million. Through the first six months of 2015, the available-for-sale portfolio increased by \$677.2 million or 73.8%, while the held-to-maturity portfolio increased by \$254.7 million or 42.9%. The weighted average yield of the portfolio declined from 3.27% at December 31, 2014 to 2.79% at June 30, 2015 due to the lower-yielding ESB acquired portfolio and purchases of

## Edgar Filing: WESBANCO INC - Form 10-Q

securities in the first and second quarters at lower market rates.

Net unrealized (losses) gains on available-for-sale securities included in accumulated other comprehensive income, net of tax, as of June 30, 2015 and December 31, 2014 were (\$0.8) million and \$2.9 million, respectively. Unrealized gains decreased on available-for-sale securities due to an increase in market rates from December 31, 2014. With approximately 35% of the investment portfolio in the held-to-maturity category, the recent volatility in interest rates does not have as much impact on other comprehensive income as if the entire portfolio were included in the category available-for-sale.

ESB's total pre-merger investment portfolio of \$1.0 billion was restructured through a specific security sale strategy with replacement purchases occurring after the merger to achieve specific overall portfolio characteristics as to weighted average life, duration and tax equivalent yield. The replacement purchases were not completed until June which accounted for approximately \$0.8 million in potential interest income.

**Table of Contents**

WesBanco's municipal portfolio comprises 33.2% of the overall securities portfolio as of June 30, 2015 as compared to 39.7% as of December 31, 2014, and it carries different risks that are not as prevalent in other security types contained in the portfolio. The following table presents the allocation of the municipal bond portfolio based on the combined S&P and Moody's ratings of the individual bonds (at fair value):

**TABLE 7. MUNICIPAL BOND RATINGS**

<i>(unaudited, dollars in thousands)</i>	June 30, 2015		December 31, 2014	
	Amount	% of Total	Amount	% of Total
Municipal bonds (at fair value) (1):				
Moody's: Aaa / S&P: AAA	\$ 81,044	9.8	\$ 50,205	8.1
Moody's: Aa1 ; Aa2 ; Aa3 / S&P: AA+ ; AA ; AA-	606,780	73.5	449,219	72.1
Moody's: A1 ; A2 ; A3 / S&P: A+ ; A ; A-	133,698	16.2	117,398	18.9
Moody's: Baa1 ; Baa2 ; Baa3 / S&P: BBB+ ; BBB ; BBB- (2)	1,796	0.2	1,958	0.3
Not rated by either agency	2,167	0.3	3,454	0.6
<b>Total municipal bond portfolio</b>	<b>\$ 825,485</b>	<b>100.0</b>	<b>\$ 622,234</b>	<b>100.0</b>

(1) The highest available rating was used when placing the bond into a category in the table.

(2) As of June 30, 2015 and December 31, 2014, there are no securities in the municipal portfolio rated below investment grade.

WesBanco's municipal bond portfolio consists of both taxable (primarily Build America Bonds) and tax-exempt general obligation and revenue bonds. The following table presents additional information regarding the municipal bond type and issuer (at fair value):

**TABLE 8. COMPOSITION OF MUNICIPAL SECURITIES**

<i>(unaudited, dollars in thousands)</i>	June 30, 2015		December 31, 2014	
	Amount	% of Total	Amount	% of Total
<b>Municipal bond type:</b>				
General Obligation	\$ 582,174	70.5	\$ 432,967	69.6
Revenue	243,311	29.5	189,267	30.4
<b>Total municipal bond portfolio</b>	<b>\$ 825,485</b>	<b>100.0</b>	<b>\$ 622,234</b>	<b>100.0</b>
<b>Municipal bond issuer:</b>				
State Issued	\$ 77,445	9.4	\$ 53,931	8.7
Local Issued	748,040	90.6	568,303	91.3
<b>Total municipal bond portfolio</b>	<b>\$ 825,485</b>	<b>100.0</b>	<b>\$ 622,234</b>	<b>100.0</b>

The amortized cost of the municipal bond portfolio at June 30, 2015 and December 31, 2014 was \$806.5 million and \$594.0 million, respectively.

WesBanco's municipal bond portfolio is broadly spread across the United States. The following table presents the top five states of municipal bond concentration based on total fair value at June 30, 2015:

**TABLE 9. CONCENTRATION OF MUNICIPAL SECURITIES**

Edgar Filing: WESBANCO INC - Form 10-Q

	June 30, 2015	
<i>(unaudited, dollars in thousands)</i>	Fair Value	% of Total
Pennsylvania	<b>\$ 191,805</b>	<b>23.2</b>
Texas	<b>110,364</b>	<b>13.4</b>
Ohio	<b>92,693</b>	<b>11.2</b>
Illinois	<b>43,176</b>	<b>5.2</b>
Kentucky	<b>28,919</b>	<b>3.5</b>
All other states (1)	<b>358,528</b>	<b>43.5</b>
<b>Total municipal bond portfolio</b>	<b>\$ 825,485</b>	<b>100.0</b>

(1) WesBanco's municipal bond portfolio contains obligations in the state of West Virginia totaling \$19.2 million or 2.3% of the total municipal portfolio.

WesBanco uses prices from independent pricing services and, to a lesser extent, indicative (non-binding) quotes from independent brokers, to measure the fair value of its securities. WesBanco validates prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, review of pricing by personnel familiar with market liquidity and other market-related conditions, review of pricing service methodologies, review of independent auditor reports received from the pricing service regarding its internal controls, and through review of inputs and assumptions used in pricing certain securities thinly traded or with limited observable data points. The procedures in place provide management with a sufficient understanding of the valuation models, assumptions, inputs and pricing to reasonably measure the fair value of WesBanco's securities. For additional disclosure relating to fair value measurements, refer to Note 7, "Fair Value Measurement" in the Consolidated Financial Statements.



**Table of Contents****LOANS AND CREDIT RISK**

Loans represent WesBanco's single largest balance sheet asset classification and the largest source of interest income. Business purpose loans consist of commercial real estate ( CRE ) loans and other commercial and industrial ( C&I ) loans that are not secured by real estate. CRE loans are further segmented into land and construction loans, and loans for improved property. Consumer purpose loans consist of residential real estate loans, home equity lines of credit and other consumer loans. Loans held for sale generally consist of residential real estate loans originated for sale in the secondary market, but at times may also include other types of loans. The outstanding balance of each major category of the loan portfolio is summarized in Table 10.

