

WESBANCO INC  
Form 10-Q  
April 30, 2018  
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 March 31, 2018**

**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 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, a smaller reporting company, or an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes      No

As of April 23, 2018, there were 46,568,911 shares of WesBanco, Inc. common stock, \$2.0833 par value, outstanding.

**Table of Contents****WESBANCO, INC.****TABLE OF CONTENTS**

<b>Item</b>		<b>Page</b>
<b>No.</b>	<b>ITEM</b>	<b>No.</b>
	<b><u>PART I FINANCIAL INFORMATION</u></b>	
1	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets at March 31, 2018 (unaudited) and December 31, 2017</u>	3
	<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017 (unaudited)</u>	4
	<u>Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2018 and 2017 (unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017 (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>	48
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>	52
6	<u>Exhibits</u>	53
	<u>Signatures</u>	54

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

<i>(unaudited, in thousands, except shares)</i>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
<b>ASSETS</b>		
Cash and due from banks, including interest bearing amounts of <b>\$9,484</b> and \$19,826, respectively	<b>\$ 100,845</b>	\$ 117,572
Securities:		
Equity securities, at fair value	<b>13,986</b>	13,457
Available-for-sale debt securities, at fair value	<b>1,728,377</b>	1,261,865
Held-to-maturity debt securities (fair values of <b>\$1,005,502</b> and \$1,023,784, respectively)	<b>1,006,042</b>	1,009,500
<b>Total securities</b>	<b>2,748,405</b>	2,284,822
Loans held for sale	<b>12,962</b>	20,320
Portfolio loans, net of unearned income	<b>6,322,538</b>	6,341,441
Allowance for loan losses	<b>(46,334)</b>	(45,284)
<b>Net portfolio loans</b>	<b>6,276,204</b>	6,296,157
Premises and equipment, net	<b>128,583</b>	130,722
Accrued interest receivable	<b>31,963</b>	29,728
Goodwill and other intangible assets, net	<b>588,339</b>	589,264
Bank-owned life insurance	<b>191,839</b>	192,589
Other assets	<b>166,279</b>	155,004
<b>Total Assets</b>	<b>\$ 10,245,419</b>	\$ 9,816,178
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing demand	<b>\$ 1,950,619</b>	\$ 1,846,748
Interest bearing demand	<b>1,768,977</b>	1,625,015
Money market	<b>984,429</b>	1,024,856
Savings deposits	<b>1,314,632</b>	1,269,912
Certificates of deposit	<b>1,207,669</b>	1,277,057

Edgar Filing: WESBANCO INC - Form 10-Q

Total deposits	7,226,326	7,043,588
Federal Home Loan Bank borrowings	1,166,939	948,203
Other short-term borrowings	207,653	184,805
Subordinated debt and junior subordinated debt	164,379	164,327
<b>Total borrowings</b>	<b>1,538,971</b>	<b>1,297,335</b>
Accrued interest payable	4,033	3,178
Other liabilities	73,063	76,756
<b>Total Liabilities</b>	<b>8,842,393</b>	<b>8,420,857</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> shares authorized in 2018 and 2017, respectively; <b>44,060,957</b> and 44,043,244 shares issued, respectively; <b>44,060,957</b> and 44,043,244 shares outstanding, respectively	91,793	91,756
Capital surplus	686,169	684,730
Retained earnings	673,174	651,357
Treasury stock ( <b>0</b> shares in 2018 and 2017, respectively, at cost)		
Accumulated other comprehensive loss	(47,076)	(31,495)
Deferred benefits for directors	(1,034)	(1,027)
<b>Total Shareholders Equity</b>	<b>1,403,026</b>	<b>1,395,321</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 10,245,419</b>	<b>\$ 9,816,178</b>

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 March 31,	
	2018	2017
<b>INTEREST AND DIVIDEND INCOME</b>		
Loans, including fees	\$ 69,237	\$ 64,898
Interest and dividends on securities:		
Taxable	11,543	9,596
Tax-exempt	4,834	4,891
Total interest and dividends on securities	16,377	14,487
Other interest income	803	539
Total interest and dividend income	86,417	79,924
<b>INTEREST EXPENSE</b>		
Interest bearing demand deposits	2,524	1,093
Money market deposits	878	574
Savings deposits	189	181
Certificates of deposit	2,536	2,411
Total interest expense on deposits	6,127	4,259
Federal Home Loan Bank borrowings	4,498	2,836
Other short-term borrowings	558	297
Subordinated debt and junior subordinated debt	1,942	1,813
Total interest expense	13,125	9,205
<b>NET INTEREST INCOME</b>	<b>73,292</b>	<b>70,719</b>
Provision for credit losses	2,168	2,711
Net interest income after provision for credit losses	71,124	68,008
<b>NON-INTEREST INCOME</b>		
Trust fees	6,503	6,143
Service charges on deposits	4,822	4,853
Electronic banking fees	4,829	4,528
Net securities brokerage revenue	1,670	1,762
Bank-owned life insurance	2,756	1,140
Mortgage banking income	1,004	1,440
Net securities (losses) gains	(39)	12

Edgar Filing: WESBANCO INC - Form 10-Q

Net gain (loss) on other real estate owned and other assets	<b>262</b>	(76)
Other income	<b>2,173</b>	3,082
Total non-interest income	<b>23,980</b>	22,884
<b>NON-INTEREST EXPENSE</b>		
Salaries and wages	<b>25,006</b>	23,002
Employee benefits	<b>6,912</b>	8,210
Net occupancy	<b>4,656</b>	4,327
Equipment	<b>3,949</b>	4,042
Marketing	<b>1,116</b>	824
FDIC insurance	<b>658</b>	827
Amortization of intangible assets	<b>1,086</b>	1,273
Restructuring and merger-related expense	<b>245</b>	491
Other operating expenses	<b>10,943</b>	11,388
Total non-interest expense	<b>54,571</b>	54,384
Income before provision for income taxes	<b>40,533</b>	36,508
Provision for income taxes	<b>7,004</b>	10,622
<b>NET INCOME</b>	<b>\$ 33,529</b>	\$ 25,886
<b>EARNINGS PER COMMON SHARE</b>		
Basic	<b>\$ 0.76</b>	\$ 0.59
Diluted	<b>\$ 0.76</b>	\$ 0.59
<b>AVERAGE COMMON SHARES OUTSTANDING</b>		
Basic	<b>44,050,701</b>	43,947,563
Diluted	<b>44,168,242</b>	44,020,765
<b>DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 0.29</b>	\$ 0.26
<b>COMPREHENSIVE INCOME</b>	<b>\$ 19,011</b>	\$ 28,171

See Notes to Consolidated Financial Statements.

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

For the Three Months Ended March 31, 2018 and 2017

<i>(unaudited, in thousands, except shares and per share amounts)</i>	Common Stock			Retained Earnings	Accumulated Other Comprehensive Income		Deferred Benefits for Directors	Total
	Shares Outstanding	Amount	Capital Surplus		Treasury Stock	(Loss)		
December 31, 2017	44,043,244	\$ 91,756	\$ 684,730	\$ 651,357	\$ (31,495)	\$ (1,027)	\$ 1,395,321	
Net income				33,529			33,529	
Other comprehensive income					(14,518)		(14,518)	
Comprehensive income							19,011	
Common dividends declared (\$0.29 per share)				(12,775)			(12,775)	
Adoption of accounting standard ASU 2016-01				1,063	(1,063)			
Stock options exercised	17,713	37	523				560	
Stock compensation expense			909				909	
Deferred benefits for directors- net			7			(7)		
March 31, 2018	44,060,957	\$ 91,793	\$ 686,169	\$ 673,174	\$ (47,076)	\$ (1,034)	\$ 1,403,026	
December 31, 2016	43,931,715	\$ 91,524	\$ 680,507	\$ 597,071	\$ (27,126)	\$ (568)	\$ 1,341,408	
Net income				25,886			25,886	
Other comprehensive income					2,285		2,285	
Comprehensive income							28,171	
Common dividends declared (\$0.26 per share)				(11,429)			(11,429)	
Stock options exercised	17,634	36	490				526	
Restricted stock granted	3,702	8	(8)					
Stock compensation expense			477				477	
Deferred benefits for directors- net			5			(5)		
March 31, 2017	43,953,051	\$ 91,568	\$ 681,471	\$ 611,528	\$ (24,841)	\$ (573)	\$ 1,359,153	

See Notes to Consolidated Financial Statements.



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

<i>(unaudited, in thousands)</i>	<b>For the Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 32,371</b>	<b>\$ 47,508</b>
<b>INVESTING ACTIVITIES</b>		
Net decrease (increase) in loans held for investment	<b>19,923</b>	(63,701)
Debt securities available-for-sale:		
Proceeds from maturities, prepayments and calls	<b>53,496</b>	59,043
Purchases of securities	<b>(540,624)</b>	(41,742)
Debt securities held-to-maturity:		
Proceeds from maturities, prepayments and calls	<b>17,121</b>	24,367
Purchases of securities	<b>(15,343)</b>	(16,023)
Equity securities:		
Purchases of securities	<b>(558)</b>	
Proceeds from bank-owned life insurance	<b>3,506</b>	
Purchases of premises and equipment net	<b>(328)</b>	(2,311)
Net cash used in investing activities	<b>(462,807)</b>	(40,367)
<b>FINANCING ACTIVITIES</b>		
Increase in deposits	<b>183,012</b>	105,344
Proceeds from Federal Home Loan Bank borrowings	<b>375,000</b>	170,000
Repayment of Federal Home Loan Bank borrowings	<b>(156,261)</b>	(201,825)
Increase (decrease) in other short-term borrowings	<b>27,848</b>	(25,733)
Decrease in federal funds purchased	<b>(5,000)</b>	(58,000)
Dividends paid to common shareholders	<b>(11,450)</b>	(10,539)
Issuance of common stock	<b>560</b>	526
Net cash provided by (used in) financing activities	<b>413,709</b>	(20,227)
Net decrease in cash and cash equivalents	<b>(16,727)</b>	(13,086)
Cash and cash equivalents at beginning of the period	<b>117,572</b>	128,170
Cash and cash equivalents at end of the period	<b>\$ 100,845</b>	\$ 115,084
<b>SUPPLEMENTAL DISCLOSURES</b>		
Interest paid on deposits and other borrowings	<b>\$ 12,496</b>	\$ 9,441
Income taxes paid		250
Transfers of loans to other real estate owned		77

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, 2017.

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 2017 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. Certain prior period amounts have been reclassified to conform to the current period presentation. Such reclassifications had no impact on WesBanco's net income and stockholders' equity. 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 August 2017, the FASB issued ASU No. 2017-12, Targeted Improvements to Accounting for Hedging Activities. The new guidance will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. WesBanco is assessing the impact of ASU 2017-12 on WesBanco's Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-07 that changes how an employer presents the net periodic benefit cost in the income statement for an employer-sponsored defined benefit pension and/or other postretirement benefit plans. Employers will present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line items that includes the service cost outside of any subtotal of operating income, if one is presented. These components will not be eligible for capitalization in assets. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted as of the beginning of an annual period (i.e., only in the first interim period). For WesBanco, this update was effective for the fiscal year beginning January 1, 2018. Upon adoption, WesBanco reclassified the service cost component from employee benefits to salaries and wages, which are both components of non-interest expense. The service cost component for the three months ended March 31, 2018 was \$0.7 million.

In January 2017, the FASB issued ASU No. 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, which for WesBanco was effective for the fiscal year beginning January 1, 2018. The adoption of this pronouncement did not have a material impact on WesBanco's Consolidated

Financial Statements.

In October 2016, the FASB issued ASU 2016-16 that provides the recognition of income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Current guidance prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in generally accepted accounting principles. The exception has led to diversity in practice and is a source of complexity in financial reporting. FASB decided that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this update do not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods, which for WesBanco was effective for the fiscal year beginning January 1, 2018. The amendments in this update should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The adoption of this pronouncement did not have a material impact on WesBanco's Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15 that provides guidance for the classification of cash flows related to (1) debt prepayment or extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon rates that are insignificant in relation to the effective interest rate on the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions and (8) separately identifiable cash flows and application of the predominance principle. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, which for WesBanco was effective for the fiscal year beginning January 1, 2018. Early adoption is permitted. The adoption of this pronouncement did not have a material impact on WesBanco's Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13 that will require entities to use a new forward-looking expected loss model on trade and other receivables, held-to-maturity debt securities, loans and other instruments that generally will result in the earlier recognition of allowances for credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. Entities will have to disclose

---

**Table of Contents**

significantly more information, including information they use to track credit quality by year of origination for most financing receivables. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which for WesBanco will be effective for the fiscal year beginning January 1, 2020. Early adoption is permitted for fiscal years beginning after December 15, 2018. WesBanco is currently evaluating the impact of the adoption of this pronouncement on WesBanco's Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02 that will require entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases were not previously recognized in the balance sheet. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. In January 2018, the FASB issued ASU 2018-01, which allows entities the option to apply the provisions of the new lease guidance at the effective date without adjusting the comparative periods presented. While we are currently assessing the impact of the adoption of this pronouncement, we expect the primary impact to our consolidated financial position upon adoption will be the recognition, on a discounted basis, of our minimum commitments under non-cancellable operating leases on our consolidated Balance Sheets resulting in the recording of right of use assets and lease obligations.

In January 2016, the FASB issued ASU 2016-01 that will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The standard does not change the guidance for classifying and measuring investments in debt securities and loans. Entities will have to record changes in instrument-specific credit risk for financial liabilities measured under the fair value option in other comprehensive income. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. In February 2018, the FASB issued ASU 2018-03, which clarifies certain aspects of the guidance issued in ASU 2016-01. WesBanco adopted these pronouncements as of January 1, 2018 and recognized a \$1.1 million adjustment to retained earnings upon adoption of this pronouncement. In addition, WesBanco reclassified investment securities on the Consolidated Financial Statements into the following equity securities, available-for-sale debt securities and held-to-maturity debt securities.

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. 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. In March 2016, the FASB issued ASU 2016-08, which amends the principle versus agent guidance in the revenue standard. In April 2016, the FASB issued ASU 2016-10, which clarifies when promised goods or services are separately identifiable in the revenue standard. In May 2016, FASB issued ASU 2016-12, which provides narrow-scope improvements and practical expedients to the revenue standard. WesBanco adopted these pronouncements as of January 1, 2018 using the modified retrospective approach. WesBanco noted no material change to the timing of revenue recognition and there was no material impact on WesBanco's Consolidated Financial Statements. See Note 8, Revenue Recognition for further discussion on revenue within the scope of ASC 606.



**Table of Contents****NOTE 2. 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 March 31,	
	2018	2017
Numerator for both basic and diluted earnings per common share:		
Net income	\$ 33,529	\$ 25,886
Denominator:		
Total average basic common shares outstanding	44,050,701	43,947,563
Effect of dilutive stock options and other stock compensation	117,541	73,202
Total diluted average common shares outstanding	44,168,242	44,020,765
Earnings per common share basic	\$ 0.76	\$ 0.59
Earnings per common share diluted	\$ 0.76	\$ 0.59

All options to purchase shares were included in the diluted shares computation for the three months ended March 31, 2018 and March 31, 2017.

As of March 31, 2018, contingently issuable shares, totaling 39,216, were estimated to be awarded under the 2018, 2017 and 2016 total shareholder return plans as stock performance targets were met and are included in the diluted calculation. As of March 31, 2017, the shares related to the 2017 and 2016 total shareholder return plans were not included in the calculation because the effect would be antidilutive. Performance based restricted stock compensation totaling 9,000 shares were estimated to be awarded as of March 31, 2018 and are included in the diluted calculation. No performance base restricted stock had been granted as of March 31, 2017.

