

WESBANCO INC  
Form 10-Q  
April 26, 2013  
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, 2013

**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)

Edgar Filing: WESBANCO INC - Form 10-Q

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

Large accelerated filer  Accelerated filer

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

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

As of April 22, 2013, there were 29,214,018 shares of WesBanco, Inc. common stock, \$2.0833 par value, outstanding.

**Table of Contents**

**WESBANCO, INC.**

**TABLE OF CONTENTS**

<b>Item No.</b>	<b>ITEM</b>	<b>Page No.</b>
	<b><u>PART I - FINANCIAL INFORMATION</u></b>	
1	<u>Financial Statements</u>	
	<u>Consolidated Balance Sheets at March 31, 2013 (unaudited) and December 31, 2012</u>	3
	<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012 (unaudited)</u>	4
	<u>Consolidated Statements of Changes in Shareholders' Equity for the three months ended March 31, 2013 and 2012 (unaudited)</u>	5
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 (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>	26
3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
4	<u>Controls and Procedures</u>	46
	<b><u>PART II - OTHER INFORMATION</u></b>	
1	<u>Legal Proceedings</u>	47
2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
6	<u>Exhibits</u>	49
	<u>Signatures</u>	50

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

<i>(unaudited, in thousands, except shares)</i>	March 31, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks, including interest bearing amounts of <b>\$56,571</b> and \$33,889, respectively	<b>\$ 178,263</b>	\$ 125,605
Securities:		
Available-for-sale, at fair value	<b>993,270</b>	1,021,244
Held-to-maturity (fair values of <b>\$624,627</b> and \$639,273, respectively)	<b>592,033</b>	602,509
Total securities	<b>1,585,303</b>	1,623,753
Loans held for sale	<b>14,299</b>	21,903
Portfolio loans, net of unearned income	<b>3,683,801</b>	3,687,762
Allowance for loan losses	<b>(51,664)</b>	(52,699)
Net portfolio loans	<b>3,632,137</b>	3,635,063
Premises and equipment, net	<b>90,879</b>	88,866
Accrued interest receivable	<b>19,909</b>	19,354
Goodwill and other intangible assets, net	<b>323,003</b>	324,465
Bank-owned life insurance	<b>118,666</b>	119,671
Other assets	<b>122,989</b>	120,037
<b>Total Assets</b>	<b>\$ 6,085,448</b>	\$ 6,078,717
<b>LIABILITIES</b>		
Deposits:		
Non-interest bearing demand	<b>\$ 888,109</b>	\$ 874,923
Interest bearing demand	<b>870,067</b>	831,368
Money market	<b>849,401</b>	847,805
Savings deposits	<b>766,265</b>	740,568
Certificates of deposit	<b>1,632,360</b>	1,649,620
Total deposits	<b>5,006,202</b>	4,944,284
Federal Home Loan Bank borrowings	<b>60,767</b>	111,187
Other short-term borrowings	<b>128,372</b>	142,971
Junior subordinated debt owed to unconsolidated subsidiary trusts	<b>106,109</b>	113,832
Total borrowings	<b>295,248</b>	367,990
Accrued interest payable	<b>3,620</b>	3,856
Other liabilities	<b>55,969</b>	48,403
<b>Total Liabilities</b>	<b>5,361,039</b>	5,364,533

Edgar Filing: WESBANCO INC - Form 10-Q

**SHAREHOLDERS EQUITY**

Preferred stock, no par value; 1,000,000 shares authorized; none outstanding		
Common stock, \$2.0833 par value; 50,000,000 shares authorized; <b>29,214,018</b> and 29,214,660 shares issued in 2013 and 2012; outstanding: <b>29,214,018</b> and 29,214,660 shares in 2013 and 2012, respectively	<b>60,862</b>	60,863
Capital surplus	<b>241,880</b>	241,672
Retained earnings	<b>429,715</b>	419,246
Treasury stock ( <b>0</b> shares in 2013 and 2012, respectively, at cost)		
Accumulated other comprehensive income (loss)	<b>(6,806)</b>	(6,365)
Deferred benefits for directors	<b>(1,242)</b>	(1,232)
<b>Total Shareholders Equity</b>	<b>724,409</b>	714,184
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 6,085,448</b>	\$ 6,078,717