The risk that borrowers will be unable or unwilling to repay their obligations and default on loans is inherent in all lending activities. Credit risk arises from many sources including general economic conditions, external events that impact businesses or industries, isolated events that impact a major employer, individual loss of employment or other personal hardships as well as changes in interest rates or the value of collateral. Credit risk is also impacted by a concentration of exposure within a geographic market or to one or more borrowers, industries or collateral types. The primary goal in managing credit risk is to minimize the impact of default by an individual borrower or group of borrowers. Credit risk is managed through the initial underwriting process as well as through ongoing monitoring and administration of the portfolio that varies by the type of loan. The Bank's credit policies establish standard underwriting guidelines for each type of loan and require an appropriate evaluation of the credit characteristics of each borrower. This evaluation includes the borrower's primary source of repayment capacity; the adequacy of collateral, if any, to secure the loan; the potential value of personal guarantees as secondary sources of repayment; and other factors unique to each loan that may increase or mitigate its risk. Credit bureau scores are also considered when evaluating consumer purpose loans as well as guarantors of business purpose loans. However, the Bank does not periodically update credit bureau scores subsequent to when loans are made to determine changes in credit history.

Credit risk is mitigated for all types of loans by continuously monitoring delinquency levels and pursuing collection efforts at the earliest stage of delinquency. The Bank also monitors general economic conditions, including employment, housing activity and real estate values in its market. The Bank also periodically evaluates and changes its underwriting standards when warranted based on market conditions, the historical performance of a category of the portfolio, or other external factors. Credit risk is also regularly evaluated for the impact of adverse economic and other events that increase the risk of default and the potential loss in the event of default to understand their impact on the Bank's earnings and capital.

**TABLE 10. COMPOSITION OF LOANS (1)**

<i>(unaudited, dollars in thousands)</i>	June 30, 2015		December 31, 2014	
	Amount	% of Loans	Amount	% of Loans
Commercial real estate:				
Land and construction	\$ 308,885	6.3	\$ 262,643	6.4
Improved property	1,885,228	38.1	1,682,817	41.1
Total commercial real estate	2,194,113	44.4	1,945,460	47.5
Commercial and industrial	733,478	14.8	638,410	15.6
Residential real estate:				
Land and construction	37,662	0.8	19,681	0.5
Other	1,203,808	24.3	909,089	22.2
Home equity	379,740	7.7	330,031	8.1
Consumer	384,844	7.8	244,095	6.0
Total portfolio loans	4,933,645	99.8	4,086,766	99.9
Loans held for sale	11,160	0.2	5,865	0.1
Total loans	\$ 4,944,805	100.0	\$ 4,092,631	100.0

- (1) Loans are presented gross of the allowance for loan losses and net of unearned income, credit valuation adjustments, and unamortized net deferred loan fee income and loan origination costs.

## Edgar Filing: WESBANCO INC - Form 10-Q

Total loans increased \$852.2 million compared to December 31, 2014 with \$700.9 million from the ESB acquisition. Organic loan growth from December 31, 2014, annualized, was 7.2%, primarily achieved through \$825 million in loan originations for the first half of 2015 compared to \$625 million last year. Loan growth, excluding ESB, occurred in all major loan categories, with approximately 25.1% of the growth in commercial and industrial loans. Loan growth was driven by increased business activity, additional commercial and residential lending personnel in our urban markets, focused marketing efforts, an expanded presence in our larger urban markets, a reduction in unscheduled payoffs and a less severe winter that did not stifle certain types of business activity as much as it did the prior year. Excluding the ESB acquisition, CRE and C&I loans provided the most significant organic growth, respectively increasing 2.2% and 5.9% from December 31, 2014, while home equity and consumer loans increased 7.3% and 12.3%, respectively. The increase in CRE loans was driven by an 11.3% increase in CRE land and construction lending. Organic loan growth was achieved without sacrificing profitability, loan structure and credit quality of the loan portfolio despite a highly competitive lending market for high quality borrowers.

Total loan commitments, including loans approved but not closed, increased \$359.8 million from December 2014 with \$85.3 million from the ESB acquisition and the remainder due primarily to increases in CRE land and construction and home equity lines of credit originations.

**Table of Contents****NON-PERFORMING ASSETS, IMPAIRED LOANS AND LOANS PAST DUE 90 DAYS OR MORE**

Non-performing assets consist of non-accrual loans and TDRs, other real estate acquired through or in lieu of foreclosure, bank premises held for sale, and repossessed automobiles acquired to satisfy defaulted consumer loans.

**TABLE 11. NON-PERFORMING ASSETS**

<i>(unaudited, dollars in thousands)</i>	<b>June 30, 2015</b>	<b>December 31, 2014</b>
<b>Non-accrual loans:</b>		
Commercial real estate - land and construction	<b>\$ 1,382</b>	\$ 1,488
Commercial real estate - improved property	<b>26,103</b>	20,227
Commercial and industrial	<b>7,664</b>	4,110
Residential real estate	<b>10,117</b>	10,329
Home equity	<b>2,251</b>	1,923
Consumer	<b>687</b>	741
<b>Total non-accrual loans (1)</b>	<b>48,204</b>	38,818
<b>TDRs accruing interest:</b>		
Commercial real estate - land and construction	<b>1,127</b>	
Commercial real estate - improved property	<b>2,409</b>	2,437
Commercial and industrial	<b>326</b>	329
Residential real estate	<b>7,850</b>	8,215
Home equity	<b>744</b>	740
Consumer	<b>502</b>	345
<b>Total TDRs accruing interest (1)</b>	<b>12,958</b>	12,066
<b>Total non-performing loans</b>	<b>\$ 61,162</b>	\$ 50,884
<b>Other real estate owned and repossessed assets</b>	<b>6,168</b>	5,082
<b>Total non-performing assets</b>	<b>\$ 67,330</b>	\$ 55,966
Non-performing loans/total loans	<b>1.24%</b>	1.25%
Non-performing assets/total assets	<b>0.80%</b>	0.89%
Non-performing assets/total loans, other real estate and repossessed assets	<b>1.36%</b>	1.37%

(1) TDRs on nonaccrual of \$13.1 million and \$5.4 million at June 30, 2015 and December 31, 2014, respectively, are included in total nonaccrual loans.

Non-performing loans, which consist of non-accrual loans and TDRs, increased \$10.3 million, or 20.2% from December 31, 2014 with \$10.0 million remaining from the ESB acquisition, while legacy non-performing loans increased \$0.3 million or 0.6%. Non-performing loans acquired, recognized at their acquisition date fair value of \$10.8 million with an unpaid principal balance of \$16.1 million, primarily consist of three commercial relationships with an acquisition date aggregate fair value of \$10.0 million. Organic non-performing loans increased primarily from the addition of one large commercial credit added in the second quarter offset by an unscheduled principal payment in the first quarter from one large commercial relationship. (Please see the Notes to the Consolidated Financial Statements for additional discussion.)

Other real estate owned and repossessed assets increased \$1.1 million from December 31, 2014 to June 30, 2015, primarily due to the ESB acquisition.