**NOTE 3. SECURITIES**

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

<i>(unaudited, in thousands)</i>	March 31, 2018			December 31, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale debt securities								
U.S. Treasury	\$ 9,900	\$	\$ (6)	\$ 9,894	\$	\$	\$	\$
U.S. Government sponsored entities and	98,166	1	(1,709)	96,458	72,425	24	(606)	71,843

agencies								
Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	<b>1,377,904</b>	<b>214</b>	<b>(33,708)</b>	<b>1,344,410</b>	954,115	214	(19,407)	934,922
Commerical mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	<b>144,568</b>	<b>19</b>	<b>(3,661)</b>	<b>140,926</b>	116,448	4	(1,585)	114,867
Obligations of states and political subdivisions	<b>100,531</b>	<b>2,093</b>	<b>(1,193)</b>	<b>101,431</b>	102,363	2,927	(460)	104,830
Corporate debt securities	<b>35,219</b>	<b>170</b>	<b>(131)</b>	<b>35,258</b>	35,234	228	(59)	35,403
Total available-for-sale debt securities	<b>\$ 1,766,288</b>	<b>\$ 2,497</b>	<b>\$ (40,408)</b>	<b>\$ 1,728,377</b>	\$ 1,280,585	\$ 3,397	\$ (22,117)	\$ 1,261,865
Held-to-maturity debt securities								
U.S. Government sponsored entities and agencies	<b>\$ 11,263</b>	<b>\$</b>	<b>\$ (373)</b>	<b>\$ 10,890</b>	\$ 11,465	<b>\$</b>	<b>\$ (325)</b>	<b>\$ 11,140</b>
Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	<b>162,904</b>	<b>301</b>	<b>(4,987)</b>	<b>158,218</b>	170,025	544	(2,609)	167,960
Obligations of states and political subdivisions	<b>798,536</b>	<b>10,510</b>	<b>(5,838)</b>	<b>803,208</b>	794,655	17,364	(1,609)	810,410
Corporate debt securities	<b>33,339</b>	<b>82</b>	<b>(235)</b>	<b>33,186</b>	33,355	919		34,274
Total held-to-maturity debt securities	<b>\$ 1,006,042</b>	<b>\$ 10,893</b>	<b>\$ (11,433)</b>	<b>\$ 1,005,502</b>	\$ 1,009,500	\$ 18,827	\$ (4,543)	\$ 1,023,784
Total debt securities	<b>\$ 2,772,330</b>	<b>\$ 13,390</b>	<b>\$ (51,841)</b>	<b>\$ 2,733,879</b>	\$ 2,290,085	\$ 22,224	\$ (26,660)	\$ 2,285,649

At March 31, 2018, and December 31, 2017, there were no holdings of any one issuer, other than U.S. government sponsored entities and its agencies, in an amount greater than 10% of WesBanco's shareholders' equity.

Equity securities, of which some consist of investments in various mutual funds held in grantor trusts formed in connection with the Company's deferred compensation plan, are recorded at fair value and totaled \$14.0 million and \$13.5 million, at March 31, 2018 and December 31, 2017, respectively.





**Table of Contents**

The following table presents the fair value of available-for-sale and held-to-maturity debt securities by contractual maturity at March 31, 2018. 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>	March 31, 2018					
	One Year or less	One to Five Years	Five to Ten Years	After Ten Years	Mortgage-backed securities	Total
Available-for-sale debt securities						
U.S. Treasury	\$ 9,894	\$	\$	\$	\$	\$ 9,894
U.S. Government sponsored entities and agencies	9,945	1,961	16,671	6,864	61,017	96,458
Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies <sup>(1)</sup>					1,344,410	1,344,410
Commercial mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies <sup>(1)</sup>					140,926	140,926
Obligations of states and political subdivisions	3,686	17,368	40,161	40,216		101,431
Corporate debt securities	3,991	26,299	4,968			35,258
Total available-for-sale debt securities	\$ 27,516	\$ 45,628	\$ 61,800	\$ 47,080	\$ 1,546,353	\$ 1,728,377
Held-to-maturity debt securities <sup>(2)</sup>						
U.S. Government sponsored entities and agencies	\$	\$	\$	\$	\$ 10,890	\$ 10,890
Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies <sup>(1)</sup>					158,218	158,218
Obligations of states and political subdivisions	6,872	114,768	398,845	282,723		803,208
Corporate debt securities		7,504	25,682			33,186
Total held-to-maturity debt securities	\$ 6,872	\$ 122,272	\$ 424,527	\$ 282,723	\$ 169,108	\$ 1,005,502
Total debt securities	\$ 34,388	\$ 167,900	\$ 486,327	\$ 329,803	\$ 1,715,461	\$ 2,733,879

(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) The held-to-maturity debt securities portfolio is carried at an amortized cost of \$1.0 billion.

Edgar Filing: WESBANCO INC - Form 10-Q

Securities with aggregate fair values of \$1.5 billion and \$1.4 billion at March 31, 2018 and December 31, 2017, respectively, were pledged as security for public and trust funds, and securities sold under agreements to repurchase. There were no sales of available-for-sale debt securities for the three months ended March 31, 2018 and 2017, respectively. Net unrealized losses on available-for-sale debt securities included in accumulated other comprehensive income net of tax, as of March 31, 2018 and December 31, 2017 were \$29.2 million and \$13.3 million, respectively.

The following table presents the gross realized gains and losses on sales and calls of available-for-sale and held-to-maturity debt securities, as well as gains and losses on equity securities for the three months ended March 31, 2018 and 2017, respectively.

<i>(unaudited, in thousands)</i>	<b>For the Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Debt securities:</b>		
Gross realized gains	\$ 7	\$ 12
Gross realized losses	(18)	
Net (losses) gains on debt securities	\$ (11)	\$ 12
<b>Equity securities:</b>		
Unrealized (losses) gains recognized on securities still held	\$ (28)	\$
Net realized (losses) gains recognized on securities sold		
Net (losses) gains on equity securities	\$ (28)	\$
Net securities (losses) gains	\$ (39)	\$ 12

**Table of Contents**

The following tables provide information on unrealized losses on debt securities that have been in an unrealized loss position for less than twelve months and twelve months or more as of March 31, 2018 and December 31, 2017:

<i>(unaudited, dollars in thousands)</i>	March 31, 2018								
	Less than 12 months			12 months or more			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
U.S. Treasury	\$ 9,894	\$ (6)	1	\$	\$		\$ 9,894	\$ (6)	1
U.S. Government sponsored entities and agencies	59,280	(1,129)	8	41,203	(953)	8	100,483	(2,082)	16
Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	785,806	(13,021)	128	602,202	(25,674)	195	1,388,008	(38,695)	323
Commercial mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	101,309	(2,780)	12	23,376	(881)	4	124,685	(3,661)	16
Obligations of states and political subdivisions	335,762	(4,776)	527	72,751	(2,255)	152	408,513	(7,031)	679
Corporate debt securities	35,405	(352)	12	1,974	(14)	1	37,379	(366)	13
<b>Total temporarily impaired securities</b>	<b>\$ 1,327,456</b>	<b>\$ (22,064)</b>	<b>688</b>	<b>\$ 741,506</b>	<b>\$ (29,777)</b>	<b>360</b>	<b>\$ 2,068,962</b>	<b>\$ (51,841)</b>	<b>1,048</b>

<i>(unaudited, dollars in thousands)</i>	December 31, 2017								
	Less than 12 months			12 months or more			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
U.S. Government sponsored entities and agencies	\$ 24,776	\$ (160)	4	\$ 42,248	\$ (771)	8	\$ 67,024	\$ (931)	12
Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	423,794	(5,039)	87	637,461	(16,977)	193	1,061,255	(22,016)	280
Commercial mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	79,061	(1,089)	10	27,852	(496)	6	106,913	(1,585)	16
Obligations of states and political subdivisions	132,831	(852)	210	77,554	(1,217)	160	210,385	(2,069)	370

Corporate debt securities	4,015	(19)	1	1,948	(40)	1	5,963	(59)	2
Total temporarily impaired securities	\$ 664,477	\$ (7,159)	312	\$ 787,063	\$ (19,501)	368	\$ 1,451,540	\$ (26,660)	680

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 substantially all debt securities are rated above 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, Cincinnati and Indianapolis stock totaling \$55.6 million and \$45.9 million at March 31, 2018 and December 31, 2017, 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 4. 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, and discounts on purchased loans. The net deferred loan costs were \$1.9 million and \$1.6 million at March 31, 2018 and December 31, 2017, respectively. The unamortized discount on purchased loans from acquisitions was \$20.8 million, including \$10.0 million related to YCB, and \$21.9 million at March 31, 2018 and December 31, 2017, respectively.

<i>(unaudited, in thousands)</i>	March 31, 2018	December 31, 2017
Commercial real estate:		
Land and construction	\$ 440,896	\$ 392,597
Improved property	2,574,330	2,601,851
Total commercial real estate	3,015,226	2,994,448
Commercial and industrial	1,118,333	1,125,327
Residential real estate	1,345,993	1,353,301
Home equity	523,425	529,196
Consumer	319,561	339,169
Total portfolio loans	6,322,538	6,341,441
Loans held for sale	12,962	20,320
Total loans	\$ 6,335,500	\$ 6,361,761

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

<i>(unaudited, in thousands)</i>	Allowance for Credit Losses By Category For the Three Months Ended March 31, 2018 and 2017							Total
	Commercial Real Estate- Land and Construction	Commercial Real Estate- Improved Property & Industrial	Commercial Real Estate	Residential Real Estate	Home Equity	Consumer	Deposit Overdraft	
Balance at December 31, 2017:								
Allowance for loan losses	\$ 3,117	\$ 21,166	\$ 9,414	\$ 3,206	\$ 4,497	\$ 3,063	\$ 821	\$ 45,284
Allowance for loan commitments	119	26	173	7	212	37		574
	3,236	21,192	9,587	3,213	4,709	3,100	821	45,858

Edgar Filing: WESBANCO INC - Form 10-Q

Total beginning allowance for credit losses

Provision for credit losses:								
Provision for loan losses	1,090	(895)	919	202	262	583	(48)	2,113
Provision for loan commitments	57	(5)	3		(4)	4		55
Total provision for credit losses	1,147	(900)	922	202	258	587	(48)	2,168
Charge-offs		(279)	(109)	(287)	(576)	(1,125)	(267)	(2,643)
Recoveries	117	287	270	131	120	546	109	1,580
Net charge-offs	117	8	161	(156)	(456)	(579)	(158)	(1,063)
Balance at March 31, 2018:								
Allowance for loan losses	4,324	20,279	10,494	3,252	4,303	3,067	615	46,334
Allowance for loan commitments	176	21	176	7	208	41		629
Total ending allowance for credit losses	\$ 4,500	\$ 20,300	\$ 10,670	\$ 3,259	\$ 4,511	\$ 3,108	\$ 615	\$ 46,963
Balance at December 31, 2016:								
Allowance for loan losses	\$ 4,348	\$ 18,628	\$ 8,412	\$ 4,106	\$ 3,422	\$ 3,998	\$ 760	\$ 43,674
Allowance for loan commitments	151	17	188	9	162	44		571
Total beginning allowance for credit losses	4,499	18,645	8,600	4,115	3,584	4,042	760	44,245
Provision for credit losses:								
Provision for loan losses	(425)	983	832	330	365	583	66	2,734
Provision for loan commitments	(8)		(31)	1	17	(2)		(23)
Total provision for credit losses	(433)	983	801	331	382	581	66	2,711
Charge-offs		(602)	(880)	(404)	(108)	(1,287)	(338)	(3,619)
Recoveries	52	251	376	78	48	369	98	1,272
Net charge-offs	52	(351)	(504)	(326)	(60)	(918)	(240)	(2,347)
Balance at March 31, 2017:								
Allowance for loan losses	3,975	19,260	8,740	4,110	3,727	3,663	586	44,061
Allowance for loan commitments	143	17	157	10	179	42		548

Edgar Filing: WESBANCO INC - Form 10-Q

Total ending allowance for  
credit losses

\$ 4,118	\$ 19,277	\$ 8,897	\$ 4,120	\$ 3,906	\$ 3,705	\$ 586	\$ 44,609
----------	-----------	----------	----------	----------	----------	--------	-----------



**Table of Contents**

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

	Allowance for Credit Losses and Recorded Investment in Loans							
	Commercial		Commercial			Deposit		
	Real Estate- Land and Construction	Real Estate- Improved Property	Commercial and Industrial	Residential Real Estate	Home Equity	Consumer	Over- draft	Total
<b>(unaudited, in thousands)</b>								
<b>March 31, 2018</b>								
Allowance for credit losses:								
Allowance for loans individually evaluated for impairment	\$	\$ 387	\$	\$	\$	\$	\$	\$ 387
Allowance for loans collectively evaluated for impairment	4,324	19,892	10,494	3,252	4,303	3,067	615	45,947
Allowance for loan commitments	176	21	176	7	208	41		629
Total allowance for credit losses	\$ 4,500	\$ 20,300	\$ 10,670	\$ 3,259	\$ 4,511	\$ 3,108	\$ 615	\$ 46,963
Portfolio loans:								
Individually evaluated for impairment <sup>(1)</sup>	\$	\$ 2,104	\$	\$	\$	\$	\$	\$ 2,104
Collectively evaluated for impairment	439,480	2,567,367	1,117,607	1,345,290	523,425	319,561		6,312,730
Acquired with deteriorated credit quality	1,416	4,859	726	703				7,704
Total portfolio loans	\$ 440,896	\$ 2,574,330	\$ 1,118,333	\$ 1,345,993	\$ 523,425	\$ 319,561	\$	\$ 6,322,538
<b>December 31, 2017</b>								
Allowance for credit losses:								
Allowance for loans individually evaluated for impairment	\$	\$ 388	\$	\$	\$	\$	\$	\$ 388
Allowance for loans collectively evaluated for impairment	3,117	20,778	9,414	3,206	4,497	3,063	821	44,896
Allowance for loan commitments	119	26	173	7	212	37		574

Edgar Filing: WESBANCO INC - Form 10-Q

Total allowance for credit losses	\$ 3,236	\$ 21,192	\$ 9,587	\$ 3,213	\$ 4,709	\$ 3,100	\$ 821	\$ 45,858
Portfolio loans:								
Individually evaluated for impairment <sup>(1)</sup>	\$	\$ 3,344	\$	\$	\$	\$	\$	\$ 3,344
Collectively evaluated for impairment	391,140	2,593,393	1,124,544	1,352,587	529,196	339,163		6,330,023
Acquired with deteriorated credit quality	1,457	5,114	783	714		6		8,074
Total portfolio loans	\$ 392,597	\$ 2,601,851	\$ 1,125,327	\$ 1,353,301	\$ 529,196	\$ 339,169	\$	\$ 6,341,441

<sup>(1)</sup> Commercial loans greater than \$1 million that are reported as non-accrual or as a TDR are individually evaluated for impairment.

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.

Commercial and industrial loans consist of revolving lines of credit to finance accounts receivable, inventory and other general business purposes; term loans to finance fixed assets other than real estate, and letters of credit to support trade, insurance or governmental requirements for a variety of businesses. Most C&I borrowers are privately-held companies with annual sales up to \$100 million. 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.

**Table of Contents**

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.

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:

	<b>Commercial Loans by Internally Assigned Risk Grade</b>			
	<b>Commercial Real Estate- Land and Construction</b>	<b>Commercial Real Estate- Improved Property</b>	<b>Commercial &amp; Industrial</b>	<b>Total Commercial Loans</b>
<i>(unaudited, in thousands)</i>				
<b>As of March 31, 2018</b>				
Pass	\$ 434,665	\$ 2,526,334	\$ 1,104,209	\$ 4,065,208
Criticized - compromised	3,384	24,807	5,594	33,785
Classified - substandard	2,847	23,189	8,530	34,566
Classified - doubtful				
<b>Total</b>	<b>\$ 440,896</b>	<b>\$ 2,574,330</b>	<b>\$ 1,118,333</b>	<b>\$ 4,133,559</b>
<b>As of December 31, 2017</b>				
Pass	\$ 386,753	\$ 2,548,805	\$ 1,110,267	\$ 4,045,825
Criticized - compromised	2,984	25,673	7,435	36,092
Classified - substandard	2,860	27,373	7,625	37,858
Classified - doubtful				
<b>Total</b>	<b>\$ 392,597</b>	<b>\$ 2,601,851</b>	<b>\$ 1,125,327</b>	<b>\$ 4,119,775</b>

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 was \$19.4 million at March 31, 2018 and \$22.8 million at December 31, 2017, of which \$1.0 and \$2.5 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.

**Acquired YCB Loans** The carrying amount of loans acquired from YCB with deteriorated credit quality at March 31, 2018 and December 31, 2017 was \$4.2 million and \$4.3 million, respectively, of which \$0.7 million and \$0.8 million, respectively, were accounted for under the cost recovery method in accordance with ASC 310-30 as cash flows cannot be reasonably estimated, and therefore are categorized as non-accrual. At March 31, 2018, the accretable yield was \$1.3 million. At March 31, 2018 and December 31, 2017, an allowance for loan loss of \$0.2 million and \$0, respectively, has been recognized related to the YCB acquired impaired loans, as the estimates for future cash flows on these loans have been negatively impacted.

**Acquired ESB Loans** The carrying amount of loans acquired from ESB with deteriorated credit quality at March 31, 2018 and December 31, 2017 was \$3.5 million and \$3.7 million, respectively, of which \$3.5 million for both periods was accounted for under the cost recovery method in accordance with ASC 310-30 as cash flows cannot be reasonably estimated, and therefore were categorized as non-accrual. At March 31, 2018, the accretable yield was \$2.9 million. At March 31, 2018 and December 31, 2017 an allowance for loan loss of \$2.0 million has been recognized related to the ESB acquired impaired loans, as the estimates for future cash flows on these loans have been negatively impacted.