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,	
	2013	2012
<b>INTEREST AND DIVIDEND INCOME</b>		
Loans, including fees	\$ 44,276	\$ 41,964
Interest and dividends on securities:		
Taxable	7,433	8,590
Tax-exempt	3,127	3,079
Total interest and dividends on securities	10,560	11,669
Other interest income	56	47
Total interest and dividend income	54,892	53,680
<b>INTEREST EXPENSE</b>		
Interest bearing demand deposits	301	405
Money market deposits	339	742
Savings deposits	141	295
Certificates of deposit	6,148	6,979
Total interest expense on deposits	6,929	8,421
Federal Home Loan Bank borrowings	319	1,377
Other short-term borrowings	623	1,178
Junior subordinated debt owed to unconsolidated subsidiary trusts	893	874
Total interest expense	8,764	11,850
<b>NET INTEREST INCOME</b>	<b>46,128</b>	<b>41,830</b>
Provision for credit losses	2,102	6,202
Net interest income after provision for credit losses	44,026	35,628
<b>NON-INTEREST INCOME</b>		
Trust fees	5,018	4,753
Service charges on deposits	4,197	3,993
Electronic banking fees	2,866	2,763
Net securities brokerage revenue	1,497	1,075
Bank-owned life insurance	1,949	880
Net gains on sales of mortgage loans	712	268
Net securities gains	16	100
Net (loss) / gain on other real estate owned and other assets	(46)	32
Other income	1,287	1,458
Total non-interest income	17,496	15,322
<b>NON-INTEREST EXPENSE</b>		
Salaries and wages	15,826	14,315
Employee benefits	6,345	5,618
Net occupancy	3,192	2,776

Edgar Filing: WESBANCO INC - Form 10-Q

Equipment	2,407	2,174
Marketing	805	771
FDIC insurance	971	1,045
Amortization of intangible assets	625	537
Restructuring and merger-related expense	1,178	
Other operating expenses	9,398	8,429
<b>Total non-interest expense</b>	<b>40,747</b>	<b>35,665</b>
Income before provision for income taxes	20,775	15,285
Provision for income taxes	4,754	3,295
<b>NET INCOME</b>	<b>\$ 16,021</b>	<b>\$ 11,990</b>
<b>EARNINGS PER COMMON SHARE</b>		
Basic	\$ 0.55	\$ 0.45
Diluted	\$ 0.55	\$ 0.45
<b>AVERAGE COMMON SHARES OUTSTANDING</b>		
Basic	29,211,321	26,628,025
Diluted	29,268,483	26,631,187
<b>DIVIDENDS DECLARED PER COMMON SHARE</b>	<b>\$ 0.19</b>	<b>\$ 0.17</b>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 15,580</b>	<b>\$ 12,566</b>

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, 2013 and 2012**

<i>(unaudited, in thousands, except shares and per share amounts)</i>	Common Stock		Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income		Deferred Benefits for Directors	Total
	Shares	Amount				(Loss)			
December 31, 2012	29,214,660	\$ 60,863	\$ 241,672	\$ 419,246	\$	\$ (6,365)	\$ (1,232)	\$ 714,184	
Net income				16,021				16,021	
Other comprehensive income						(441)		(441)	
Comprehensive income								15,580	
Common dividends declared (\$0.19 per share)				(5,552)				(5,552)	
Treasury shares acquired	(620)				(14)			(14)	
Stock options exercised	4,650	8	76		14			98	
Adjustment to shares issued in acquisition	(4,672)	(9)	(95)					(104)	
Stock compensation expense			217					217	
Deferred benefits for directors- net			10				(10)		
March 31, 2013	29,214,018	\$ 60,862	\$ 241,880	\$ 429,715	\$	\$ (6,806)	\$ (1,242)	\$ 724,409	
December 31, 2011	26,629,360	\$ 55,487	\$ 191,679	\$ 388,818	\$ (96)	\$ (902)	\$ (1,196)	\$ 633,790	
Net income				11,990				11,990	
Other comprehensive income						576		576	
Comprehensive income								12,566	
Common dividends declared (\$0.17 per share)				(4,527)				(4,527)	
Treasury shares acquired	(1,671)		22		(31)			(9)	
Stock compensation expense			181					181	
Deferred benefits for directors- net			9				(9)		
March 31, 2012	26,627,689	\$ 55,487	\$ 191,891	\$ 396,281	\$ (127)	\$ (326)	\$ (1,205)	\$ 642,001	