**Table of Contents**

The following table presents past due and accruing loans excluding accruing TDRs:

**TABLE 12. PAST DUE AND ACCRUING LOANS EXCLUDING ACCRUING TDRs**

<i>(unaudited, dollars in thousands)</i>	June 30, 2015	December 31, 2014
Loans past due 90 days or more:		
Commercial real estate - land and construction	\$	\$ 71
Commercial real estate - improved property	<b>180</b>	
Commercial and industrial	<b>3</b>	22
Residential real estate	<b>1,838</b>	1,306
Home equity	<b>228</b>	570
Consumer	<b>222</b>	319
 Total loans past due 90 days or more	 <b>2,471</b>	 2,288
Loans past due 30 to 89 days:		
Commercial real estate - land and construction		
Commercial real estate - improved property	<b>698</b>	480
Commercial and industrial	<b>1,135</b>	216
Residential real estate	<b>3,228</b>	3,105
Home equity	<b>2,142</b>	2,524
Consumer	<b>3,117</b>	3,022
 Total loans past due 30 to 89 days	 <b>10,320</b>	 9,347
 Total 30 days or more	 <b>\$ 12,791</b>	 \$ 11,635
 Loans past due 90 days or more and accruing to total portfolio loans	 <b>0.05%</b>	 0.06%
Loans past due 30-89 days and accruing to total portfolio loans	<b>0.21%</b>	0.23%

Loans past due 30 days or more and accruing interest excluding TDRs increased \$1.2 million or 9.9% from December 31, 2014 primarily due to the ESB acquisition, however loan delinquency as a percent of total loans improved. These loans continue to accrue interest because they are both well-secured and in the process of collection. Loans past due 30-89 days to total portfolio loans improved to 0.21% from 0.23% at December 31, 2014 and 0.26% at June 30, 2014, representing a 19.2% decrease from a year ago, while loans past due 90 days or more to total portfolio loans improved to 0.05% from 0.06% at December 31, 2014 and 0.07% one year ago. This improvement in delinquency is the result of management's focus on controlling early stage delinquency as well as improved economic conditions.

**Table of Contents**

**ALLOWANCE FOR CREDIT LOSSES**

Continued improvement in the credit quality of the pre-acquisition legacy portfolio resulted in a decrease in the allowance as supported by improvement in most credit quality metrics in the second quarter, despite an increase in net charge-offs and the provision for credit losses, as total delinquencies and non-performing, criticized and classified loans all decreased as a percentage of loans. The allowance was not affected by the acquired ESB loan portfolio, as these loans were recorded at fair value at the date of acquisition.

The allowance for credit losses decreased \$1.2 million from December 31, 2014 to June 30, 2015 as a result of a lower provision expense than net charge-offs, representing 0.88% of total loans at June 30, 2015 compared to 1.09% of total loans at December 31, 2014. However, if the acquired ESB loans (which were recorded at fair value at the date of acquisition) were excluded from the ratio, the allowance would approximate 1.03% of the adjusted loan total. The resulting ratio provides greater coverage over total loans and is considered by management to be a better comparison of the adequacy of the allowance from last year. Portfolio mix shifts also affect management's evaluation of the overall allowance adequacy.

The allowance for loans individually evaluated was relatively unchanged from December 31, 2014 to June 30, 2015, while the allowance for loans collectively evaluated decreased \$1.3 million to \$39.5 million due to continued improvement in delinquent, non-performing and classified and criticized loans.

The allowance for loan commitments of \$0.8 million at June 30, 2015 increased \$0.3 million from December 31, 2014 primarily due to the increase in overall commitments from December 31, 2014.

The allowance for credit losses by loan category, presented in Note 5 Loans and the Allowance for Credit Losses to the Consolidated Financial Statements, summarizes the impact of changes in various factors that affect the allowance for loan losses in each segment of the portfolio. The allowance for all segments is impacted by changes in loan balances, as well as changes in historical loss rates adjusted for qualitative factors such as economic conditions. The CRE and C&I segments of the portfolio are also impacted by changes in the risk grading distribution of the portfolio as well as the migration of CRE loans from land and construction to improved property upon the completion of construction.

The loss migration rate by internal risk grade is the primary factor for establishing the allowance for all commercial loans, and the portfolio segment loss history is the primary factor for establishing the allowance for residential real estate, home equity and consumer loans. The categorization of loans as non-performing is not as significant a factor as the loss migration rate by risk grade or the segment loss history, although certain non-performing loans that carry specific reserves are also typically considered classified under the internal risk grading system. Criticized and classified loans were \$82.9 million or 1.68% of total loans at June 30, 2015, improving from 1.99% of total loans at December 31, 2014 and 3.08% of total loans from a year ago as credit quality continued to improve, enabling certain loans to be upgraded that were criticized but not classified throughout the economic downturn. The ESB acquisition increased criticized and classified loans by \$12.1 million at June 30, 2015.

**Table of Contents**

Table 13 summarizes the allocation of the allowance for credit losses to each category of the loan portfolio. The decrease in the allowance for CRE land and construction loans is due primarily to that category of loans consisting of more multi-family apartment and other commercial building construction loans than land and residential development loans, which had higher loss rates during the recession but now represent a much smaller percentage of the category. The increase in the allowance for C&I and home equity loans is primarily attributable to growth in those categories, while the decrease in the allowance for residential real estate and consumer loans reflects lower historical loss rates in each category.

**TABLE 13. ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES**

<i>(unaudited, dollars in thousands)</i>	June 30, 2015	Percent of Total	December 31, 2014	Percent of Total
Allowance for loan losses:				
Commercial real estate - land and construction	\$ 5,103	11.5	\$ 5,654	12.5
Commercial real estate - improved property	17,228	39.0	17,573	39.0
Commercial and industrial	9,191	20.8	9,063	20.1
Residential real estate	4,764	10.8	5,382	11.9
Home equity	2,688	6.1	2,329	5.2
Consumer	3,902	8.8	4,078	9.0
Deposit account overdrafts	543	1.2	575	1.3
<b>Total allowance for loan losses</b>	<b>\$ 43,419</b>	<b>98.2</b>	<b>\$ 44,654</b>	<b>99.0</b>
Allowance for loan commitments:				
Commercial real estate - land and construction	\$ 207	0.5	\$ 194	0.4
Commercial real estate - improved property	20	0.0	10	0.0
Commercial and industrial	413	0.9	112	0.3
Residential real estate	12	0.0	9	0.0
Home equity	113	0.3	90	0.2
Consumer	40	0.1	40	0.1
<b>Total allowance for loan commitments</b>	<b>805</b>	<b>1.8</b>	<b>455</b>	<b>1.0</b>
<b>Total allowance for credit losses</b>	<b>\$ 44,224</b>	<b>100.0</b>	<b>\$ 45,109</b>	<b>100.0</b>

Although the allowance for credit losses is allocated as described in Table 13, the total allowance is available to absorb actual losses in any category of the loan portfolio. However, differences between management's estimation of probable losses and actual incurred losses in subsequent periods for any category may necessitate future adjustments to the provision for loan losses applicable to the category. Management believes the allowance for credit losses is appropriate to absorb probable losses at June 30, 2015.