**Table of Contents**

The following table provides changes in accretable yield for loans acquired with deteriorated credit quality:

<i>(unaudited, in thousands)</i>	For the Three Months Ended	
	March 31, 2018	March 31, 2017
Balance at beginning of period	\$ 1,724	\$ 1,717
Acquisitions		
Reduction due to change in projected cash flows	(86)	(200)
Reclass from non-accretable difference	2,841	174
Transfers out		
Accretion	(268)	(151)
Balance at end of period	\$ 4,211	\$ 1,540

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

<i>(unaudited, in thousands)</i>	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		
<b>As of March 31, 2018</b>							
Commercial real estate:							
Land and construction	\$ 439,926	\$	\$	\$ 970	\$ 970	\$ 440,896	\$ 172
Improved property	2,559,491	4,431	528	9,880	14,839	2,574,330	364
Total commercial real estate	2,999,417	4,431	528	10,850	15,809	3,015,226	536
Commercial and industrial	1,115,453	667	201	2,012	2,880	1,118,333	21
Residential real estate	1,333,175	3,860	1,618	7,340	12,818	1,345,993	561
Home equity	517,172	2,654	682	2,917	6,253	523,425	251
Consumer	316,517	1,950	432	662	3,044	319,561	210
Total portfolio loans	6,281,734	13,562	3,461	23,781	40,804	6,322,538	1,579
Loans held for sale	12,962					12,962	
Total loans	\$ 6,294,696	\$ 13,562	\$ 3,461	\$ 23,781	\$ 40,804	\$ 6,335,500	\$ 1,579
Impaired loans included above are as follows:							
Non-accrual loans	\$ 8,120	\$ 1,310	\$ 754	\$ 22,202	\$ 24,266	\$ 32,386	
TDRs accruing interest (1)	6,435	230	193		423	6,858	
Total impaired	\$ 14,555	\$ 1,540	\$ 947	\$ 22,202	\$ 24,689	\$ 39,244	

**As of December 31, 2017**

## Commercial real estate:

Land and construction	\$ 392,189	\$	\$ 172	\$ 236	\$ 408	\$ 392,597	\$
Improved property	2,589,704	374	1,200	10,573	12,147	2,601,851	243
<b>Total commercial real estate</b>	<b>2,981,893</b>	<b>374</b>	<b>1,372</b>	<b>10,809</b>	<b>12,555</b>	<b>2,994,448</b>	<b>243</b>
Commercial and industrial	1,121,957	572	196	2,602	3,370	1,125,327	20
Residential real estate	1,338,240	4,487	2,376	8,198	15,061	1,353,301	1,113
Home equity	522,584	2,135	683	3,794	6,612	529,196	742
Consumer	334,723	2,466	842	1,138	4,446	339,169	608
<b>Total portfolio loans</b>	<b>6,299,397</b>	<b>10,034</b>	<b>5,469</b>	<b>26,541</b>	<b>42,044</b>	<b>6,341,441</b>	<b>2,726</b>
Loans held for sale	20,320					20,320	

<b>Total loans</b>	<b>\$ 6,319,717</b>	<b>\$ 10,034</b>	<b>\$ 5,469</b>	<b>\$ 26,541</b>	<b>\$ 42,044</b>	<b>\$ 6,361,761</b>	<b>\$ 2,726</b>
--------------------	---------------------	------------------	-----------------	------------------	------------------	---------------------	-----------------

## Impaired loans included above are as follows:

Non-accrual loans	\$ 9,195	\$ 1,782	\$ 2,033	\$ 23,815	\$ 27,630	\$ 36,825
TDRs accruing interest <sup>(1)</sup>	6,055	348	168		516	6,571
<b>Total impaired</b>	<b>\$ 15,250</b>	<b>\$ 2,130</b>	<b>\$ 2,201</b>	<b>\$ 23,815</b>	<b>\$ 28,146</b>	<b>\$ 43,396</b>

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

**Table of Contents**

The following tables summarize impaired loans:

	<b>Impaired Loans</b>					
	<b>March 31, 2018</b>			<b>December 31, 2017</b>		
	<b>Unpaid</b>			<b>Unpaid</b>		
	<b>Principal</b>	<b>Recorded</b>	<b>Related</b>	<b>Principal</b>	<b>Recorded</b>	<b>Related</b>
<i>(unaudited, in thousands)</i>	<b>Balance <sup>(1)</sup></b>	<b>Investment</b>	<b>Allowance</b>	<b>Balance <sup>(1)</sup></b>	<b>Investment</b>	<b>Allowance</b>
<b>With no related specific allowance recorded:</b>						
Commercial real estate:						
Land and construction	\$ 873	\$ 800	\$	\$ 412	\$ 239	\$
Improved property	14,554	10,319		18,229	12,863	
Commercial and industrial	3,045	2,496		3,745	3,086	
Residential real estate	19,601	17,751		20,821	18,982	
Home equity	5,771	4,971		5,833	5,169	
Consumer	918	803		1,084	952	
<b>Total impaired loans without a specific allowance</b>	<b>44,762</b>	<b>37,140</b>		<b>50,124</b>	<b>41,291</b>	
<b>With a specific allowance recorded:</b>						
Commercial real estate:						
Land and construction						
Improved property	2,104	2,104	387	2,105	2,105	388
Commercial and industrial						
<b>Total impaired loans with a specific allowance</b>	<b>2,104</b>	<b>2,104</b>	<b>387</b>	<b>2,105</b>	<b>2,105</b>	<b>388</b>
<b>Total impaired loans</b>	<b>\$ 46,866</b>	<b>\$ 39,244</b>	<b>\$ 387</b>	<b>\$ 52,229</b>	<b>\$ 43,396</b>	<b>\$ 388</b>

(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.

	<b>Impaired Loans</b>			
	<b>For the Three Months Ended</b>		<b>For the Three Months Ended</b>	
	<b>March 31, 2018</b>		<b>March 31, 2017</b>	
	<b>Average</b>	<b>Interest</b>	<b>Average</b>	<b>Interest</b>
	<b>Recorded</b>	<b>Income</b>	<b>Recorded</b>	<b>Income</b>
<i>(unaudited, in thousands)</i>	<b>Investment</b>	<b>Recognized</b>	<b>Investment</b>	<b>Recognized</b>
<b>With no related specific allowance recorded:</b>				
Commercial real estate:				
Land and construction	\$ 520	\$	\$ 588	\$



Edgar Filing: WESBANCO INC - Form 10-Q

Improved property	11,591	345	9,620	346
Commercial and industrial	2,791	2	3,812	2
Residential real estate	18,367	66	18,448	69
Home equity	5,070	5	4,186	5
Consumer	878	3	761	2
<b>Total impaired loans without a specific allowance</b>	<b>39,217</b>	<b>421</b>	<b>37,415</b>	<b>424</b>
<b>With a specific allowance recorded:</b>				
Commercial real estate:				
Land and construction				
Improved property	2,105		4,927	
Commercial and industrial			635	
<b>Total impaired loans with a specific allowance</b>	<b>2,105</b>		<b>5,562</b>	
<b>Total impaired loans</b>	<b>\$ 41,322</b>	<b>\$ 421</b>	<b>\$ 42,977</b>	<b>\$ 424</b>

**Table of Contents**

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

<i>(unaudited, in thousands)</i>	Non-accrual Loans (1)	
	March 31, 2018	December 31, 2017
Commercial real estate:		
Land and construction	\$ 800	\$ 239
Improved property	10,821	13,318
Total commercial real estate	11,621	13,557
Commercial and industrial	2,373	2,958
Residential real estate	13,149	14,661
Home equity	4,540	4,762
Consumer	703	887
Total	\$ 32,386	\$ 36,825

- (1) At March 31, 2018, there were 2 borrowers with loans greater than \$1.0 million totaling \$5.6 million, as compared to three borrowers with loans greater than \$1.0 million totaling \$6.8 million at December 31, 2017. 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					
	March 31, 2018			December 31, 2017		
	Accruing	Non-Accrual	Total	Accruing	Non-Accrual	Total
Commercial real estate:						
Land and construction	\$ 2	\$ 2	\$ 2	\$ 3	\$ 3	\$ 3
Improved property	1,602	490	2,092	1,650	428	2,078
Total commercial real estate	1,602	492	2,094	1,650	431	2,081
Commercial and industrial	123	94	217	128	97	225
Residential real estate	4,602	1,525	6,127	4,321	1,880	6,201
Home equity	431	220	651	407	337	744
Consumer	100	66	166	65	120	185
Total	\$ 6,858	\$ 2,397	\$ 9,255	\$ 6,571	\$ 2,865	\$ 9,436

As of March 31, 2018 and December 31, 2017 there were no 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 \$0.1 million as of March 31, 2018 and December 31, 2017.

The following tables present details related to loans identified as TDRs during the three months ended March 31, 2018 and 2017, respectively:

<i>(unaudited, dollars in thousands)</i>	New TDRs (1)					
	For the Three Months Ended					
	March 31, 2018			March 31, 2017		
	Pre- Modification Outstanding	Post- Modification Outstanding		Pre- Modification Outstanding	Post- Modification Outstanding	
Number of Modification	Recorded Investment	Recorded Investment	Number of Modification	Recorded Investment	Recorded Investment	
Commercial real estate:						
Land and construction		\$	\$		\$	\$
Improved Property						
Total commercial real estate						
Commercial and industrial				2	126	122
Residential real estate	5	203	195	1	10	9
Home equity				1	44	43
Consumer	2	4	3	2	84	21
Total	7	\$ 207	\$ 198	6	\$ 264	\$ 195

(1) 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**

The following table summarizes TDRs which defaulted (defined as past due 90 days) during the three months ended March 31, 2018 and 2017, respectively, that were restructured within the last twelve months prior to March 31, 2018 and 2017, respectively:

<i>(unaudited, dollars in thousands)</i>	Defaulted TDRs <sup>(1)</sup> For the Three Months Ended March 31, 2018		Defaulted TDRs <sup>(1)</sup> For the Three Months Ended March 31, 2017	
	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate:				
Land and construction		\$		\$
Improved property				
Total commercial real estate				
Commercial and industrial				
Residential real estate	1	122		
Home equity	1	7		
Consumer			1	9
Total	2	\$ 129	1	\$ 9

<sup>(1)</sup> Excludes loans that were either charged-off or cured by period end. The recorded investment is as of March 31, 2018 and 2017, respectively.

TDRs that default are placed on non-accrual status unless they are both well-secured and in the process of collection. The loans in the table above were not accruing interest.

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

<i>(unaudited, in thousands)</i>	March 31, 2018	December 31, 2017
Other real estate owned	\$ 3,991	\$ 5,195
Repossessed assets	76	102
Total other real estate owned and repossessed assets	\$ 4,067	\$ 5,297

Residential real estate included in other real estate owned at March 31, 2018 and December 31, 2017 was \$0.9 million and \$1.5 million, respectively. At March 31, 2018 and December 31, 2017, formal foreclosure proceedings were in process on residential real estate loans totaling \$4.3 million and \$3.5 million, respectively.

**NOTE 5. DERIVATIVES AND HEDGING ACTIVITIES**

### **Risk Management Objective of Using Derivatives**

WesBanco is exposed to certain risks arising from both its business operations and economic conditions. WesBanco principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. WesBanco manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities. WesBanco's existing interest rate derivatives result from a service provided to certain qualifying customers and, therefore, are not used to manage interest rate risk in WesBanco's assets or liabilities. WesBanco manages a matched book with respect to its derivative instruments in order to minimize its net risk exposure resulting from such transactions. A matched book is when the Bank's assets and liabilities are equally distributed but also have similar maturities.

### **Loan Swaps**

WesBanco executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that WesBanco executes with a third party, such that WesBanco minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements of FASB ASC 815, changes in the fair value of both the customer swaps and the offsetting third-party swaps are recognized directly in earnings. As of March 31, 2018 and December 31, 2017, WesBanco had 43 and 39, respectively, interest rate swaps with an aggregate notional amount of \$309.2 million and \$298.2 million, respectively, related to this program. During the three months ended March 31, 2018 and 2017, WesBanco recognized net gains (net losses) of \$0.2 million and \$(0.2) million, respectively, related to the changes in fair value of these swaps. Additionally, WesBanco recognized \$0.4 million and \$1.0 million of income for the related swap fees for the three months ended March 31, 2018 and 2017, respectively.

### **Mortgage Loans Held for Sale and Loan Commitments**

Certain residential mortgage loans are originated for sale in the secondary mortgage loan market. These loans are classified as held for sale and carried at fair value as WesBanco has elected the fair value option. Fair value is determined based on rates obtained from the secondary market for loans with similar characteristics. WesBanco sells loans to the secondary market on a mandatory or best efforts basis. The loans sold on a mandatory basis are not committed to an investor until the loan is closed with the borrower. WesBanco enters into forward TBA contracts to manage the interest rate risk between the loan commitment and the closing of the loan. The loans sold on a best efforts basis are committed to an investor simultaneous to the interest rate commitment with the borrower.

**Table of Contents****Fair Values of Derivative Instruments on the Balance Sheet**

All derivatives are carried on the consolidated balance sheet at fair value. Derivative assets are classified in the consolidated balance sheet under other assets, and derivative liabilities are classified in the consolidated balance sheet under other liabilities. Changes in fair value are recognized in earnings. None of WesBanco's derivatives are designated in qualifying hedging relationships under ASC 815.

The table below presents the fair value of WesBanco's derivative financial instruments as well as their classification on the Balance Sheet as of March 31, 2018 and December 31, 2017:

<i>(unaudited, in thousands)</i>	March 31, 2018			December 31, 2017		
	Notional or Contractual Amount	Asset Derivatives	Liability Derivatives	Notional or Contractual Amount	Asset Derivatives	Liability Derivatives
<b>Derivatives</b>						
Loan Swaps:						
Interest rate swaps	\$ 309,242	\$ 9,257	\$ 9,083	\$ 298,223	\$ 7,351	\$ 7,345
Other contracts:						
Interest rate loan commitments	24,730	147		20,319	49	
Best efforts forward delivery commitments	3,941		11	2,905		6
Forward TBA contracts	36,500		3	31,750		23
Total derivatives		\$ 9,404	\$ 9,097		\$ 7,400	\$ 7,374

**Effect of Derivative Instruments on the Income Statement**

The table below presents the change in the fair value of the Company's derivative financial instruments reflected within the other non-interest income line item of the consolidated income statement for the three months ended March 31, 2018 and 2017, respectively.

<i>(unaudited, in thousands)</i>	Location of Gain/(Loss)	For the Three Months Ended	
		March 31, 2018	2017
Interest rate swaps	Other income	\$ (167)	\$ 195
Interest rate loan commitments	Mortgage banking income	98	
Best efforts forward sales contracts	Mortgage banking income	(5)	
Forward TBA contracts	Mortgage banking income	410	
Total		\$ 336	\$ 195

**Credit-risk-related Contingent Features**

WesBanco has agreements with its derivative counterparties that contain a provision where if WesBanco defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then WesBanco could also be declared in default on its derivative obligations.

WesBanco also has agreements with certain of its derivative counterparties that contain a provision where if WesBanco fails to maintain its status as either a well or adequately capitalized institution, then the counterparty could terminate the derivative positions and WesBanco would be required to settle its obligations under the agreements.

WesBanco has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral with a market value of \$2.9 million as of March 31, 2018. If WesBanco had breached any of these provisions at March 31, 2018, it could have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

**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:

<i>(unaudited, in thousands)</i>	<b>For the Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Service cost – benefits earned during year	\$ 699	\$ 636
Interest cost on projected benefit obligation	1,114	1,084
Expected return on plan assets	(2,204)	(1,886)
Amortization of prior service cost	6	6
Amortization of net loss	753	794
 Net periodic pension cost	 \$ 368	 \$ 634

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 \$5.1 million is due for 2018, which could be all or partially offset by the Plan's \$56.9 million available credit balance. WesBanco currently expects to make a voluntary contribution of \$5.0 million to the Plan in 2018.

WesBanco assumed YCB's obligation for a predecessor bank's participation in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra Plan). The participating employer plan has been frozen to new participants since 2002. WesBanco spun off the assets from the Pentegra Plan, contributing approximately \$2.8 million to satisfy the estimated final costs to do so. This spin off had no impact on earnings as the liability was included in YCB's balance sheet as of the acquisition date. The distributed assets from the Pentegra Plan were transferred to a plan providing substantially the same benefits to the participants. The net periodic pension income for this plan for the three months ended March 31, 2018 was \$62 thousand, which was comprised of a \$0.2 million expected return on plan assets and a \$3 thousand recognized net actuarial gain partially offset by a \$0.1 million interest cost on projected benefit obligation.

No minimum contribution is due for this plan for fiscal year 2018; however, WesBanco expects to make a voluntary contribution of \$0.2 million.