**Table of Contents****DEPOSITS****TABLE 14. DEPOSITS**

<i>(unaudited, dollars in thousands)</i>	June 30, 2015	December 31, 2014	\$ Change	% Change
<b>Deposits</b>				
Non-interest bearing demand	\$ 1,257,932	\$ 1,061,075	\$ 196,857	18.6
Interest bearing demand	1,156,949	885,037	271,912	30.7
Money market	989,888	954,957	34,931	3.7
Savings deposits	1,075,711	842,818	232,893	27.6
Certificates of deposit	1,778,565	1,305,096	473,469	36.3
<b>Total deposits</b>	<b>\$ 6,259,045</b>	<b>\$ 5,048,983</b>	<b>\$ 1,210,062</b>	<b>24.0</b>

Deposits, which represent WesBanco's primary source of funds, are offered in various account forms at various rates through WesBanco's 142 branches. The FDIC insures deposits up to \$250,000 per account.

Total deposits increased by \$1.2 billion or 24.0% during the first six months of 2015 due to the ESB acquisition which provided \$1.2 billion of additional deposits, while organic deposits were relatively unchanged from December 31, 2014. Interest bearing demand and non-interest bearing deposits increased 30.7% and 18.6%, respectively, while savings and money market deposits increased 27.6% and 3.7%, respectively, due to the ESB acquisition and corresponding marketing, incentive compensation paid to customers and employees, focused retail and business strategies to obtain more account relationships and customers' preferences for shorter-term maturities. The increase was also impacted by initial deposits from bonus and royalty payments for Marcellus and Utica shale gas payments from energy companies in WesBanco's southwestern Pennsylvania, eastern Ohio and northern West Virginia markets. At June 30, 2015, demand deposits, savings deposits and money market deposits at former ESB branches were \$418.4 million, \$193.9 million and \$26.9 million, respectively.

Certificates of deposit increased \$473.5 million due primarily to the ESB acquisition. Certificates of deposit acquired from the ESB acquisition totaled \$564.0 million, while organic balances declined 6.9% due to the effects of an overall corporate strategy designed to increase and remix retail deposit relationships with a focus on overall products that can be offered at a lower cost to the Bank. The decline is also impacted by lowered offered rates on maturing certificates of deposit and customer preferences for other non-maturity deposit types. WesBanco does not generally solicit brokered or other deposits out-of-market or over the internet, but does participate in the Certificate of Deposit Account Registry Services (CDARS®) program and the Insured Cash Sweep (ICS®) money market deposit program. CDARS® balances totaled \$292.3 million in total outstanding balances at June 30, 2015, of which \$208.4 million represented one-way buys, compared to \$283.0 million in total outstanding balances at December 31, 2014, of which \$172.3 million represented one-way buys. ICS® reciprocal balances totaled \$142.6 million at June 30, 2015 compared to \$117.1 million at December 31, 2014. Certificates of deposit greater than \$250,000 were approximately \$291.3 million at June 30, 2015 compared to \$174.7 million at December 31, 2014. Certificates of deposit of \$100,000 or more were approximately \$924.6 million at June 30, 2015 compared to \$706.1 million at December 31, 2014. The increase in jumbo certificates of deposit was primarily due to the acquisition. Certificates of deposit totaling approximately \$1.1 billion at June 30, 2015 with a cost of 0.64% are scheduled to mature within the next 12 months. WesBanco will continue to focus on its core deposit strategies and improving its overall mix of transaction accounts to total deposits. From time to time the Bank may offer special promotions on certain certificates of deposit maturities and savings products based on competition, sales strategies, liquidity needs and wholesale borrowing costs.

**BORROWINGS****TABLE 15. BORROWINGS**

<i>(unaudited, dollars in thousands)</i>	June 30, 2015	December 31, 2014	\$ Change	% Change
Federal Home Loan Bank Borrowings	\$ 781,332	\$ 223,126	\$ 558,206	250.2
Other short-term borrowings	73,868	80,690	(6,822)	(8.5)
Junior subordinated debt owed to unconsolidated subsidiary trusts	106,196	106,176	20	0.0



## Edgar Filing: WESBANCO INC - Form 10-Q

Total	\$ 961,396	\$ 409,992	\$ 551,404	134.5
-------	------------	------------	------------	-------

While borrowings are a less significant source of funding for WesBanco compared to total deposits, during the first six months of 2015, FHLB borrowings increased \$558.2 million. The acquisition of ESB provided \$433.5 million in borrowings, and \$124.7 million in new borrowings were utilized to manage WesBanco's normal liquidity needs, including loan and investment funding, as well as CD runoff. A portion of the replacement investment securities were funded by the new FHLB borrowings.

Other short-term borrowings, which consist of securities sold under agreements to repurchase at June 30, 2015, but may also include federal funds purchased and other borrowings, were \$73.9 million at June 30, 2015 compared to \$80.7 million at December 31, 2014. The ESB acquisition also provided \$36.1 million in junior subordinated debentures which were redeemed in May at a redemption price of 100% of the principal plus accrued and unpaid interest. WesBanco has a revolving line of credit, which is a senior obligation of the parent company, with another financial institution. This line of credit, which accrues interest at an adjusted LIBOR rate, provides for aggregate unsecured borrowings of up to \$25.0 million. There were no outstanding balances as of June 30, 2015 or December 31, 2014.

**Table of Contents****OFF-BALANCE SHEET ARRANGEMENTS**

WesBanco enters into financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, letters of credit, loans approved but not closed, overdraft limits and contingent obligations to purchase loans funded by other entities. Since many of these commitments expire unused or partially used, these commitments may not reflect future cash requirements. Please refer to Note 9, Commitments and Contingent Liabilities, of the Consolidated Financial Statements and the Loans and Credit Risk section of this MD&A for additional information.

**CAPITAL RESOURCES**

Shareholders' equity was \$1.1 billion at June 30, 2015 compared to \$788.2 million at December 31, 2014. The increase was due primarily to \$293.6 million of common stock issued in the ESB acquisition coupled with net income during the current six month period of \$35.5 million, which were partially offset by a \$2.9 million decrease in other comprehensive income and the declaration of common shareholder dividends totaling \$17.7 million for the six months ended June 30, 2015. WesBanco also increased its quarterly dividend rate to \$0.23 per share in February, representing a 4.5% increase over the prior quarterly rate and a cumulative 64% increase over the last seventeen quarters.

On June 2, 2015, WesBanco granted 94,800 stock options to selected officers at an exercise price of \$31.58. These options are service-based and vest 50% at December 31, 2015 and 50% at December 31, 2016. On the same date, WesBanco also granted 48,550 shares of restricted stock to selected officers. The restricted shares are service-based and cliff-vest 36 months from the date of grant.

Regulatory guidelines require bank holding companies and commercial banks to maintain certain minimum capital ratios and define companies as well capitalized that sufficiently exceed the minimum ratios. At June 30, 2015, regulatory capital levels for both the Bank and WesBanco were substantially greater than the minimum amounts needed to be considered well capitalized under the regulations. There are various legal limitations under federal and state laws that limit the payment of dividends from the Bank to WesBanco. As of June 30, 2015, under FDIC regulations, WesBanco could receive, without prior regulatory approval, a dividend of approximately \$36.3 million from the Bank. WesBanco intends to continue to improve its consolidated and Bank capital ratios to manage its growth strategies primarily from retaining a majority of its increasing earnings.

The following table summarizes risk-based capital amounts and ratios for WesBanco and the Bank for the periods indicated:

<i>(unaudited, dollars in thousands)</i>	Minimum Value (1)	Well Capitalized (2)	June 30, 2015		Minimum Amount (1)	December 31, 2014		Minimum Amount (1)
			Amount	Ratio		Amount	Ratio	
<b>WesBanco, Inc.</b>								
Tier 1 leverage	4.00%	5.00%	\$ 725,305	9.29%	\$ 312,415	\$ 593,031	9.88%	\$ 240,068
Common equity tier 1 (3)	4.50%	6.50%	630,385	11.71%	242,351	N/A	N/A	N/A
Tier 1 capital to risk-weighted assets	6.00%	8.00%	725,305	13.47%	323,135	593,031	13.76%	172,357
Total capital to risk-weighted assets	8.00%	10.00%	769,964	14.30%	430,847	638,064	14.81%	344,714
<b>WesBanco Bank, Inc.</b>								
Tier 1 leverage	4.00%	5.00%	\$ 683,277	8.82%	\$ 309,861	\$ 516,689	8.63%	\$ 239,533
Common equity tier 1 (3)	4.50%	6.50%	683,277	12.74%	241,434	N/A	N/A	N/A
Tier 1 capital to risk-weighted assets	6.00%	8.00%	683,277	12.74%	321,912	516,689	12.04%	171,612
Total capital to risk-weighted assets	8.00%	10.00%	727,693	13.56%	429,216	561,369	13.08%	343,225

(1) Minimum to remain adequately capitalized. Minimums prior to January 1, 2015 were 4.00% for Tier 1 leverage and Tier 1 capital and 8.00% for total capital.

(2) Well-capitalized under prompt corrective action regulations.

(3) The Common Equity Tier 1 ratio (known as CET 1) is a new regulatory ratio as of March 31, 2015, as the regulatory agencies adopted new guidelines for such ratio as a result of international adoption of the BASEL III regulatory capital accords in 2013.

**Table of Contents****LIQUIDITY RISK**

Liquidity is defined as a financial institution's capacity to meet its cash and collateral obligations at a reasonable cost. Liquidity risk is the risk that an institution's financial condition or overall safety and soundness is adversely affected by an inability, or perceived inability, to meet its obligations. An institution's obligations, and the funding sources to meet them, depend significantly on its business mix, balance sheet structure, and the cash flows of its on- and off-balance sheet obligations. Institutions confront various internal and external situations that can give rise to increased liquidity risk including funding mismatches, market constraints on funding sources, contingent liquidity events, changes in economic conditions, and exposure to credit, market, operation, legal and reputation risk. WesBanco actively manages liquidity risk through its ability to provide adequate funds to meet changes in loan demand, unexpected outflows in deposits and other borrowings as well as to take advantage of market opportunities and meet operating cash needs. This is accomplished by maintaining liquid assets in the form of securities, sufficient borrowing capacity and a stable core deposit base. Liquidity is centrally monitored by WesBanco's Asset/Liability Committee (ALCO).

WesBanco determines the degree of required liquidity by the relationship of total holdings of liquid assets to the possible need for funds to meet unexpected deposit losses and/or loan demands. The ability to quickly convert assets to cash at a minimal loss is a primary function of WesBanco's investment portfolio management. WesBanco believes its cash flow from the loan portfolio, the investment portfolio, and other sources, adequately meet its liquidity requirements. WesBanco's net loans to assets ratio was 58.4% at June 30, 2015 and deposit balances funded 74.7% of assets.

The following table lists the sources of liquidity from assets at June 30, 2015 expected within the next year:

<i>(unaudited, in thousands)</i>	
Cash and cash equivalents	<b>\$ 108,738</b>
Securities with a maturity date within the next year	<b>88,998</b>
Projected payments and prepayments on mortgage-backed securities and collateralized mortgage obligations (1)	<b>232,564</b>
Callable securities	<b>122,870</b>
Loans held for sale	<b>11,160</b>
Accruing loans scheduled to mature	<b>687,100</b>
Normal loan repayments	<b>530,425</b>
Total sources of liquidity expected within the next year	<b>\$ 1,781,855</b>

(1) Projected prepayments are based on current prepayment speeds.

Deposit flows are another principal factor affecting overall WesBanco liquidity. Deposits totaled \$6.3 billion at June 30, 2015. Deposit flows are impacted by current interest rates, products and rates offered by WesBanco versus various forms of competition, as well as customer behavior. Certificates of deposit scheduled to mature within one year totaled \$1.1 billion at June 30, 2015, which includes jumbo regular certificates of deposit totaling \$408.6 million with a weighted-average cost of 0.69%, and jumbo CDARS® deposits of \$193.1 million with a cost of 0.55%.

WesBanco maintains a line of credit with the FHLB as an additional funding source. Available credit with the FHLB was approximately \$1.3 billion and \$1.5 billion at June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, the Bank had unpledged available-for-sale securities with an amortized cost of \$615.1 million, a portion of which is an available liquidity source, or such securities could be pledged to secure additional FHLB borrowings. The FHLB requires securities to be specifically pledged to the FHLB and maintained in a FHLB-approved custodial arrangement if the member wishes to include such securities in the maximum borrowing capacity calculation. WesBanco has elected not to specifically pledge to the FHLB otherwise unpledged securities.

WesBanco participates in the Federal Reserve Bank's Borrower-in-Custody Program (BIC) whereby WesBanco pledges certain consumer loans as collateral for borrowings. At June 30, 2015, WesBanco had a BIC line of credit totaling \$198.1 million, none of which was outstanding. Alternative funding sources may include the utilization of existing overnight lines of credit with third party banks totaling \$205.0 million, none of which was outstanding at June 30, 2015, along with borrowings under repurchase agreement lines, increasing deposit rates to attract additional funds, accessing brokered deposits, or selling available-for-sale securities or certain types of loans.