**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:

*Investment securities:* The fair value of investment securities 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. 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.

*Derivatives:* WesBanco enters into interest rate swap agreements with qualifying commercial customers to meet their financing, interest rate and other risk management needs. These agreements provide the customer the ability to convert from variable to fixed interest rates. The credit risk associated with derivatives executed with customers is essentially the same as that involved in extending loans and is subject to normal credit policies and monitoring. Those interest rate swaps are economically hedged by offsetting interest rate swaps that WesBanco executes with derivative counterparties in order to offset its exposure on the fixed components of the customer interest rate swap agreements. The interest rate swap agreement with the loan customer and with the counterparty is reported at fair value in other assets and other liabilities on the consolidated balance sheet with any resulting gain or loss recorded in current period earnings as other income and other expense.

WesBanco enters into forward TBA contracts to manage the interest rate risk between the loan commitments to the customer and the closing of the loan for loans that will be sold on a mandatory basis to secondary market investors. The forward TBA contract is reported at fair value in other assets and other liabilities on the consolidated balance sheet with any resulting gain or loss recorded in current period's earnings as mortgage banking income.

WesBanco determines the fair value for derivatives using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects contractual terms of the derivative, including the period to maturity, and uses

**Table of Contents**

observable market-based inputs, including interest rate curves and implied volatilities. WesBanco incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty's non-performance risk in the fair value measurements.

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

***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 fair value as WesBanco has elected the fair value option as of October 1, 2017. 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.

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the table below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. 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 March 31, 2018 and December 31, 2017:

	<b>March 31, 2018</b>				
	<b>Fair Value Measurements Using:</b>				
	<b>Quoted Prices in Significant Active Markets</b>			<b>Other Significant</b>	<b>Investments Measured at</b>
	<b>for Identical</b>	<b>Assets (level 1)</b>	<b>Inputs (level 2)</b>	<b>Inputs (level 3)</b>	<b>Net Asset Value</b>
<i>(unaudited, in thousands)</i>	<b>March 31, 2018</b>	<b>Assets (level 1)</b>	<b>Inputs (level 2)</b>	<b>Inputs (level 3)</b>	<b>Net Asset Value</b>
<b>Recurring fair value measurements</b>					
Equity securities	\$ 13,986	\$ 11,568	\$	\$	\$ 2,418
Debt securities - available-for-sale					

Edgar Filing: WESBANCO INC - Form 10-Q

U.S. Treasury	9,894		9,894		
U.S. Government sponsored entities and agencies	96,458		96,458		
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	1,344,410		1,344,410		
Commercial mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	140,926		140,926		
Obligations of state and political subdivisions	101,431		101,431		
Corporate debt securities	35,258		35,258		
Total debt securities - available-for-sale	\$ 1,728,377	\$	\$ 1,728,377	\$	\$
Loans held for sale	12,962		12,962		
Other assets - interest rate derivatives agreements	9,257		9,257		
Total assets recurring fair value measurements	\$ 1,764,582	\$ 11,568	\$ 1,750,596	\$	\$ 2,418
Other liabilities - interest rate derivatives agreements	\$ 9,083	\$	\$ 9,083	\$	\$
Total liabilities recurring fair value measurements	\$ 9,083	\$	\$ 9,083	\$	\$
<b>Nonrecurring fair value measurements</b>					
Impaired loans	\$ 1,717	\$	\$	\$ 1,717	\$
Other real estate owned and repossessed assets	4,067			4,067	
Total nonrecurring fair value measurements	\$ 5,784	\$	\$	\$ 5,784	\$

**Table of Contents**

**December 31, 2017**  
**Fair Value Measurements Using:**  
**Quoted Prices in**

<i>(unaudited, in thousands)</i>	<b>December 31, 2017</b>	<b>Active Markets for Identical Assets (level 1)</b>	<b>Significant Other Inputs (level 2)</b>	<b>Significant Unobservable Inputs (level 3)</b>	<b>Investments Measured at Net Asset Value</b>
<b>Recurring fair value measurements</b>					
Equity securities	\$ 13,457	\$ 11,391	\$	\$	\$ 2,066
Debt securities - available-for-sale					
U.S. Government sponsored entities and agencies	71,843		71,843		
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	934,922		934,922		
Commercial mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	114,867		114,867		
Obligations of state and political subdivisions	104,830		104,830		
Corporate debt securities	35,403		35,403		
Total debt securities - available-for-sale	\$ 1,261,865	\$	\$ 1,261,865	\$	\$
Loans held for sale	20,320		20,320		
Other assets - interest rate derivatives agreements	7,351		7,351		
Total assets recurring fair value measurements	\$ 1,302,993	\$ 11,391	\$ 1,289,536	\$	\$ 2,066
Other liabilities - interest rate derivatives agreements	\$ 7,345	\$	\$ 7,345	\$	\$
Total liabilities recurring fair value measurements	\$ 7,345	\$	\$ 7,345	\$	\$
<b>Nonrecurring fair value measurements</b>					
Impaired loans	\$ 1,717	\$	\$	\$ 1,717	\$
Other real estate owned and repossessed assets	5,297			5,297	
Total nonrecurring fair value measurements	\$ 7,014	\$	\$	\$ 7,014	\$

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 significant transfers between level 1, 2 or 3 for the three months ended March 31, 2018 or for the year ended December 31, 2017.

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>	<b>Quantitative Information about Level 3 Fair Value Measurements</b>			
	<b>Fair Value Estimate</b>	<b>Valuation Techniques</b>	<b>Unobservable Input</b>	<b>Range (Weighted Average)</b>
<b>March 31, 2018</b>				
Impaired loans	\$ 1,717	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	(4.8%) / (4.8%)
			Liquidation expenses <sup>(2)</sup>	(7.6%) / (7.6%)
Other real estate owned and repossessed assets	4,067	Appraisal of collateral <sup>(1), (3)</sup>		
<b>December 31, 2017:</b>				
Impaired loans	\$ 1,717	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	(4.8%) / (4.8%)
			Liquidation expenses <sup>(2)</sup>	(7.6%) / (7.6%)
Other real estate owned and repossessed assets	5,297	Appraisal of collateral <sup>(1), (3)</sup>		

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

(2) 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.

(3) 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:

<i>(unaudited, in thousands)</i>	<b>Fair Value Measurements at March 31, 2018</b>					
	<b>Carrying Amount</b>	<b>Fair Value Estimate</b>	<b>Quoted Prices in Active Markets for Identical Assets (level 1)</b>	<b>Significant Observable Inputs (level 2)</b>	<b>Other Significant Unobservable Inputs (level 3)</b>	<b>Investments Measured at Net Asset Value</b>
<b>Financial Assets</b>						
Cash and due from banks	\$ 100,845	\$ 100,845	\$ 100,845			\$
Equity securities	13,986	13,986	11,568			2,418
Debt securities available-for-sale	1,728,377	1,728,377		1,728,377		
Debt securities held-to-maturity	1,006,042	1,005,502		1,004,912	590	
Net loans	6,276,204	6,158,399			6,158,399	
Loans held for sale	12,962	12,962		12,962		
Other assets - interest rate derivatives	9,257	9,257		9,257		
Accrued interest receivable	31,963	31,963	31,963			
<b>Financial Liabilities</b>						
Deposits	7,226,326	7,230,335	6,018,657	1,211,678		
Federal Home Loan Bank borrowings	1,166,939	1,161,442		1,161,442		
Other borrowings	207,653	207,627	205,651	1,976		
Subordinated debt and junior subordinated debt	164,379	149,887		149,887		
Other liabilities - interest rate derivatives	9,083	9,083		9,083		
Accrued interest payable	4,033	4,033	4,033			

<i>(unaudited, in thousands)</i>	<b>Fair Value Measurements at December 31, 2017</b>					
	<b>Carrying Amount</b>	<b>Fair Value Estimate</b>	<b>Quoted Prices in Active Markets for Identical Assets (level 1)</b>	<b>Significant Observable Inputs (level 2)</b>	<b>Other Significant Unobservable Inputs (level 3)</b>	<b>Investments Measured at Net Asset Value</b>
<b>Financial Assets</b>						
Cash and due from banks	\$ 117,572	\$ 117,572	\$ 117,572			\$
Equity securities	13,457	13,457	11,391			2,066
	1,261,865	1,261,865		1,261,865		

Debt securities available-for-sale				
Debt securities held-to-maturity	1,009,500	1,023,784	1,023,191	593
Net loans	6,296,157	6,212,823		6,212,823
Loans held for sale	20,320	20,320	20,320	
Other assets - interest rate derivatives	7,351	7,351	7,351	
Accrued interest receivable	29,728	29,728	29,728	
<b>Financial Liabilities</b>				
Deposits	7,043,588	7,053,536	5,766,531	1,287,005
Federal Home Loan Bank borrowings	948,203	944,706		944,706
Other borrowings	184,805	184,814	182,785	2,029
Subordinated debt and junior subordinated debt	164,327	146,484		146,484
Other liabilities - interest rate derivatives	7,345	7,345		7,345
Accrued interest payable	3,178	3,178	3,178	

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.

*Debt securities held-to-maturity:* Fair values for debt securities held-to-maturity are determined in the same manner as the investment securities which are described above.

*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.

**Table of Contents**

WesBanco believes the discount rates are consistent with transactions occurring in the marketplace for both performing and distressed loan types. The carrying value 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.

*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.

*Subordinated debt and junior subordinated debt:* The fair value of subordinated debt is estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements. Due to the pooled nature of junior subordinated debt owed to unconsolidated subsidiary trusts, 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. REVENUE RECOGNITION**

WesBanco adopted ASU 2014-09 as of January 1, 2018 under the modified retrospective approach and there was no material impact on WesBanco's Consolidated Financial statements. Interest income, net securities (losses) gains and bank-owned life insurance are not in scope of ASC 606, *Revenue from Contracts with Customers*. For the revenue streams in scope of ASC 606 - trust fees, service charges on deposits, electronic banking fees, net securities brokerage revenue, mortgage banking income and net gain or loss on sale of other real estate owned there are no significant judgements related to the amount and timing of revenue recognition.

**Trust fees:** Fees are earned over a period of time between monthly and annually, per the related fee schedule. The fees are earned ratably over the period for investment, safekeeping and other services performance by WesBanco. The fees are accrued when earned based on the daily asset value on the last day of the quarter. In most cases, the fees are directly debited from the customer account.

**Service charges on deposits:** There are monthly service charges for both commercial and personal banking customers, which are earned over the month per the related fee schedule based on the customers' deposits. There are also transaction-based fees, which are earned based on specific transactions or customer activity within the customers' deposit accounts. These are earned at the time the transaction or customer activity occurs. The fees are debited from the customer account.

**Electronic banking fees:** Interchange and ATM fees are earned based on customer and ATM transactions. Revenue is recognized when the transaction is settled.

**Net securities brokerage revenue:** Commission income is earned based on customer transactions and management of investments. The commission income from customers' transactions is recognized when the transaction is complete. The commission income from the management of investments is earned continuously over a quarterly period.

**Mortgage banking income:** Income is earned when WesBanco-originated loans are sold to an investor on the secondary market. The investor bids on the loans. If the price is accepted, WesBanco delivers the loan documents to the investor. Once received and approved by the investor, revenue is recognized and the loans are derecognized from the Consolidated Balance Sheet. Prior to the loans being sold, they are classified as loans held for sale. Additionally, the changes in the fair value of the loans held for sale, loan commitments and related derivatives are included in mortgage banking income.

**Net gain or loss on sale of other real estate owned:** Net gain or loss is recorded when other real estate is sold to a third party and the Bank collects substantially all of the consideration to which WesBanco is entitled in exchange for the transfer of the property.

The following table summarizes the point of revenue recognition and the income recognized for each of the revenue streams for the three months ended March 31, 2018:

<i>(unaudited, in thousands)</i>	<b>Point of Revenue Recognition</b>	<b>For the Three Months Ended March 31, 2018</b>
<b>Revenue Streams</b>		
Trust Fees		

Edgar Filing: WESBANCO INC - Form 10-Q

Trust account fees	Over time	\$ 4,292
WesMark fees	Over time	2,211
<b>Total trust fees</b>		<b>6,503</b>
Service charges on deposits		
Commercial banking fees	Over time	407
Personal service charges	At a point in time & Over time	4,415
<b>Total service charges on deposits</b>		<b>4,822</b>
Net securities brokerage revenue		
Annuity commissions	At a point in time	1,200
Equity and debt security trades	At a point in time	102
Managed money	Over time	141
Trail commissions	Over time	227
<b>Total net securities brokerage revenue</b>		<b>1,670</b>
Electronic banking fees	At a point in time	4,829
Mortgage banking income	At a point in time	1,004
Gain/loss on sale of OREO/other assets	At a point in time	262

**Table of Contents****NOTE 9. COMPREHENSIVE INCOME/(LOSS)**

The activity in accumulated other comprehensive income for the three months ended March 31, 2018 and 2017 is as follows:

	Accumulated Other Comprehensive Income/(Loss) <sup>(1)</sup>			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Debt Securities Available-for-Sale	Unrealized Gains on Debt Securities Transferred from Available-for-Sale to Held-to-Maturity	Total
<i>(unaudited, in thousands)</i>				
Balance at December 31, 2017	\$(18,626)	\$ (13,250)	\$ 381	\$(31,495)
Other comprehensive income before reclassifications		(14,905)		(14,905)
Amounts reclassified from accumulated other comprehensive income	437		(50)	387
Period change	437	(14,905)	(50)	(14,518)
Adoption of Accounting Standard ASU 2016-01 (2)		(1,063)		(1,063)
Balance at March 31, 2018	\$(18,189)	\$ (29,218)	\$ 331	\$(47,076)
Balance at December 31, 2016	\$(17,758)	\$ (9,890)	\$ 522	\$(27,126)
Other comprehensive income before reclassifications		1,680		1,680
Amounts reclassified from accumulated other comprehensive income	655		(50)	605
Period change	655	1,680	(50)	2,285
Balance at March 31, 2017	\$(17,103)	\$ (8,210)	\$ 472	\$(24,841)

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using a combined Federal and State income tax rate approximating 23% in 2018 and 37% in all prior periods.

(2) See Note 1, Summary of Significant Accounting Policies for additional information about WesBanco's adoption of ASU 2016-01.

The following table provides details about amounts reclassified from accumulated other comprehensive income for the three months ended March 31, 2018 and 2017:

Details about Accumulated Other Comprehensive Income/(Loss) and Other Comprehensive Income/(Loss) Affected Line Item in the Statement of Components ( <i>unaudited, in thousands</i> )	Amounts Reclassified from Accumulated Other		Net Income
	For the Three Months Ended		
	March 31,		
	2018	2017	
Debt securities available-for-sale <sup>(1)</sup> :			
Net securities gains reclassified into earnings	\$	\$	Net securities gains (Non-interest income)
Related income tax expense			Provision for income taxes
Net effect on accumulated other comprehensive income for the period			
Debt securities held-to-maturity <sup>(1)</sup> :			
Amortization of unrealized gain transferred from available-for-sale	(66)	(72)	Interest and dividends on securities (Interest and dividend income)
Related income tax expense	16	22	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	(50)	(50)	
Defined benefit pension plan <sup>(2)</sup> :			
Amortization of net loss and prior service costs	756	801	Employee benefits (Non-interest expense)
Related income tax benefit	(319)	(146)	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	437	655	
Total reclassifications for the period	\$ 387	\$ 605	

(1) For additional detail related to unrealized gains on securities and related amounts reclassified from accumulated other comprehensive income, see Note 3, Securities.

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

**Table of Contents****NOTE 10. 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 (\$0.6) million as of both March 31, 2018 and December 31, 2017, 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 both March 31, 2018 and December 31, 2017.

Contingent obligations and other guarantees include affordable housing plan guarantees, credit card guarantees and obligations under the FHLB's loan purchasing program. 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 mortgages sold to FHLB obligate WesBanco to reimburse the FHLB for a portion of the loan balances that default.