## Edgar Filing: WESBANCO INC - Form 10-Q

Other short-term borrowings of \$73.9 million at June 30, 2015 consisted of overnight sweep checking accounts for large commercial customers. There has not been a significant fluctuation in the average deposit balance of the overnight sweep checking accounts during the first six months of 2015. The overnight sweep checking accounts require securities to be pledged equal to or greater than the average deposit balance in the related customer accounts.

The principal sources of parent company liquidity are dividends from the Bank, \$22.9 million in cash and investments on hand, and a \$25.0 million revolving line of credit with another financial institution, which did not have an outstanding balance at June 30, 2015. WesBanco is in compliance with all loan covenants. There are various legal limitations under federal and state laws that limit the payment of dividends from the Bank to the parent company. As of June 30, 2015, under FDIC and State of West Virginia regulations, WesBanco could receive, without prior regulatory approval, dividends of approximately \$36.3 million from the Bank. Management believes these are appropriate levels of cash for the parent company given the current environment. Management continuously monitors the adequacy of parent company cash levels and sources of liquidity through the use of metrics that relate current cash levels to historical and forecasted cash inflows and outflows.

WesBanco had outstanding commitments to extend credit in the ordinary course of business approximating \$1.6 billion and \$1.2 billion at June 30, 2015 and December 31, 2014, respectively. On a historical basis, only a small portion of these commitments will result in an outflow of funds. Please refer to Note 9, Commitments and Contingent Liabilities, of the Consolidated Financial Statements and the Loans and Credit Risk section of this MD&A for additional information.

**Table of Contents**

Federal financial regulatory agencies previously have issued guidance to provide for sound practices for managing funding and liquidity risk and strengthening liquidity risk management practices. WesBanco maintains a comprehensive management process for identifying, measuring, monitoring, and controlling liquidity risk which is fully integrated into its risk management process. Management believes WesBanco has sufficient current liquidity to meet current obligations to borrowers, depositors and others as of June 30, 2015 and that WesBanco's current liquidity risk management policies and procedures adequately address this guidance.

**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The disclosures set forth in this item are qualified by the section captioned "Forward-Looking Statements" included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations of this report.

**MARKET RISK**

The primary objective of WesBanco's ALCO is to maximize net interest income within established policy parameters. This objective is accomplished through the management of balance sheet composition, market risk exposures arising from changing economic conditions and liquidity risk.

Market risk is defined as the risk of loss due to adverse changes in the fair value of financial instruments resulting from fluctuations in interest rates and equity prices. Management considers interest rate risk to be WesBanco's most significant market risk. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. The relative consistency of WesBanco's net interest income is largely dependent on effective management of interest rate risk. As interest rates change in the market, rates earned on interest rate sensitive assets and rates paid on interest rate sensitive liabilities do not necessarily move concurrently. Differing rate sensitivities may arise because fixed rate assets and liabilities may not have the same maturities, or because variable rate assets and liabilities differ in the timing and/or the percentage of rate changes.

WesBanco's ALCO, comprised of senior management from various functional areas, monitors and manages interest rate risk within Board approved policy limits. Interest rate risk is monitored primarily through the use of an earnings simulation model. The model is highly dependent on various assumptions, which change regularly as the balance sheet and market interest rates change. The key assumptions and strategies employed are analyzed bi-monthly and reviewed and documented by the ALCO.

The earnings simulation model projects changes in net interest income resulting from the effect of changes in interest rates. Forecasting changes in net interest income requires management to make certain assumptions regarding loan and security prepayment rates, bond call dates, and adjustments to non-maturing deposit rates, which may not necessarily reflect the manner in which actual yields and costs respond to changes in market interest rates. Assumptions used are based primarily on historical experience and current market rates. Security portfolio maturities and prepayments are assumed to be reinvested in similar instruments and callable bond forecasts are adjusted at varying levels of interest rates. While management believes such assumptions to be reasonable, there can be no assurance that assumed prepayment rates, callable bond forecasts and non-maturing deposit rates will approximate actual future results. Moreover, the net interest income sensitivity chart presented in Table 1, "Net Interest Income Sensitivity," assumes the composition of interest sensitive assets and liabilities existing at the end of the period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve, regardless of the duration of the maturity or re-pricing of specific assets and liabilities. Since the assumptions used in the model relative to changes in interest rates are uncertain, the simulation analysis may not be indicative of actual results. In addition, the analysis may not consider all actions that management could employ in response to changes in interest rates and various earning asset and costing liability balances.

Management is aware of the significant effect inflation or deflation has upon interest rates and ultimately upon financial performance. WesBanco's ability to cope with inflation or deflation is best determined by analyzing its capability to respond to changing market interest rates, as well as its ability to manage the various elements of non-interest income and expense during periods of increasing or decreasing inflation or deflation. WesBanco monitors the level and mix of interest-rate sensitive assets and liabilities through ALCO in order to reduce the impact of inflation or deflation on net interest income. Management also controls the effects of inflation or deflation by conducting periodic reviews of the prices and terms of its various products and services, both in terms of the costs to offer the services as well as outside market influences upon such pricing, by introducing new products and services or reducing the availability of existing products and services, and by controlling overhead expenses.

Interest rate risk policy limits are determined by measuring the anticipated change in net interest income over a twelve month period assuming an immediate and sustained 100, 200 and 300 basis point increase or decrease in market interest rates compared to a stable rate environment or base model. WesBanco's current policy limits this exposure to a reduction of 5.0%, 12.5% and 25% or less, respectively, of net interest income from the base model over a twelve month period. The table below shows WesBanco's interest rate sensitivity at June 30, 2015 and December 31, 2014 assuming a 100, 200 and 300 basis point interest rate increase, compared to a base model. Due to the current low interest rate environment, particularly for short-term rates, the 200 and 300 basis point decreasing change is not calculated.

**TABLE 1. NET INTEREST INCOME SENSITIVITY**

Edgar Filing: WESBANCO INC - Form 10-Q

Immediate Change in	Percentage Change in		
Interest Rates (basis points)	Net Interest Income from Base over One Year		ALCO
	June 30, 2015	December 31, 2014	Guidelines
+300	<b>(0.2%)</b>	0.9%	(25.0%)
+200	<b>1.0%</b>	2.1%	(12.5%)
+100	<b>1.2%</b>	1.9%	(5.0%)
-100	<b>(1.6%)</b>	(1.8%)	(5.0%)

**Table of Contents**

As per the table above, the earnings simulation model at June 30, 2015 currently projects that net interest income for the next twelve month period would decrease by 1.6% if interest rates were to fall immediately by 100 basis points, compared to a decrease of 1.8% for the same scenario as of December 31, 2014.

For rising rate scenarios, net interest income would increase by 1.2%, 1.0%, and decrease by 0.2% if rates increased by 100, 200 and 300 basis points, respectively, as of June 30, 2015 compared to increases of 1.9%, 2.1% and 0.9% in a 100, 200 and 300 basis point increasing rate environment as of December 31, 2014.