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

<i>(unaudited, in thousands)</i>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Lines of credit	<b>\$ 1,464,970</b>	\$ 1,452,697
Loans approved but not closed	<b>358,367</b>	245,644
Overdraft limits	<b>124,752</b>	126,671
Letters of credit	<b>31,947</b>	31,951
Contingent obligations and other guarantees	<b>6,796</b>	6,700

**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 11. 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 \$4.0 billion and \$3.8 billion at March 31, 2018 and 2017, respectively. 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>	<b>Community Banking</b>	<b>Trust and Investment Services</b>	<b>Consolidated</b>
<b>For the Three Months ended March 31, 2018:</b>			
Interest and dividend income	\$ 86,417	\$	\$ 86,417
Interest expense	13,125		13,125
Net interest income	73,292		73,292
Provision for credit losses	2,168		2,168
Net interest income after provision for credit losses	71,124		71,124
Non-interest income	17,477	6,503	23,980
Non-interest expense	50,894	3,677	54,571
Income before provision for income taxes	37,707	2,826	40,533
Provision for income taxes	6,411	593	7,004
Net income	\$ 31,296	\$ 2,233	\$ 33,529
<b>For the Three Months ended March 31, 2017:</b>			
Interest and dividend income	\$ 79,924	\$	\$ 79,924
Interest expense	9,205		9,205
Net interest income	70,719		70,719
Provision for credit losses	2,711		2,711
Net interest income after provision for credit losses	68,008		68,008
Non-interest income	16,741	6,143	22,884
Non-interest expense	50,992	3,392	54,384
Income before provision for income taxes	33,757	2,751	36,508

Provision for income taxes	9,522	1,100	10,622
Net income	\$ 24,235	\$ 1,651	\$ 25,886

Total non-fiduciary assets of the trust and investment services segment were \$1.8 million and \$3.8 million at March 31, 2018 and 2017, respectively. All other assets, including goodwill and other intangible assets, were allocated to the community banking segment.

## NOTE 12. SUBSEQUENT EVENTS

On April 5, 2018, WesBanco completed its acquisition of First Sentry Bancshares, Inc. ( FTSB ), a bank holding company headquartered in Huntington, West Virginia. As of March 31, 2018, FTSB had approximately \$705.1 million in assets excluding goodwill, \$577.4 million in total deposits, \$459.5 million in total loans and 5 branches in West Virginia. The acquisition was valued at approximately \$107.5 million and resulted in WesBanco issuing approximately 2.5 million shares of its common stock and \$1.0 million in cash in exchange for FTSB common stock. The assets and liabilities of FTSB will be recorded on WesBanco's balance sheet at their preliminary estimated fair values as of April 5, 2018, the acquisition date, and FTSB's results of operations will be included in WesBanco's Consolidated Statements of Income from that date. For the three months ended March 31, 2018, WesBanco recorded merger-related expenses of \$0.2 million associated with the FTSB acquisition. WesBanco accounts for business combinations using the acquisition method of accounting. The initial accounting and determination of the fair values of the assets and liabilities resulting from the acquisition was incomplete at the time of this filing due to the timing of the closing of the acquisition in relation to WesBanco's required Form 10-Q filing deadline. A more complete disclosure of the business combination is expected to be reported in WesBanco's Form 10-Q as of June 30, 2018.

On April 19, 2018, WesBanco and Farmers Capital Bank Corporation ( Farmers ), a bank holding company headquartered in Frankfort, Kentucky with approximately \$1.7 billion in assets, \$1.4 billion in deposits, \$1.0 billion in loans and 34 branches, jointly announced that a definitive Agreement and Plan of Merger was executed providing for the merger of Farmers with and into WesBanco. On the date of the announcement, the transaction was valued at approximately \$378.2 million. Under the terms of the Agreement and Plan of Merger, which has been approved by that board of directors of both companies, WesBanco will exchange a combination of its common stock and cash for Farmers common stock. Farmers shareholders will be entitled to receive 1.053 shares of WesBanco common stock and cash in the amount of \$5.00 per share for each share of Farmers common stock for a total value of approximately \$50.31 per share at the date of announcement. The receipt by Farmers shareholders of shares of WesBanco common stock in exchange for their shares of Farmers common stock is anticipated to qualify as a tax-free exchange. The acquisition is subject to the approvals of the appropriate banking regulatory authorities and the shareholders of Farmers. It is expected that the transaction will be completed in the third or fourth quarter of 2018.

---

**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 months ended March 31, 2018. 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, 2017 and documents subsequently filed by WesBanco with the Securities and Exchange Commission ( SEC ), 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, that the businesses of WesBanco, FTSB and Farmers may not integrate successfully or such integration may take longer to accomplish than expected; the expected cost savings and any revenue synergies from the merger of WesBanco, FTSB and Farmers may not be fully realized within the expected timeframes; disruption from the merger of WesBanco, FTSB and Farmers may make it more difficult to maintain relationships with clients, associates, or suppliers; 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 FDIC, the SEC, FINRA, 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 177 branches and 168 ATM machines in West Virginia, Ohio, western Pennsylvania, Kentucky, and southern Indiana, 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.

**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 March 31, 2018 have remained unchanged from the disclosures presented in WesBanco's Annual Report on Form 10-K for the year ended December 31, 2017 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 March 31, 2018 was \$33.5 million, with diluted earnings per share of \$0.76, compared to \$25.9 million and \$0.59 per diluted share, respectively, for the first quarter of 2017. Excluding after-tax merger-related expenses (non-GAAP measure) in both periods, net income and diluted earnings per share would have increased 28.7% to \$33.7 million, or \$0.76 per diluted share for the three months ended March 31, 2018, as compared to the prior year quarter.

	<b>For the Three Months Ended March 31,</b>			
	<b>2018</b>		<b>2017</b>	
<i>(unaudited, dollars in thousands,</i>	<b>Net</b>	<b>Diluted</b>	<b>Net</b>	<b>Diluted</b>
<i>except per share amounts)</i>	<b>Income</b>	<b>Earnings</b>	<b>Income</b>	<b>Earnings</b>
		<b>Per Share</b>		<b>Per Share</b>
Net income (Non-GAAP) <sup>(1)</sup>	<b>\$ 33,722</b>	<b>\$ 0.76</b>	\$ 26,205	\$ 0.60
Less: After tax merger-related expenses	<b>(193)</b>		(319)	(0.01)
<b>Net income (GAAP)</b>	<b>\$ 33,529</b>	<b>\$ 0.76</b>	\$ 25,886	\$ 0.59

(1) Non-GAAP net income excludes after-tax merger-related expenses. 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 \$2.6 million or 3.6% in the first quarter of 2018 compared to the same quarter of 2017 due to a 2.7% increase in average earning assets. In addition, the yield on earning assets has increased a total of 13 basis points since the first quarter of 2017. However, the net interest margin decreased by 4 basis points to 3.38% in the first quarter of 2018 compared to 3.42% in the first quarter of 2017 due primarily due to a 6 basis point reduction in the tax-equivalency of the income from state and local municipal tax-exempt securities portfolio resulting from the Tax Cuts and Jobs Act signed into law in December 2017. The net interest margin has somewhat benefited from increases in the Federal Reserve Board's target federal funds rate over the past year, partially offset by higher funding costs as well as a flattening of the yield curve. The increase in the cost of interest bearing liabilities is primarily due to higher rates for interest bearing public funds, and certain Federal Home Loan Bank and other borrowings. Accretion from prior acquisitions benefited the first quarter net interest margin by approximately six basis points, as compared to eight basis points in the prior year period.

The provision for credit losses decreased to \$2.2 million in the first quarter of 2018, compared to \$2.7 million in the first quarter of 2017, due to continued strength in the loan credit quality and minimal overall loan growth. Net charge-offs, as a percentage of average portfolio loans of 0.07% in the first quarter of 2018 were lower than the 0.15% in the first quarter of 2017.

For the first quarter of 2018, non-interest income increased \$1.1 million, or 4.8%, compared to the first quarter of 2017. Bank owned-life insurance increased \$1.6 million or 141.8%, due to higher death benefits received during the quarter compared to the first quarter of 2017. Trust fees increased \$0.3 million or 5.9%, as equity markets improved and trust assets increased 5.0% since the first quarter of 2017. Electronic banking fees increased \$0.3 million or 6.6%

based on increased debit card volume. Net gain (loss) on other real estate owned and other assets increased \$0.3 million or 444.7% as result of an increase in a venture capital fund established for qualifying Community Reinvestment Act investment purposes in 2009.

The following comments on non-interest expense exclude merger-related expenses in both years. Non-interest expense in the first quarter of 2018 grew slightly by \$0.4 million or 0.8%, compared to the 2017 first quarter. Salaries and wages increased \$2.0 million or 8.7% compared to last year's first quarter. However, employee benefit expenses decreased \$1.3 million or 15.8% as compared to the first quarter of 2017. These fluctuations are primarily due to the adoption of an accounting standard, which requires the service component of pension expense to be included in salaries and wages as opposed to employee benefit expenses. The pronouncement was adopted January 1, 2018.

The effective income tax rate and associated provision for income taxes for the first quarter of 2018 are reflective of the recently enacted Tax Cuts and Jobs Act, which lowered the Federal income tax rate for corporations to 21%. During the first quarter, the effective tax rate was 17.28% as compared to 29.09% last year, while the provision for income taxes decreased \$3.6 million to \$7.0 million, despite higher year-over-year pre-tax income.

Table of Contents

## NET INTEREST INCOME

TABLE 1. NET INTEREST INCOME

<i>(unaudited, dollars in thousands)</i>	For the Three Months Ended March 31,	
	2018	2017
Net interest income	\$ 73,292	\$ 70,719
Taxable equivalent adjustment to net interest income	1,285	2,634
Net interest income, fully taxable equivalent	\$ 74,577	\$ 73,353
Net interest spread, non-taxable equivalent	3.12%	3.16%
Benefit of net non-interest bearing liabilities	0.20%	0.14%
Net interest margin	3.32%	3.30%
Taxable equivalent adjustment	0.06%	0.12%
Net interest margin, fully taxable equivalent	3.38%	3.42%

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 \$2.6 million or 3.6% in the first quarter of 2018 compared to 2017, due to a 2.7% increase in average earning asset balances, primarily from an 11.6% increase in average taxable securities balances. Average loan balances increased by 1.0% in the first quarter of 2018 compared to the first quarter of 2017, and were driven by growth in total commercial loans and home equity loans, both strategic focus categories of WesBanco, which more than offset the targeted reductions in the consumer portfolio to reduce the overall loan portfolio's risk profile. Total average deposits increased in the first quarter of 2018 by \$64.1 million or 0.9% compared to the first quarter of 2017, while certificates of deposit, which have the highest overall interest cost among deposits, decreased by \$213.0 million or 14.6% over the same time period. The effect of multiple increases in the Federal Reserve's target federal funds rate over the past year on the net interest margin were offset by lower tax equivalent yields on tax-exempt securities resulting from the decrease in the corporate tax rate to 21% for 2018. Due to this adjustment in tax-equivalency, the net interest margin decreased to 3.38% for the first quarter of 2018 compared to 3.42% in the first quarter of 2017. Yields increased for all earning asset categories in 2018 except for tax-exempt securities. The cost of interest bearing liabilities increased by 23 basis points from the first quarter of 2017. The increase in the cost of interest bearing liabilities is primarily due to rate increases for larger balance customers in interest bearing demand deposits, which include public funds, and higher rates for certain short term and Federal Home Loan Bank borrowings. Approximately 6 basis points of accretion from prior acquisitions was included in the 2018 first quarter net interest margin compared to 8 basis points in the 2017 first quarter net interest margin.

Interest income increased \$6.5 million or 8.1% in the first quarter of 2018 compared to the first quarter of 2017 due to higher average loan and securities balances and higher yields in almost every earning asset category. Earning asset yields were influenced positively in the first quarter of 2018 compared to the first quarter of 2017 due to three federal

funds rate increases occurring during the past twelve months. Average loan balances increased by \$60.8 million or 1.0% in the first quarter of 2018 compared to the same period of 2017, primarily due to increases in commercial and home equity loans. Loan yields increased by 24 basis points during this same period to 4.43% from the previously mentioned federal funds rate increases. In the first quarter of 2018, average loans represented 71.2% of average earning assets, a decrease from 72.4% in the first quarter of 2017, primarily due to purchases of taxable securities exceeding the average loan growth. Average taxable securities balances increased by \$186.0 million or 11.6% from the first quarter of 2017, consistent with management's strategy of growing total assets above \$10 billion in the first quarter of 2018 to improve profitability. Total securities yields decreased by 12 basis points in 2018 from the first quarter of 2017 due a lower tax-equivalency benefit on tax-exempt securities, resulting from the Tax Cuts and Jobs Act, which decreased the corporate tax rate from 35% to 21%. This yield decrease had no effect on net interest income, as the tax effect is included in the provision for income taxes. The average balance of tax-exempt securities decreased slightly from the first quarter of 2017, and was 28.6% of total average securities in 2018 compared to 31.2% in the first quarter of 2017. Taxable securities yields increased by 19 basis points in the first quarter of 2018 as compared to the first quarter of 2017 due to purchases in the first quarter of 2018 at higher market rates.

Total portfolio loans increased \$10.4 million or 0.2% over the last twelve months, while total commercial loans increased \$74.2 million or 1.8%. Loan growth was achieved through \$1.8 billion in total loan originations, led by \$1.2 billion in business loan originations for the past twelve months. Loan growth was driven by expanded market areas and additional commercial personnel in our core markets, partially offset by significant loan paydowns or payoffs as some loans moved into the secondary lending market by customers who refinanced their mortgages, and targeted reductions of the consumer portfolio to reduce the risk profile of the loan portfolio.

Interest expense increased \$3.9 million or 42.6% in the first quarter of 2018 compared to the first quarter of 2017, due primarily to increases in the rates paid on most interest bearing liability categories. The cost of interest bearing liabilities increased by 23 basis points from the first quarter of 2017 to 0.80% in the first quarter of 2018. Average interest bearing deposits decreased by \$24.0 million or 0.5% from the first quarter of 2017, due primarily to a decrease in the average balance of CDs of \$213.0 million or 14.6%. This decrease was partially due to a \$42.5 million reduction in CDARS® balances from \$116.7 million at March 31, 2017 to \$74.2 million at March 31, 2018. The rate on interest bearing deposits increased by 14 basis points from the first quarter of 2017, primarily from increases in rates on interest bearing public funds. Average non-interest bearing demand deposits increased from the first quarter of 2017 to the first quarter of 2018 by \$88.1 million or 4.9% and are now 26.3% of total average deposits, compared to 25.3% in 2017, reflecting customers' preferences and marketing strategies. The increase in non-interest bearing deposits reflect positively in the net interest margin, as the benefit of non-interest bearing liabilities increased by 6 basis points from the first quarter of 2017

**Table of Contents**

to the first quarter of 2018. Average other borrowings and subordinated debt balances remained virtually unchanged from the first quarter of 2017, but their average rates paid increased by 49 and 30 basis points, respectively, over this time period due to increases in LIBOR, the index upon which most of this variable-rate type of borrowing is priced. The average balance of FHLB borrowings increased by \$88.4 million from the first quarter of 2017, and their average rate paid increased by 55 basis points to 1.76% over this same time period due to higher interest rates and the replacement of some maturing shorter-term borrowings with those of a medium-term length throughout 2017 and the first quarter of 2018 to improve asset sensitivity and liquidity measures.

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

<i>(unaudited, dollars in thousands)</i>	For the Three Months Ended March 31, 2018		2017	
	Average Balance	Average Rate	Average Balance	Average Rate
<b>ASSETS</b>				
Due from banks interest bearing	\$ 8,727	2.06%	\$ 13,926	0.52%
Loans, net of unearned income <sup>(1)</sup>	6,339,550	4.43%	6,278,718	4.19%
Securities: <sup>(2)</sup>				
Taxable	1,789,336	2.58%	1,603,337	2.39%
Tax-exempt <sup>(3)</sup>	717,624	3.41%	726,658	4.14%
Total securities	2,506,960	2.82%	2,329,995	2.94%
Other earning assets	50,388	6.02%	47,025	4.43%
Total earning assets <sup>(3)</sup>	8,905,625	3.98%	8,669,664	3.85%
Other assets	1,087,739		1,111,813	
Total Assets	\$ 9,993,364		\$ 9,781,477	
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
Interest bearing demand deposits	\$ 1,697,755	0.60%	\$ 1,536,282	0.29%
Money market accounts	1,005,236	0.35%	1,038,584	0.22%
Savings deposits	1,288,120	0.06%	1,227,190	0.06%
Certificates of deposit	1,241,228	0.83%	1,454,245	0.67%
Total interest bearing deposits	5,232,339	0.47%	5,256,301	0.33%
Federal Home Loan Bank borrowings	1,037,441	1.76%	949,001	1.21%
Other borrowings	204,833	1.10%	197,358	0.61%
Subordinated debt and junior subordinated debt	164,334	4.79%	163,913	4.49%
Total interest bearing liabilities <sup>(1)</sup>	6,638,947	0.80%	6,566,573	0.57%
Non-interest bearing demand deposits	1,869,624		1,781,513	
Other liabilities	83,522		75,789	
Shareholders equity	1,401,271		1,357,602	

Total Liabilities and Shareholders Equity	<b>\$ 9,993,364</b>	\$ 9,781,477
Taxable equivalent net interest spread	<b>3.18%</b>	3.28%
Taxable equivalent net interest margin	<b>3.38%</b>	3.42%

- (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 \$0.7 million and \$0.6 million for the three months ended March 31, 2018 and 2017, respectively. Additionally, loan accretion included in net interest income on loans acquired from prior acquisitions was \$1.2 million and \$1.3 million for the three months ended March 31, 2018 and 2017, respectively, while accretion on interest bearing liabilities from prior acquisitions was \$0.2 million and \$0.5 million for the three months ended March 31, 2018 and 2017, respectively.
- (2) Average yields on available-for-sale debt securities are calculated based on amortized cost.
- (3) Taxable equivalent basis is calculated on tax-exempt securities using a rate of 21% for 2018 and 35% for 2017.

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

<i>(unaudited, in thousands)</i>	Three Months Ended March 31, 2018 Compared to March 31, 2017		
	Volume	Rate	Net Increase (Decrease)
Increase (decrease) in interest income:			
Due from banks interest bearing	\$ (9)	\$ 36	\$ 27
Loans, net of unearned income	634	3,705	4,339
Taxable securities	1,165	782	1,947
Tax-exempt securities <sup>(1)</sup>	(92)	(1,314)	(1,406)
Other earning assets	39	198	237
<b>Total interest income change <sup>(1)</sup></b>	<b>1,737</b>	<b>3,407</b>	<b>5,144</b>
Increase (decrease) in interest expense:			
Interest bearing demand deposits	126	1,305	1,431
Money market accounts	(19)	323	304
Savings deposits	8		8
Certificates of deposit	(385)	510	125
Federal Home Loan Bank borrowings	285	1,377	1,662
Other borrowings	12	249	261
Subordinated debt and junior subordinated debt	5	124	129
<b>Total interest expense change</b>	<b>32</b>	<b>3,888</b>	<b>3,920</b>
<b>Net interest income increase (decrease) <sup>(1)</sup></b>	<b>\$ 1,705</b>	<b>\$ (481)</b>	<b>\$ 1,224</b>

(1) Taxable equivalent basis is calculated on tax-exempt securities using a tax rate of 21% for 2018 and 35% for 2017.

**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 decreased to \$2.2 million in the first quarter of 2018 compared to \$2.7 million in the first quarter of 2017 due primarily to the consistent high quality of the loan portfolio. Overall, most credit ratios continued to improve on a percentage basis, year-over-year. Non-performing loans (including TDRs), and criticized and classified loans all improved as a percentage of total portfolio loans from March 31, 2017. Total non-performing loans were 0.62% of total loans at March 31, 2018, decreasing from 0.74% of total loans at the end of the first quarter of 2017. Criticized and classified loans were 1.08% of total loans, improving from 1.35% at March 31, 2017. Past due loans at March 31, 2018 were 0.25% of total loans, compared to 0.22% at March 31, 2017. Annualized net loan charge-offs also



decreased from 0.15% at March 31, 2017 to 0.07% at March 31, 2018. (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 March 31,			
	2018	2017	\$ Change	% Change
Trust fees	\$ 6,503	\$ 6,143	\$ 360	5.9
Service charges on deposits	4,822	4,853	(31)	(0.6)
Electronic banking fees	4,829	4,528	301	6.6
Net securities brokerage revenue	1,670	1,762	(92)	(5.2)
Bank-owned life insurance	2,756	1,140	1,616	141.8
Mortgage banking income	1,004	1,440	(436)	(30.3)
Net securities (losses) gains	(39)	12	(51)	(425.0)
Net gain (loss) on other real estate owned and other assets	262	(76)	338	444.7
Net insurance services revenue	892	916	(24)	(2.6)
Swap fee and valuation income	517	757	(240)	(31.7)
Other	764	1,409	(645)	(45.8)
Total non-interest income	\$ 23,980	\$ 22,884	\$ 1,096	4.8

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 quarter of 2018, non-interest income increased \$1.1 million or 4.8% compared to the first quarter of 2017. The increase is driven by a \$1.6 million increase in bank-owned life insurance, a \$0.4 million increase in trust fees, a \$0.3 million increase in electronic banking fees and a \$0.3 million increase in net gain (loss) on other real estate owned and other assets, partially offset by decreases in other income, swap fee and valuation income, and mortgage banking income compared to the first quarter of 2017.

Trust fees increased \$0.4 million or 5.9% compared to the first quarter of 2017 due to market improvements and customer and revenue development initiatives. Total trust assets have increased \$0.2 billion from \$3.8 billion at March 31, 2017 to \$4.0 billion at March 31, 2018. At March 31, 2018, trust assets include managed assets of \$3.3 billion and non-managed (custodial) assets of \$0.7 billion. Assets managed for the WesMark Funds, a proprietary group of mutual funds that is advised by WesBanco Trust and Investment Services, were \$933.6 million as of March 31, 2018 and \$906.2 million at March 31, 2017 and are included in trust-managed assets.

Service charges on deposits remained consistent quarter over quarter, decreasing by 0.6%. Deposits increased \$80.6 million to \$7.2 billion as of March 31, 2018 as compared to \$7.1 billion as of March 31, 2017.

Electronic banking fees, which include debit card interchange fees, continued to grow, increasing \$0.3 million or 6.6% compared to the first three months of 2017, due to a higher volume of debit card transactions from WesBanco's customer base. The volume increase is due to a higher percentage of customers using these products as well as marketing initiatives.

Bank-owned life insurance increased \$1.6 million or 141.8% compared to first quarter of 2017 due to higher death benefits received during the period. The total cash surrender value of bank-owned life insurance increased \$2.6 million to \$191.8 million as of March 31, 2018 as compared to March 31, 2017.

Mortgage banking income decreased \$0.4 million or 30.3% as compared to first quarter of 2017 primarily due to a \$0.5 million favorable market adjustment recognized during the first quarter of 2017. Mortgage production was \$73.3 million, which decreased 10.9% from the comparable 2017 quarter. Mortgages sold into the secondary market represented \$38.6 million or 52.7% of overall mortgage loan production in the first three months of 2018 compared to \$36.1 million or 43.9% in the first three months of 2017.

Net gain (loss) on other real estate owned and other assets increased \$0.4 million or 444.7% as compared to the first quarter of 2017 primarily due to an increase in value of \$0.2 million of a venture capital investment.

Swap fee and valuation income decreased \$0.2 million compared to the first three months of 2017 primarily due to the change in the valuation of the interest rate swaps and lower new swap volume.

Other income decreased \$0.6 million or 45.8% compared to the first three months of 2017 primarily due to a \$0.4 million gain on the sale of certain real estate-related joint venture assets acquired from ESB recognized in the first quarter of 2017. WesBanco is currently in the process of winding up and dissolving its business activities of these acquired joint ventures.

Table of Contents

## NON-INTEREST EXPENSE

TABLE 5. NON-INTEREST EXPENSE

<i>(unaudited, dollars in thousands)</i>	For the Three Months			
	Ended March 31,		\$ Change	% Change
	2018	2017		
Salaries and wages	\$ 25,006	\$ 23,002	\$ 2,004	8.7
Employee benefits	6,912	8,210	(1,298)	(15.8)
Net occupancy	4,656	4,327	329	7.6
Equipment	3,949	4,042	(93)	(2.3)
Marketing	1,116	824	292	35.4
FDIC insurance	658	827	(169)	(20.4)
Amortization of intangible assets	1,086	1,273	(187)	(14.7)
Restructuring and merger-related expenses	245	491	(246)	(50.1)
Franchise and other miscellaneous taxes	2,235	2,084	151	7.2
Consulting, regulatory, accounting and advisory fees	1,532	1,673	(141)	(8.4)
ATM and electronic banking interchange expenses	1,216	1,088	128	11.8
Postage and courier expenses	959	1,021	(62)	(6.1)
Legal fees	713	761	(48)	(6.3)
Communications	488	747	(259)	(34.7)
Supplies	687	828	(141)	(17.0)
Other real estate owned and foreclosure expenses	199	328	(129)	(39.3)
Other	2,914	2,858	56	2.0
Total non-interest expense	\$ 54,571	\$ 54,384	\$ 187	0.3

Non-interest expense in the first quarter of 2018 grew marginally by \$0.2 million or 0.3% compared to the same quarter in 2017 in an effort to control operating expenses. Excluding merger-related expenses, non-interest expense increased \$0.4 million or 0.8%. For the first quarter, salaries and wages increased \$2.0 million, net occupancy increased \$0.3 million, and marketing expense increased \$0.3 million, offset by a \$1.3 million decrease in employee benefits, a \$0.3 million decrease in communications, coupled with decreases in various other expense categories.

Salaries and wages increased \$2.0 million or 8.7% from the first quarter of 2017 due to the adoption of a new accounting standard, which requires the service component portion of pension expense to be classified to salaries and wages from employee benefits. The remaining increase is due to routine annual compensation adjustments and stock based compensation. Employee benefits expense decreased \$1.3 million compared to the first quarter of 2017, primarily from the \$0.7 reclassification of the service component portion of pension cost to salaries and wages. Pension costs excluding the service component decreased \$0.3 million compared to the first quarter 2017. The fair value of certain executive deferred compensation benefits decreased \$0.3 million as compared to the same period in 2017.

Net occupancy costs increased \$0.3 million or 7.6% compared to the first three months of 2017, primarily due to increased building-related costs including utilities, lease expense, depreciation, repairs and other seasonal maintenance costs, such as snow removal.

Marketing expenses increased \$0.3 million or 35.4% compared to the first three months of 2017. The increase is primarily due to advertising expense as new marketing campaigns began in 2018.

Merger-related expenses in 2018 relate to the FTSB acquisition that closed on April 5, 2018. The costs consist of primarily legal and other professional fees. The merger-related costs in 2017 related to the YCB acquisition, which closed on September 9, 2016.

Communications expense decreased \$0.3 million or 34.7% compared to the first three months of 2017. WesBanco improved the technology and communications infrastructure at the former YCB-acquired branches, which further allowed for future cost savings as noted in the current period.

---

**Table of Contents****INCOME TAXES**

The provision for income taxes decreased \$3.6 million or 34.1% in the first quarter of 2018 compared to the first quarter of 2017, due to the enacted Federal tax reform legislation that reduced the corporate federal income tax rate from 35% to 21% effective January 1, 2018. Partially offsetting this decrease in income tax expense, first quarter 2018 pre-tax income was 11.0% higher. As a result of these changes, the effective tax rate decreased to 17.28% compared to 29.09% in the first quarter of 2017.

**FINANCIAL CONDITION**

Total assets increased 4.4%, while deposits and shareholders' equity increased 2.6% and 0.6%, respectively, compared to December 31, 2017. Total securities increased by \$463.6 million or 20.3% from December 31, 2017 to March 31, 2018, and was driven by management's strategy to exceed the \$10 billion threshold in total assets during the first quarter of 2018 by purchasing taxable securities. These purchases had an average yield of approximately 3.06%. Total portfolio loans decreased \$18.9 million or 0.3% as a result of targeted reductions in the consumer portfolio offsetting growth in strategic focus categories, coupled with increased secondary market residential mortgage loan sales. Deposits increased \$182.7 million from year-end resulting from a 7.1% increase in demand deposits and a 3.5% increase in savings deposits, which more than offset the 3.9% decrease in money market deposits and the 5.4% decrease in certificates of deposit. The decrease in certificates of deposit is a result of periodically offering lower than median competitive rates for maturing certificates of deposit and customer preferences for other deposit types, coupled with a \$30.8 million decrease in CDARS® balances. 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 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 18.6% during the first three months of 2018 as short-term borrowings increased \$22.8 million and new FHLB borrowings exceeded maturities by \$219.2 million. Proceeds from borrowings were utilized to purchase investment securities during the three months ended March 31, 2018. Total shareholders' equity increased by approximately \$8.0 million or 0.6%, compared to December 31, 2017, primarily due to net income exceeding dividends for the period by \$20.8 million, which was partially offset by a \$14.5 million other comprehensive loss.

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

<i>(unaudited, dollars in thousands)</i>	<b>March 31, 2018</b>	<b>December 31, 2017</b>	<b>\$ Change</b>	<b>% Change</b>
Equity securities (at fair value)	\$ 13,986	\$ 13,457	\$ 529	3.9
Available-for-sale debt securities (at fair value)				
U.S. Treasury	9,894		9,894	100.0
U.S. Government sponsored entities and agencies	96,458	71,843	24,615	34.3
Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	1,344,410	934,922	409,488	43.8
Commercial mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	140,926	114,867	26,059	22.7
Obligations of states and political subdivisions	101,431	104,830	(3,399)	(3.2)
Corporate debt securities	35,258	35,403	(145)	(0.4)
<b>Total available-for-sale debt securities</b>	<b>\$ 1,728,377</b>	<b>\$ 1,261,865</b>	<b>\$ 466,512</b>	<b>37.0</b>
Held-to-maturity debt securities (at amortized cost)				
U.S. Government sponsored entities and agencies	\$ 11,263	\$ 11,465	\$ (202)	(1.8)
Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies	162,904	170,025	(7,121)	(4.2)
Obligations of states and political subdivisions	798,536	794,655	3,881	0.5
Corporate debt securities	33,339	33,355	(16)	(0.0)
<b>Total held-to-maturity debt securities</b>	<b>1,006,042</b>	<b>1,009,500</b>	<b>(3,458)</b>	<b>(0.3)</b>
<b>Total securities</b>	<b>\$ 2,748,405</b>	<b>\$ 2,284,822</b>	<b>\$ 463,583</b>	<b>20.3</b>
<b>Available-for-sale and equity securities:</b>				
Weighted average yield at the respective period end <sup>(2)</sup>	2.57%	2.35%		
As a % of total securities	63.4%	55.8%		
Weighted average life (in years)	4.8	4.2		
<b>Held-to-maturity securities:</b>				
Weighted average yield at the respective period end <sup>(2)</sup>	3.42%	3.85%		
As a % of total securities	36.6%	44.2%		
Weighted average life (in years)	4.8	4.2		
<b>Total securities:</b>				
Weighted average yield at the respective period end <sup>(2)</sup>	2.88%	3.01%		
As a % of total securities	100.0%	100.0%		
Weighted average life (in years)	4.8	4.2		

- (1) At March 31, 2018 and December 31, 2017, there were no holdings of any one issuer, other than U.S. government sponsored entities and its 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 21% in 2018 and 35% in 2017.

Total investment securities, which are a source of liquidity for WesBanco as well as a contributor to interest income, increased by \$463.6 million or 20.3% from December 31, 2017 to March 31, 2018. Through the first three months of 2018, the available-for-sale portfolio increased by \$466.5 million or 37.0%, while the held-to-maturity portfolio remained relatively unchanged. The increase in the overall portfolio from December 31, 2017 was driven by management's strategy to exceed the \$10 billion threshold in total assets during the first quarter of 2018 by purchasing mortgage-backed securities and collateralized mortgage obligations, with an average yield of approximately 3.06%. The weighted average yield of the portfolio decreased by 13 basis points from 3.01% at December 31, 2017 to 2.88% at March 31, 2018. Though market rates increased in the first quarter of 2018 on all securities purchased, the decrease in the corporate federal tax rate from 35% to 21% reduced the tax-equivalent yield by approximately 73 basis points on the tax-exempt municipal bond portfolio, and 16 basis points on the entire portfolio from year-end, as the tax benefit was reduced. This decrease in the tax-equivalent yield on tax-exempt municipals more than offset the general market rate increases, as tax-exempt municipals comprise approximately 25% of WesBanco's investment portfolio. The higher-yielding first quarter purchases helped to mitigate the impact of the tax-equivalent yield reduction on the municipal bonds.

Net unrealized losses on available-for-sale securities included in accumulated other comprehensive income, net of tax, as of March 31, 2018 and December 31, 2017 were \$29.2 million and \$13.3 million, respectively. With approximately 37% 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.



**Table of Contents**

Equity securities, of which a portion consist of investments in various mutual funds held in grantor trusts formed in connection with a key officer and director deferred compensation plan, are recorded at fair value. Gains and losses due to fair value fluctuations on equity securities are included in net securities gains or losses. For those equity securities relating to the key officer and director deferred compensation plan, the corresponding change in the obligation to the employee is recognized in employee benefits expense.