The balance sheet is asset sensitive as of June 30, 2015, slightly less than at December 31, 2014, based upon changes in the mix of various earning assets and costing liabilities, 2015 loan and transaction deposit account growth, an increase in short-term FHLB borrowings, the ESB transaction and certain changes in modeling assumptions. Should rates rise more rapidly and by a higher amount than currently anticipated in the short to intermediate term, overall asset sensitivity may be somewhat neutralized due to slower anticipated prepayment speeds and extension risk associated with residential mortgages and mortgage-backed securities. In addition, variable rate commercial loans with rate floors averaging 4.21% approximated \$1.1 billion at June 30, 2015, which represented approximately 37% of commercial loans. Approximately 58% or \$624.8 million of these loans are currently priced at their floor. Therefore, in a 100 basis point rising rate environment, these loans would not as significantly re-price from their current floor level as compared to non-floor loans. Due to lower loan and investment spreads as the yield curve dropped earlier this year, WesBanco expects that the base case net interest margin may contract somewhat from the second quarter due to the continued low interest rate environment, and a full period of the completion of the ESB replacement investment securities strategy, until sometime after rates begin to rise. A short-term rate increase is anticipated by late third quarter by a majority of economists as well as commentary from the Federal Reserve Board which should help the margin eventually improve assuming no earning asset or costing liability changes. Maturities of higher-costing certificates of deposit scheduled over the next year may somewhat mitigate potential compression from lower loan spreads and general loan re-pricing in an increasingly more competitive loan environment, along with anticipated loan growth in most loan categories. Of note, certificates of deposit totaling approximately \$1.1 billion mature within the next year at an average cost of 0.64%.

The Bank has significant additional borrowing capacity with the FHLB of Pittsburgh, the Federal Reserve Bank of Cleveland, and various correspondent banks, and may utilize these funding sources as necessary to lengthen liabilities, help offset mismatches in various asset maturities, and manage short-term cash needs. CDARS® and ICS® deposits also continue to be used to lengthen maturities in certificates of deposit, and for customers seeking higher yielding instruments and to maintain deposit balances below insured limits.

Current balance sheet strategies to reduce the potential for margin compression in the current rate environment include:

increasing total loans; primarily commercial and residential with fixed rate periods of between 3-15 years, or variable to a published index;

investing available short-term liquidity;

continuing marketing programs to increase consumer loans and transaction deposits versus certificates of deposit;

reinvestment of securities cash flows into new loans as demand warrants, or into other investments such as short and intermediate-term CMO pay structures, lower coupon MBS, and mid-term tax-exempt municipal securities;

extending term borrowings at current lower rates to balance asset/liability mismatches; and

extending a portion of CD maturities through the CDARS® program.

As an alternative to the immediate rate shock analysis, the ALCO monitors interest rate risk by ramping or increasing interest rates 200 basis points gradually over a twelve month period. WesBanco's current policy limits this exposure to 5.0% of net interest income from the base model for a twelve month period. Management believes that the ramping analysis reflects a more realistic movement of interest rates, whereas the immediate rate shock reflects a less likely scenario. The simulation model at June 30, 2015, using the 200 basis point increasing rate ramp



## Edgar Filing: WESBANCO INC - Form 10-Q

analysis, projects that net interest income would increase 2.1% over the next twelve months, compared to a 1.9% increase at December 31, 2014.

WesBanco also periodically measures the economic value of equity, which is defined as the market value of tangible equity in various increasing and decreasing rate scenarios. At June 30, 2015, the market value of tangible equity as a percent of base in a 200 basis point rising rate environment indicates an increase of 1.1%, compared to a increase of 6.0% at December 31, 2014. In a 100 basis point falling rate environment, the model indicates a decrease of 6.8%, compared to a decrease of 11.0% as of December 31, 2014. WesBanco's policy is to limit such change to minus 20% for a 200 basis point change in interest rates, as long as the Tier 1 leverage capital ratio is not forecasted to decrease below 5.0% as a result of the change. Balance sheet changes in loan and securities portfolios, new borrowings, transaction deposits and certificates of deposit, as well as certain other modeling assumptions, resulted in the change in equity market value from 2014.

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES** WesBanco's Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ) have concluded that WesBanco's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by WesBanco in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to WesBanco's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

**LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS** WesBanco's management, including the CEO and CFO, does not expect that WesBanco's disclosure controls and internal controls will prevent all errors and all fraud. While WesBanco's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objective, no control system, no matter how well conceived and operated, can provide absolute assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls.

**CHANGES IN INTERNAL CONTROLS** There were no changes in WesBanco's internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2015 as required to be reported by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, that materially affected, or are reasonably likely to materially affect, WesBanco's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS****Litigation Related to the ESB Merger**

On October 29, 2014, ESB and WesBanco entered into an Agreement and Plan of Merger (the Merger Agreement), providing for the merger of ESB with and into WesBanco, with WesBanco as the surviving corporation (the Merger). Each of ESB and WesBanco filed a definitive joint proxy statement/prospectus, dated as of December 11, 2014 (the Joint Proxy Statement/Prospectus), with the Securities and Exchange Commission in connection with the Merger. The Merger was consummated on February 10, 2015.

As previously reported by each of ESB and WesBanco on Current Reports on Form 8-K, each dated December 15, 2014 and filed on December 19, 2014, two putative class action complaints were filed by purported shareholders of ESB with respect to the Merger. One complaint was filed in the United States District Court for the Western District of Pennsylvania (the Federal District Court), and is captioned and numbered James Elliott vs. ESB Financial, Inc., et al., Case No. 2:14-cv-01689-MRH (the Federal Lawsuit). The other complaint was filed in the Court of Common Pleas of Lawrence County, Pennsylvania, and is captioned and numbered Randall Kress v. ESB Bank, Case No. 11185/14 CA (the Lawrence County Lawsuit). Both complaints alleged generally, among other things, that each member of ESB's board of directors (the Director Defendants) breached their fiduciary duties in approving the Merger Agreement, that ESB and WesBanco aided and abetted such breaches of fiduciary duty and that the disclosure regarding the Merger contained in the Joint Proxy Statement/Prospectus was materially deficient.