WesBanco's municipal portfolio comprises 32.7% of the overall securities portfolio as of March 31, 2018 as compared to 39.4% as of December 31, 2017, 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>	March 31, 2018		December 31, 2017	
	Amount	% of Total	Amount	% of Total
Municipal bonds (at fair value) (1):				
Moody's: Aaa / S&P: AAA	\$ 99,976	11.1	\$ 96,253	10.5
Moody's: Aa1 ; Aa2 ; Aa3 / S&P: AA+ ; AA ; AA-	673,666	74.4	685,446	74.9
Moody's: A1 ; A2 ; A3 / S&P: A+ ; A ; A-	122,043	13.5	125,032	13.7
Moody's: Baa1 ; Baa2 ; Baa3 / S&P: BBB+ ; BBB ; BBB- (2)	1,035	0.1	745	0.1
Not rated by either agency	7,919	0.9	7,764	0.8
<b>Total municipal bond portfolio</b>	<b>\$ 904,639</b>	<b>100.0</b>	<b>\$ 915,240</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 March 31, 2018 and December 31, 2017, 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>	March 31, 2018		December 31, 2017	
	Amount	% of Total	Amount	% of Total
<b>Municipal bond type:</b>				
General Obligation	\$ 622,511	68.8	\$ 630,824	68.9
Revenue	282,128	31.2	284,416	31.1
<b>Total municipal bond portfolio</b>	<b>\$ 904,639</b>	<b>100.0</b>	<b>\$ 915,240</b>	<b>100.0</b>
<b>Municipal bond issuer:</b>				

State Issued	\$ 93,002	10.3	\$ 95,160	10.4
Local Issued	811,637	89.7	820,080	89.6
Total municipal bond portfolio	\$ 904,639	100.0	\$ 915,240	100.0

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 March 31, 2018:

**TABLE 9. CONCENTRATION OF MUNICIPAL SECURITIES**

<i>(unaudited, dollars in thousands)</i>	March 31, 2018	
	Fair Value	% of Total
Pennsylvania	\$ 192,508	21.3
Texas	103,670	11.5
Ohio	101,493	11.2
Illinois	46,457	5.1
West Virginia	34,379	3.8
All other states	426,132	47.1
Total municipal bond portfolio	\$ 904,639	100.0

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

**Table of Contents**

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.

**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>	March 31, 2018		December 31, 2017	
	Amount	% of Loans	Amount	% of Loans
Commercial real estate:				

Edgar Filing: WESBANCO INC - Form 10-Q

Land and construction	\$ 440,896	7.0	\$ 392,597	6.2
Improved property	2,574,330	40.6	2,601,851	40.9
Total commercial real estate	3,015,226	47.6	2,994,448	47.1
Commercial and industrial	1,118,333	17.7	1,125,327	17.7
Residential real estate	1,345,993	21.2	1,353,301	21.3
Home equity	523,425	8.3	529,196	8.3
Consumer	319,561	5.0	339,169	5.3
Total portfolio loans	6,322,538	99.8	6,341,441	99.7
Loans held for sale	12,962	0.2	20,320	0.3
Total loans	\$ 6,335,500	100.0	\$ 6,361,761	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.

Total loans decreased \$26.3 million or 0.4% from December 31, 2017 while portfolio loans increased \$10.4 million or 0.2% over the last twelve months. Total loan growth over the last twelve months was driven by strategic focus categories with 1.8% growth in total commercial loans and 3.0% growth in home equity loans, from expanded market areas and additional commercial personnel in our core markets. Secondary market loan sales of residential mortgages continued to increase resulting in an increase in the gain on sale of mortgages and a reduction in residential mortgages retained in the portfolio. In addition, the consumer portfolio declined due to a reduced focus and pricing adjustments for indirect installment loans.

Total loan commitments of \$2.0 billion, including loans approved but not closed, increased \$123.2 million or 6.6% from December 31, 2017 due primarily to loans approved but not closed. The line utilization percentage for the commercial portfolio was 47.7% at March 31, 2018 and 48.0% at December 31, 2017.

**Table of Contents**

The commercial portfolio is monitored for potential concentrations of credit risk by market, type of lending, CRE property type, C&I and owner-occupied CRE by industry, investment CRE dependence on common tenants and industries or property types that are similarly impacted by external factors.

At March 31, 2018 total exposure to core energy industries such as drilling, extraction, pipeline construction, mining equipment, investment real estate with energy-related tenants and other related support activities approximated \$50.0 million or 0.63% of the total loan portfolio as compared to \$55.2 million or 0.69% of the total loan portfolio at December 31, 2017. Exposure to ancillary industries such as utility distribution and transportation, engineering services, manufacturers and retailers of other heavy equipment used in core energy industries, approximates an additional \$60.9 million in exposure or 0.76% of the total loan portfolio as compared to \$65.3 million or 0.82% of the total loan portfolio at December 31, 2017. The largest exposure to any one borrower in either core energy or ancillary industries was \$21.0 million to a company that operates as a natural gas distribution utility.

**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>March 31, 2018</b>	<b>December 31, 2017</b>
<b>Non-accrual loans:</b>		
Commercial real estate - land and construction	<b>\$ 800</b>	\$ 239
Commercial real estate - improved property	<b>10,821</b>	13,318
Commercial and industrial	<b>2,373</b>	2,958
Residential real estate	<b>13,149</b>	14,661
Home equity	<b>4,540</b>	4,762
Consumer	<b>703</b>	887
<b>Total non-accrual loans (1)</b>	<b>32,386</b>	36,825
<b>TDRs accruing interest:</b>		
Commercial real estate - land and construction		
Commercial real estate - improved property	<b>1,602</b>	1,650
Commercial and industrial	<b>123</b>	128
Residential real estate	<b>4,602</b>	4,321
Home equity	<b>431</b>	407
Consumer	<b>100</b>	65
<b>Total TDRs accruing interest (1)</b>	<b>6,858</b>	6,571
<b>Total non-performing loans</b>	<b>\$ 39,244</b>	\$ 43,396
<b>Other real estate owned and repossessed assets</b>	<b>4,067</b>	5,297

Edgar Filing: WESBANCO INC - Form 10-Q

Total non-performing assets	\$ 43,311	\$ 48,693
Non-performing loans/total portfolio loans	0.62%	0.68%
Non-performing assets/total assets	0.42%	0.50%
Non-performing assets/total portfolio loans, other real estate and repossessed assets	0.68%	0.77%

(1) TDRs on nonaccrual of \$2.4 million and \$2.9 million at March 31, 2018 and December 31, 2017, respectively, are included in total nonaccrual loans.

Non-performing loans, which consist of non-accrual loans and TDRs, decreased \$4.2 million or 9.6%, from December 31, 2017, primarily due to the paydown of one large CRE loan in the first quarter. TDRs increased slightly by \$0.3 million due to additions to the category being slightly higher than normal repayments. (Please see the Notes to the Consolidated Financial Statements for additional discussion.)

Other real estate owned and repossessed assets decreased \$1.2 million from December 31, 2017 primarily due to continued efforts to liquidate properties.

**Table of Contents**

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

**TABLE 12. PAST DUE AND ACCRUING LOANS EXCLUDING NON-ACCRUAL AND TDRs**

<i>(unaudited, dollars in thousands)</i>	<b>March 31, 2018</b>	<b>December 31, 2017</b>
Loans past due 90 days or more:		
Commercial real estate - land and construction	\$ 172	\$ 243
Commercial real estate - improved property	364	20
Commercial and industrial	21	20
Residential real estate	561	1,113
Home equity	251	742
Consumer	210	608
Total loans past due 90 days or more	<b>1,579</b>	2,726
Loans past due 30 to 89 days:		
Commercial real estate - land and construction		172
Commercial real estate - improved property	4,727	316
Commercial and industrial	684	721
Residential real estate	3,987	4,392
Home equity	2,765	2,281
Consumer	2,373	3,290
Total loans past due 30 to 89 days	<b>14,536</b>	11,172
Total 30 days or more	<b>\$ 16,115</b>	\$ 13,898
Loans past due 90 days or more and accruing to total portfolio loans	<b>0.02%</b>	0.04%
Loans past due 30-89 days and accruing to total portfolio loans	<b>0.23%</b>	0.18%

Loans past due 30 days or more and accruing interest excluding non-accruals and TDRs increased \$2.2 million or 16.0% from December 31, 2017. These loans continue to accrue interest because they are both well-secured and in the process of collection. The increase in the 30 to 89 days past due status was primarily due to a \$4.4 million increase in the commercial real estate category and represented 0.23% of total loans at March 31, 2018 and 0.18% at December 31, 2017. Loans past due 90 days or more decreased \$1.1 million compared to December 31, 2017 and represented 0.02% of total loans at March 31, 2018 compared to 0.04% at December 31, 2017. The continued low levels of delinquency are the result of management's continued focus on sound initial underwriting, timely collection of loans at their earliest stage of delinquency, stable unemployment and generally improved economic conditions.

**Table of Contents****ALLOWANCE FOR CREDIT LOSSES**

The allowance for loan losses of \$46.3 million represented 0.73% of total portfolio loans at March 31, 2018 compared to 0.71% as of December 31, 2017 and 0.70% as of March 31, 2017. Included in the ratio are acquired YCB and ESB loans (recorded at fair value at the date of acquisition of \$1.7 billion) and the related allowance on YCB and ESB acquired loans of \$3.2 million at March 31, 2018. Excluding these acquired loans and the related allowance results in a more comparable coverage ratio to prior periods.

The allowance for loans individually-evaluated remained unchanged from December 31, 2017 to March 31, 2018 at \$0.4 million. The allowance for loans collectively-evaluated increased from December 31, 2017 to March 31, 2018 by \$1.1 million.

The allowance for loan commitments of \$0.6 million at March 31, 2018 was unchanged compared to December 31, 2017, and is included in other liabilities on the Consolidated Balance Sheets.

The allowance for credit losses by loan category, presented in Note 4 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 1.08% of total loans, improving from 1.35% at March 31, 2017. Criticized and classified loans as a percent of total loans improved as overall credit quality continued to improve, enabling certain loans to be upgraded while others have paid down. Criticized and classified loans decreased \$5.6 million from December 31, 2017 to \$68.4 million at March 31, 2018, with the paydown and/or upgrade of several large CRE loans.

Table 13 summarizes the allocation of the allowance for credit losses to each category of the loan portfolio. The increase in the allowance for commercial loans from December 31, 2017 is primarily due to loan growth in the CRE land and construction category, while the overall allowance for retail loan categories was relatively unchanged.

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

<i>(unaudited, dollars in thousands)</i>	<b>March 31, 2018</b>	<b>Percent of Total</b>	<b>December 31, 2017</b>	<b>Percent of Total</b>
Allowance for loan losses:				
Commercial real estate - land and construction	\$ 4,324	9.2	\$ 3,117	6.8
Commercial real estate - improved property	20,279	43.2	21,166	46.2
Commercial and industrial	10,494	22.4	9,414	20.5
Residential real estate	3,252	6.9	3,206	7.0



Edgar Filing: WESBANCO INC - Form 10-Q

Home equity	<b>4,303</b>	<b>9.2</b>	4,497	9.8
Consumer	<b>3,067</b>	<b>6.5</b>	3,063	6.7
Deposit account overdrafts	<b>615</b>	<b>1.3</b>	821	1.6
<b>Total allowance for loan losses</b>	<b>\$ 46,334</b>	<b>98.7</b>	<b>\$ 45,284</b>	<b>98.6</b>
Allowance for loan commitments:				
Commercial real estate - land and construction	<b>\$ 176</b>	<b>0.4</b>	<b>\$ 119</b>	<b>0.3</b>
Commercial real estate - improved property	<b>21</b>	<b>0.0</b>	26	0.1
Commercial and industrial	<b>176</b>	<b>0.4</b>	173	0.4
Residential real estate	<b>7</b>	<b>0.0</b>	7	0.0
Home equity	<b>208</b>	<b>0.4</b>	212	0.5
Consumer	<b>41</b>	<b>0.1</b>	37	0.1
<b>Total allowance for loan commitments</b>	<b>629</b>	<b>1.3</b>	<b>574</b>	<b>1.4</b>
<b>Total allowance for credit losses</b>	<b>\$ 46,963</b>	<b>100.0</b>	<b>\$ 45,858</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 March 31, 2018.

Table of Contents

## DEPOSITS

TABLE 14. DEPOSITS

<i>(unaudited, dollars in thousands)</i>	March 31, 2018	December 31, 2017	\$ Change	% Change
<b>Deposits</b>				
Non-interest bearing demand	<b>\$ 1,950,619</b>	\$ 1,846,748	\$ 103,871	5.6
Interest bearing demand	<b>1,768,977</b>	1,625,015	143,962	8.9
Money market	<b>984,429</b>	1,024,856	(40,427)	(3.9)
Savings deposits	<b>1,314,632</b>	1,269,912	44,720	3.5
Certificates of deposit	<b>1,207,669</b>	1,277,057	(69,388)	(5.4)
<b>Total deposits</b>	<b>\$ 7,226,326</b>	\$ 7,043,588	\$ 182,738	2.6

Deposits, which represent WesBanco's primary source of funds, are offered in various account forms at various rates through WesBanco's 172 financial centers. The FDIC insures deposits up to \$250,000 per account.

Total deposits increased by \$182.7 million or 2.6% during the first three months of 2018. Interest bearing demand, non-interest bearing demand, and savings deposits increased 8.9%, 5.6%, and 3.5%, respectively, which more than offset the 3.9% decrease in money market deposits. This net growth is primarily attributable to marketing, customer incentives, focused retail and business strategies to obtain more account relationships and customers' preferences for shorter-term maturities, coupled with 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. Money market deposits were influenced through WesBanco's participation in the Insured Cash Sweep (ICS®) money market deposit program. ICS® reciprocal balances totaled \$63.1 million at March 31, 2018 compared to \$65.9 million at December 31, 2017.

Certificates of deposit decreased \$69.4 million due primarily 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 WesBanco. The decline was also impacted by lower 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 \$74.2 million in outstanding balances at March 31, 2018, of which \$54.3 million represented one-way buys, compared to \$105.0 million in total outstanding balances at December 31, 2017, of which \$72.7 million represented one-way buys. Certificates of deposit greater than \$250,000 were approximately \$208.0 million at March 31, 2018 compared to \$216.4 million at December 31, 2017. Certificates of deposit of \$100,000 or more were approximately \$532.8 million at March 31, 2018 compared to \$581.6 million at December 31, 2017. Certificates of deposit totaling approximately \$694.4 million at March 31, 2018 with a cost of 0.76% are scheduled to mature within the next 12 months. WesBanco intends to 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 or match competitor rates on certain certificates of deposit maturities and savings products based on competition, sales strategies, liquidity needs and wholesale borrowing costs.



Table of Contents**BORROWINGS****TABLE 15. BORROWINGS**

<i>(unaudited, dollars in thousands)</i>	<b>March 31, 2018</b>	<b>December 31, 2017</b>	<b>\$ Change</b>	<b>% Change</b>
Federal Home Loan Bank Borrowings	<b>\$ 1,166,939</b>	\$ 948,203	\$ 218,736	23.1
Other short-term borrowings	<b>207,653</b>	184,805	22,848	12.4
Subordinated debt and junior subordinated debt	<b>164,379</b>	164,327	52	0.0
Total	<b>\$ 1,538,971</b>	\$ 1,297,335	\$ 241,636	18.6

While borrowings are a significant source of funding for WesBanco, they are less significant as compared to total deposits. During the first quarter of 2018, FHLB borrowings increased \$218.7 million, as \$375.0 million advances offset \$155.8 million in maturities. In addition, WesBanco extended the maturities of approximately \$155.0 million of maturing FHLB borrowings in the first quarter with a prior cost of approximately 1.29%, at current short-term FHLB rates approximating 2.43% - 2.75%.

Other short-term borrowings, which consist of securities sold under agreements to repurchase and federal funds purchased at March 31, 2018, but may also include notes payable, were \$207.7 million at March 31, 2018 compared to \$184.8 million at December 31, 2017. The increase is primarily due to a \$27.8 million increase in securities sold under agreements to repurchase, which was partially offset by the repayments of \$5.0 million in federal funds purchased outstanding at December 31, 2017. 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 was no outstanding balance at March 31, 2018 or December 31, 2017. Rates have generally increased over the past year on all borrowing types due to the federal funds and LIBOR rate increases that have occurred since early 2017.

**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 10, 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 increased \$7.7 million or 0.6% from \$1.4 billion at December 31, 2017. The increase resulted primarily from net income during the current three-month period of \$33.5 million, which was partially offset by \$14.5 million other comprehensive loss and the declaration of common shareholder dividends totaling \$12.8 million for the three months ended March 31, 2018. WesBanco also increased its quarterly dividend rate to \$0.29 per share in February, representing an 11.5% increase over the prior quarterly rate and a cumulative 107% increase since 2010.

WesBanco did not purchase any shares during the three-month period ended March 31, 2018 under the current share repurchase plans. At March 31, 2018, the remaining shares authorized to be purchased under the current repurchase plans totaled 1,107,297 shares.

On February 22, 2018, WesBanco granted 12,000 Total Shareholder Return Plan (TSR) shares for the performance period beginning January 1, 2018 and ending December 31, 2020 to certain executives. The award is determined at the end of the three-year period if the TSR of WesBanco common stock is equal to or greater than the 50<sup>th</sup> percentile of the TSR of the peer group. The number of shares to be earned by the participant shall be 200% of the grant-date award if the TSR of WesBanco common stock is equal to or greater than the 75<sup>th</sup> percentile of the TSR of the peer group. Upon achieving the market-based metric, shares determined to be earned by the participant become time-based and vest in three equal annual installments.