On January 15, 2015, solely to avoid the costs, risks and uncertainties inherent in litigation, ESB, ESB Bank, WesBanco and the Director Defendants (ESB, ESB Bank, WesBanco and the Director Defendants, collectively the Defendants) entered into a Memorandum of Settlement (the MOS) with the respective plaintiffs (collectively, the Plaintiffs) regarding the settlement of both the Federal Lawsuit and the Lawrence County Lawsuit. Pursuant to the MOS, ESB and WesBanco agreed to file with the SEC and make publicly available to shareholders of ESB and WesBanco supplemental disclosures provided on Form 8-K and the Plaintiffs agreed to release ESB, ESB Bank, WesBanco and the Director Defendants from all claims related to the Merger Agreement and the Merger, subject to approval of the Federal District Court. If the court approves the settlement contemplated in the MOS, both the Federal Lawsuit and the Lawrence County Lawsuit will be dismissed with prejudice, and all claims that were or could have been brought challenging any aspect of the Merger, the Merger Agreement, and any disclosure made in connection therewith will be released and barred. Under the terms of the MOS, counsel for the Plaintiffs reserved the right to seek an award of attorneys' fees and expenses. The Defendants have reserved the right to contest the fee and expense petition. The amount of any fees and expense awarded will ultimately be determined and approved by the court, and will not affect the amount of merger consideration paid by WesBanco. ESB or its successor or insurer will pay any fees and expenses awarded by the court. In the MOS, the parties agreed to negotiate in good faith to prepare a stipulation of settlement which was entered into by the parties and filed with the court on April 28, 2015 and other documentation as may be required to effectuate the settlement. By Order dated July 2, 2015, the Federal District Court made preliminary determinations regarding (i) certification of a class of ESB shareholders such that notice could be disseminated to class members relating to, among other things, the Federal Lawsuit, the Lawrence County Lawsuit, the proposed settlement contemplated in the MOS (the Settlement), a final hearing to approve the Settlement and the right of class members to participate in such hearing, and (ii) the role of Mr. Elliott and his counsel as Class Representative and Class Counsel, respectively. The Court has set a hearing to approve the Settlement on September 21, 2015. There can be no assurance that the court will approve the Settlement. The Settlement will become void in the event that the court does not approve the Settlement.

The Settlement did not affect the timing of the special meeting of shareholders of ESB held January 22, 2015 in Ellwood City, Pennsylvania to vote upon a proposal to adopt the Merger Agreement. Similarly, the Settlement did not affect the timing of the special meeting of shareholders of WesBanco held January 22, 2015 in Wheeling, West Virginia to vote on a proposal to approve the issuance of shares of WesBanco common stock in connection with the Merger. The shareholders of both corporations approved the Merger. ESB and the other Defendants deny all of the allegations in the lawsuits and believe the disclosures previously included in the Joint Proxy Statement/Prospectus were appropriate under the law. Nevertheless, ESB and the other Defendants have agreed to settle the putative class action lawsuits in order to avoid the costs, disruptions and distraction of further litigation.

ESB and the other Defendants have vigorously denied, and continue to vigorously deny, that they have committed or aided and abetted in the commission of any violation of law or engaged in any of the wrongful acts that were alleged in the lawsuits, and expressly maintain that, to the extent applicable, they diligently and scrupulously complied with their fiduciary and other legal burdens and entered into the MOS solely to eliminate the burden and expense of further litigation and to put the claims that were or could have been asserted to rest. Nothing in the MOS or any stipulation of settlement shall be deemed an admission of the legal necessity or materiality under applicable laws of any of the disclosures set forth therein. WesBanco does not believe that a material loss related to these claims is reasonably possible.

**Other Litigation**

WesBanco is also involved in lawsuits, claims, investigations and proceedings which arise in the ordinary course of business. While any litigation contains an element of uncertainty, WesBanco does not believe that a material loss related to such proceedings or claims pending or known to be threatened is reasonably possible.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

As of June 30, 2015, WesBanco had a current stock repurchase plan in which up to one million shares can be acquired. The plan was originally approved by the Board of Directors on March 21, 2007 and provides for shares to be repurchased for general corporate purposes, which may include a subsequent resource for potential acquisitions, shareholder dividend reinvestment and employee benefit plans. The timing, price and quantity of purchases are at the discretion of WesBanco, and the plan may be discontinued or suspended at any time. Repurchases during the second quarter of 2015 included those for the KSOP and dividend reinvestment plans and a repurchase to facilitate the payment of withholding taxes for employees vesting of restricted stock.

The following table presents the monthly share purchase activity during the quarter ended June 30, 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
Balance at March 31, 2015				340,049
<b>April 1, 2015 to April 30, 2015</b>				
Open market repurchases				340,049
Other transactions (1)	16,528	\$ 32.67	N/A	N/A
<b>May 1, 2015 to May 31, 2015</b>				
Open market repurchases				340,049
Other repurchases (2)	338	\$ 32.04	338	339,711
Other transactions (1)	2,623	\$ 31.64	N/A	N/A
<b>June 1, 2015 to June 30, 2015</b>				
Open market repurchases				339,711
Other repurchases (2)	11,649	\$ 31.35	11,649	328,062
Other transactions (1)	1,181	33.83	N/A	N/A
<b>Second Quarter 2015</b>				
Open market repurchases				340,049
Other repurchases (2)	11,987	\$ 31.36	11,987	328,062
Other transactions (1)	20,332	32.61	N/A	N/A
<b>Total</b>	<b>32,319</b>	<b>\$ 32.15</b>	<b>11,987</b>	<b>328,062</b>

(1) Consists of open market purchases transacted in the KSOP and dividend reinvestment plans.

(2) Consists of shares purchased from employees for the payment of withholding taxes to facilitate the vesting of restricted stock.

---

**Table of Contents**

**ITEM 6. EXHIBITS**

- 3.1 Articles of Amendment to WesBanco, Inc. Articles of Incorporation, dated April 24, 2015, increasing authorized common shares from 50,000,000 to 100,000,000.
- 10.1 Employment Agreement, dated March 1, 2015, by and between WesBanco Bank, Inc., Jayson M. Zatta, and WesBanco, Inc.\*
- 10.2 Amended and Restated Change in Control Agreement, dated July 25, 2008, by and between WesBanco Bank, Inc., Jayson M. Zatta, and WesBanco, Inc.\*
- 10.3 Public Warrant repurchase letter, dated May 6, 2015, by and between the U.S. Treasury and WesBanco, Inc. (incorporated by reference to Form 8-K filed by the Registrant with the Securities and Exchange Commission on May 6, 2015).
- 31.1 Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
- 31.2 Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-15(e) or Rule 15d-15(e).
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 The following materials from WesBanco's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at June 30, 2015 and December 31, 2014, (ii) the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014, (iii) the Consolidated Statements of Changes in Stockholders' Equity for the six months ended June 30, 2015 and 2014, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014, and (v) the Notes to Consolidated Financial Statements.

\* Indicates management compensatory plan, contract or arrangement.

**Table of Contents**

**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.

**WESBANCO, INC.**

Date: July 30, 2015

/s/ Todd F. Clossin  
Todd F. Clossin  
President and Chief Executive Officer

(Principal Executive Officer)

Date: July 30, 2015

/s/ Robert H. Young  
Robert H. Young  
Executive Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)