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 March 31, 2018, 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 March 31, 2018, under FDIC regulations, WesBanco could receive, without prior regulatory approval, a dividend of approximately \$51.9 million from the Bank. WesBanco intends to continue to improve its consolidated and Bank capital ratios as necessary over time, 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:

	Minimum Well Capitalized <sup>(2)</sup>		March 31, 2018		December 31, 2017			
			Amount	Ratio	Minimum Amount <sup>(1)</sup>	Amount	Ratio	Minimum Amount <sup>(1)</sup>
<b><u>WesBanco, Inc.</u></b>								
Tier 1 leverage	4.00%	5.00%	\$ 997,327	10.56%	\$ 377,827	\$ 970,425	10.39%	\$ 373,566

Edgar Filing: WESBANCO INC - Form 10-Q

Common equity Tier 1	4.50%	6.50%	<b>859,327</b>	<b>12.33%</b>	<b>313,611</b>	834,554	12.14%	309,298
Tier 1 capital to risk-weighted assets	6.00%	8.00%	<b>997,327</b>	<b>14.31%</b>	<b>418,148</b>	970,425	14.12%	412,397
Total capital to risk-weighted assets	8.00%	10.00%	<b>1,069,510</b>	<b>15.35%</b>	<b>557,530</b>	1,042,124	15.16%	549,863
<b>WesBanco Bank, Inc.</b>								
Tier 1 leverage	4.00%	5.00%	<b>\$ 887,798</b>	<b>9.42%</b>	<b>\$ 377,142</b>	\$ 869,227	9.32%	\$ 372,900
Common equity Tier 1	4.50%	6.50%	<b>887,798</b>	<b>12.75%</b>	<b>313,273</b>	869,227	12.66%	308,900
Tier 1 capital to risk-weighted assets	6.00%	8.00%	<b>887,798</b>	<b>12.75%</b>	<b>417,698</b>	869,227	12.66%	411,866
Total capital to risk-weighted assets	8.00%	10.00%	<b>959,981</b>	<b>13.79%</b>	<b>556,930</b>	940,303	13.70%	549,155

- (1) Minimum requirements to remain adequately capitalized.
- (2) Well-capitalized under prompt corrective action regulations.

**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 61.3% at March 31, 2018 and deposit balances funded 70.5% of assets.

The following table lists the sources of liquidity from assets at March 31, 2018 expected within the next year:

<i>(unaudited, in thousands)</i>	
Cash and cash equivalents	<b>\$ 100,845</b>
Securities with a maturity date within the next year and callable securities	<b>199,244</b>
Projected payments and prepayments on mortgage-backed securities and collateralized mortgage obligations (1)	<b>208,799</b>
Loans held for sale	<b>12,962</b>
Accruing loans scheduled to mature	<b>914,959</b>
Normal loan repayments	<b>1,041,516</b>
<b>Total sources of liquidity expected within the next year</b>	<b>\$ 2,478,325</b>

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

Deposit flows are another principal factor affecting overall WesBanco liquidity. Deposits totaled \$7.2 billion at March 31, 2018. 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 \$694.4 million at March 31, 2018, which includes jumbo regular certificates of deposit totaling \$292.5 million with a weighted-average cost of 1.06%, and jumbo CDARS® deposits of \$48.3 million with a weighted-average cost of 1.20%.

WesBanco maintains a line of credit with the FHLB as an additional funding source. Available credit with the FHLB at March 31, 2018 and December 31, 2017 approximated \$1.6 billion and \$1.8 billion, respectively. 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. At March 31, 2018, the Bank had unpledged available-for-sale securities with an amortized cost of \$516.9 million. A portion of these securities could be sold for additional liquidity, or such securities could be pledged to secure additional FHLB borrowings. Available liquidity through the sale of available-for-sale investment securities is limited to approximately 30.1% of the portfolio which is unpledged, due to the pledging agreements that WesBanco has with their public deposit customers. Public deposit balances have increased significantly through the ESB and YCB acquisitions in the past three years. WesBanco's held-to-maturity portfolio currently contains \$654.5 million of unpledged securities. However, most of the balance represents municipal bonds, which can only be pledged in limited circumstances. Unless in compliance with certain criteria, these securities cannot be sold without tainting the remainder of the held-to-maturity portfolio. If tainting occurs, all remaining securities with the held-to-maturity designation would be required to move to available-for-sale, and the held-to-maturity designation would not be available to WesBanco for some time.

WesBanco participates in the Federal Reserve Bank's Borrower-in-Custody Program ( BIC ) whereby WesBanco pledges certain consumer loans as collateral for borrowings. At March 31, 2018, WesBanco had a BIC line of credit totaling \$187.6 million, none of which was outstanding. Alternative funding sources may include the utilization of existing overnight lines of credit with third party banks totaling \$285.0 million, of which \$20.0 million was outstanding at March 31, 2018, along with seeking other lines of credit, borrowings under repurchase agreement lines, increasing deposit rates to attract additional funds, accessing brokered deposits, or selling securities available-for-sale or certain types of loans.

Other short-term borrowings of \$207.7 million at March 31, 2018 consisted of callable repurchase agreements, overnight sweep checking accounts for large commercial customers, and federal funds purchased. There has not been a significant fluctuation in the average deposit balances of the overnight sweep checking accounts during 2018. The overnight sweep checking accounts require U.S. Government 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, \$84.7 million in cash and investments on hand, and a \$25.0 million revolving line of credit with another bank, which did not have an outstanding balance at March 31, 2018. 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 March 31, 2018, under FDIC and State of West Virginia regulations, WesBanco could receive, without prior regulatory approval, dividends of approximately \$51.9 million from the Bank. Management believes these are appropriate levels of cash for WesBanco 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.



**Table of Contents**

WesBanco had outstanding commitments to extend credit in the ordinary course of business approximating \$1.9 billion and \$1.8 billion at March 31, 2018 and December 31, 2017, respectively. On a historical basis, only a small portion of these commitments will result in an outflow of funds. Please refer to Note 10, Commitments and Contingent Liabilities, of the Consolidated Financial Statements and the Loans and Loan Commitments section of this MD&A for additional information.

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 March 31, 2018 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 is a Board-level committee with Board and executive management representation, including the Chief Executive Officer, Chief Financial Officer, Chief Risk Management Officer and Senior Treasury Officer. It is responsible for monitoring and managing interest rate risk within Board-approved policy limits. Interest rate risk is monitored through the use of an earnings sensitivity simulation model and an economic value-at-risk model, measuring the fair value of net equity. These models are 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 and reviewed quarterly by the ALCO, while appropriate documentation is maintained.

The earnings sensitivity 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, security call dates, changes to various non-maturity deposit product betas, and non-maturity deposit decay rates, which may not necessarily reflect the manner in which actual cash flows, yields, and costs respond to changes in market interest rates. Assumptions used are based on historical experience, current market rates and economic forecasts, and are periodically back-tested and reviewed by third-party consultants. The net interest income sensitivity results presented in Table 1, "Net Interest Income Sensitivity," assumes that the balance sheet 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, this analysis does not consider all actions that management might employ in response to changes in interest rates as well as 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 immediate and sustained market interest rate increases and decreases of 100 - 400 basis points across the entire yield curve, compared to a stable rate environment or base model. WesBanco's current policy limits this exposure for the noted interest rate changes to a reduction of between 10% - 20% or less of net interest income from the stable rate base model over a twelve-month period. The table below shows WesBanco's interest rate sensitivity at March 31, 2018 and December 31, 2017, assuming the above-noted interest rate increases as compared to a base model. In the current lower interest rate environment, particularly for short-term rates, the 200 and 300 basis point decreasing change are not shown due to the unrealistic nature of results associated with short-term negative rates.

**Table of Contents****TABLE 1. NET INTEREST INCOME SENSITIVITY**

Immediate Change in Interest Rates (basis points)	Percentage Change in Net Interest Income from Base over One Year		
	March 31, 2018	December 31, 2017	ALCO Guidelines
+400	9.0%	8.3%	(20.0%)
+300	7.0%	6.2%	(15.0%)
+200	4.5%	4.0%	(12.5%)
+100	2.4%	2.4%	(10.0%)
-100	(2.7%)	(3.0%)	(10.0%)

As per the table above, the earnings sensitivity simulation model at March 31, 2018 currently projects that net interest income for the next twelve-month period would decrease by 2.7% if interest rates were to fall immediately by 100 basis points, compared to a decrease of 3.0% for the same scenario as of December 31, 2017.

For rising rate scenarios, net interest income would increase by between 2.4% - 9.0% if rates were to increase by between 100 - 400 basis points as of March 31, 2018, compared to increases of between 2.4% - 8.3% in a 100 - 400 basis point increasing rate environment as of December 31, 2017. If rates were to increase over a one-year period instead of an instantaneous shock, which management feels is a more practical scenario, than for a 200 basis point increasing rate ramp analysis, the model projects that net interest income would increase 2.1% over the next twelve months, as compared to a 2.2% increase at the end of 2017.

Management also utilizes a Most Likely forecast scenario to project net interest income over a rolling two-year time frame. This forecast is updated and reviewed quarterly, incorporating updated assumptions into the model such as estimated loan and deposit growth, balance sheet re-mixing strategies, changes in base forecasted rates for various maturities, competitive market spreads for various products and other assumptions. Such modeling helps to predict changes in forecasted outcomes and necessary adjustments to the plan to achieve management's earnings goals.

The balance sheet shows slightly higher asset sensitivity as of March 31, 2018, as compared to December 31, 2017, with differences resulting from changes in the mix of, and growth in various earning assets and costing liabilities, as well as adjustments for various modeling assumptions such as deposit beta rates, decay rates for non-maturity deposits and loan prepayment speeds. Generally, deposit betas have increased over time in the model, while loan prepayment speeds have also increased to reflect various loan classifications' propensity to prepay over time. Management believes that overall asset sensitivity in non-parallel rising rate scenarios may be somewhat neutralized due to slower prepayment speeds, rate floors, lower than forecasted increases to loan yields, extension risk associated with residential mortgages and mortgage-related securities, and other earning asset and costing liability differences versus currently modeled assumptions. Commercial loan floors currently average 4.10% on approximately \$1.2 billion, or 29% of total commercial loans at March 31, 2018, as compared to \$1.2 billion or 30% of commercial loans at December 31, 2017. Approximately 43% or \$525.4 million of these loans are currently priced at their floor, as compared to 45% or \$552.6 million at December 31, 2017. In a less than 100 basis point rising rate environment, these loans may not adjust as rapidly from their current floor level as compared to loans without floors.

The net interest margin has decreased by 4 basis points for the three month period ended March 31, 2018 compared to last year, as the tax-exempt securities portfolio tax-equivalent rate adjustment from 35% to 21% caused a reduction in the overall net interest margin by 6 basis points. New securities purchased at current rates helped to offset this

reduction. In addition, higher non-interest bearing demand deposits and limited increases in other deposit categories resulted in margin improvement that limited the decrease from the tax equivalency calculation. The opportunity for margin expansion is dependent on additional federal funds increases and the shape of the yield curve, in addition to continued execution of our business strategy to grow certain loan categories and remixing higher cost borrowings and CDs into lower cost transaction accounts, while controlling transaction account betas as rates rise. In addition, net purchase accounting accretion is expected to decrease slightly throughout 2018, requiring loan growth and/or rate increases to offset such impact. Management currently anticipates that two to three additional short-term federal funds rate increases may occur by the end of 2018, relatively consistent with market and consensus economist expectations. Delays in implementing further rate increases, or increases to deposit betas beyond our current modeling assumptions for existing accounts, typically would have a negative impact on management's estimates of the future direction and level of the net interest margin.

Customers over the past few years have moved maturing CD balances to lower-costing transaction accounts as well as into non-deposit products. A portion of these lower-cost transaction account balances may migrate to higher-costing CDs or money market accounts as short-term rates continue to increase. Runoff of CDs from prior acquisitions, many of which were customers with single service relationships have been replaced with FHLB and other short-term borrowings. Certificates of deposit totaling approximately \$694.4 million mature within the next year at an average cost of 0.76%. Maturing borrowings in 2018 may be lengthened at a higher cost than the maturing borrowings' average rate. In addition, with the pending First Sentry Bancshares acquisition, management is no longer intent on controlling the total size of the balance sheet in order to remain under \$10 billion in total assets, and increased investment purchases in the first quarter resulted in an increased period-end total asset amount of \$10.2 billion.

The Bank has significant additional borrowing capacity with the FHLB of Pittsburgh, the Federal Reserve Bank of Cleveland, and correspondent banks, and may utilize these funding sources or interest rate swap strategies as necessary to lengthen liabilities, to help offset mismatches in various asset maturities, and manage liquidity. CDARS® and ICS® deposits also may be used for similar purposes as well as for certain customers seeking higher-yielding instruments or maintaining deposit levels below individual FDIC insurance limits.

**Table of Contents**

Current balance sheet strategies to manage the net interest margin in the expected rate environment include:

increasing total loans, particularly commercial and home equity loans that have variable or adjustable features;

selling a greater portion of residential mortgage loan production into the secondary market;

growing demand deposit account types to increase the relative portion of these account types to total deposits;

employing back-to-back loan swaps for certain commercial loan customers desiring a term fixed rate loan with the Bank receiving a variable rate;

extending FHLB term borrowings to balance asset/liability mismatches;

using the CDARS<sup>®</sup> and ICS<sup>®</sup> deposit programs to manage overall liability mix, and

managing the overall size of the investment portfolio as part of overall liquidity and balance sheet management strategies.

WesBanco also periodically measures the economic value of equity, which is defined as the market value of tangible equity in various rate scenarios. At March 31, 2018, the market value of tangible equity as a percent of base in a 200 basis point rising rate environment indicates a decrease of 7.0%, compared to a decrease of 1.8% at December 31, 2017. In a 100 basis point falling rate environment at March 31, 2018, the model indicates an increase of 0.1%, compared to a decrease of 3.1% as of December 31, 2017. WesBanco's policy is to limit such change to minus 10% increments for each 100 basis point change in interest rates. Generally, changes in the economic value of equity relate to changes in various assets and liabilities, as well as changes in loan prepayment speeds and deposit decay rates.

**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 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 March 31, 2018 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**

WesBanco is involved in various 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.

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

As of March 31, 2018, WesBanco had two active one million share stock repurchase plans. The first plan was originally approved by the Board of Directors on March 21, 2007 and the second, which is incremental to the first, was approved October 22, 2015. Each 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.

The following table presents the monthly share purchase activity during the quarter ended March 31, 2018:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as of Part of Publicly Announced Plan</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans</b>
Balance at December 31, 2017				1,107,297
<b>January 1, 2018 to January 31, 2018</b>				
Open market repurchases				1,107,297
Other transactions (1)	16,669	\$ 41.31	N/A	N/A
<b>February 1, 2018 to February 28, 2018</b>				
Open market repurchases				1,107,297
Other transactions (1)	1,628	\$ 41.81	N/A	N/A
<b>March 1, 2018 to March 31, 2018</b>				
Open market repurchases				1,107,297
Other transactions (1)	1,374	\$ 43.26	N/A	N/A
<b>First Quarter 2018</b>				
Open market repurchases				1,107,297
Other transactions (1)	19,671	\$ 41.49	N/A	N/A
Total	19,671	\$ 41.49		1,107,297

(1) Consists of open market purchases transacted for employee benefit and dividend reinvestment plans.



N/A Not applicable

---

**Table of Contents**

**ITEM 6. EXHIBITS**

- 2.1 Agreement and Plan of Merger by and between WesBanco, Inc., WesBanco Bank, Inc., Farmers Capital Bank Corporation and United Bank & Capital Trust Company. (Incorporated by reference to Form 8-K filed by the Registrant with the Securities and Exchange Commission on April 20, 2018.)
- 10.1 Form of Change in Control Agreement by and between WesBanco, Inc., WesBanco Bank, Inc. and Ivan Burdine (incorporated by reference to Form 8-K filed by the Registrant with the Securities and Exchange Commission on June 5, 2013)\*.
- 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 March 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at March 31, 2018 and December 31, 2017, (ii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017, (iii) the Consolidated Statements of Changes in Stockholders Equity for the three months ended March 31, 2018 and 2017, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2018 and 2017, and (v) the Notes to Consolidated Financial Statements.

\* Indicates management contract or compensatory plan or agreement.

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: April 30, 2018

/s/ Todd F. Clossin

Todd F. Clossin  
President and Chief Executive Officer

(Principal Executive Officer)

Date: April 30, 2018

/s/ Robert H. Young

Robert H. Young  
Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)