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>2013</b>	<b>2012</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 31,308</b>	<b>\$ 20,648</b>
<b>INVESTING ACTIVITIES:</b>		
Net decrease in loans	3,243	8,689
Securities available-for-sale:		
Proceeds from sales	3,371	3,076
Proceeds from maturities, prepayments and calls	95,683	127,531
Purchases of securities	(73,129)	(202,413)
Securities held-to-maturity:		
Proceeds from maturities, prepayments and calls	21,224	29,443
Purchases of securities	(11,811)	(15,510)
Purchases of premises and equipment net	(1,198)	(916)
Net cash provided by (used in) investing activities	37,383	(50,100)
<b>FINANCING ACTIVITIES:</b>		
Increase in deposits	61,558	79,987
Repayment of Federal Home Loan Bank borrowings	(50,206)	(20,210)
Decrease in other short-term borrowings	(14,477)	(9,137)
Repayment of junior subordinated debt	(7,732)	
Dividends paid to common shareholders	(5,260)	(4,261)
Treasury shares (purchased) sold - net		(9)
Issuance of common stock	84	
Net cash (used in) provided by financing activities	(16,033)	46,370
Net increase in cash and cash equivalents	52,658	16,918
Cash and cash equivalents at beginning of the period	125,605	140,325
Cash and cash equivalents at end of the period	\$ 178,263	\$ 157,243
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Interest paid on deposits and other borrowings	\$ 9,000	\$ 11,818
Income taxes paid	2,875	650
Transfers of loans to other real estate owned	472	750

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 U.S. 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, 2012.

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 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly WesBanco's financial position and results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year.

**RECENT ACCOUNTING PRONOUNCEMENTS** In February 2013, the Financial Accounting Standards Board (the FASB ) issued an accounting pronouncement to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendment does not change the current requirements for reporting net income or other comprehensive income in the financial statements. However, the amendment requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component and including references to other disclosures. The pronouncement is effective prospectively for interim and annual reporting periods beginning after December 15, 2012. The adoption of this pronouncement did not have a material impact on WesBanco's consolidated financial statements.

In December 2011, the FASB issued an accounting pronouncement which requires entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position, including instruments and transactions subject to master netting arrangements. The scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The objective of this disclosure is to enhance disclosures required by GAAP by requiring improved information about financial instruments and derivative instruments that are either offset in accordance with existing GAAP or subject to an enforceable master netting arrangement or similar agreement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. In January 2013, the FASB issued an accounting pronouncement to clarify and limit the scope of the aforementioned pronouncement by more specifically defining transactions eligible for offset. The pronouncements should be applied retrospectively effective for fiscal years, and interim periods within those years, beginning after January 1, 2013. The adoption of these pronouncements did not have a material impact on WesBanco's consolidated financial statements.

**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>	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Numerator for both basic and diluted earnings per common share:		
Net income	\$ <b>16,021</b>	\$ 11,990
Denominator:		
Total average basic common shares outstanding	<b>29,211,321</b>	26,628,025
Effect of dilutive stock options	<b>57,162</b>	3,162
Total diluted average common shares outstanding	<b>29,268,483</b>	26,631,187
Earnings per common share - basic	\$ <b>0.55</b>	\$ 0.45

Edgar Filing: WESBANCO INC - Form 10-Q

Earnings per common share - diluted	\$	<b>0.55</b>	\$	0.45
-------------------------------------	----	-------------	----	------

**Table of Contents****NOTE 3. SECURITIES**

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

<i>(unaudited, in thousands)</i>	March 31, 2013				December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>Available-for-sale</b>								
Other government agencies	\$ 65,281	\$ 199	\$ (31)	\$ 65,449	\$ 96,257	\$ 411	\$ (56)	\$ 96,612
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	729,647	9,822	(527)	738,942	721,824	10,690	(304)	732,210
Obligations of state and political subdivisions	130,913	8,754	(47)	139,620	139,511	9,133	(9)	148,635
Corporate debt securities	37,959	239	(62)	38,136	32,706	213	(234)	32,685
<b>Total debt securities</b>	<b>\$ 963,800</b>	<b>\$ 19,014</b>	<b>\$ (667)</b>	<b>\$ 982,147</b>	<b>\$ 990,298</b>	<b>\$ 20,447</b>	<b>\$ (603)</b>	<b>\$ 1,010,142</b>
Equity securities	9,952	1,211	(40)	11,123	10,207	916	(21)	11,102
<b>Total available-for-sale securities</b>	<b>\$ 973,752</b>	<b>\$ 20,225</b>	<b>\$ (707)</b>	<b>\$ 993,270</b>	<b>\$ 1,000,505</b>	<b>\$ 21,363</b>	<b>\$ (624)</b>	<b>\$ 1,021,244</b>
<b>Held-to-maturity</b>								
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	\$ 133,186	\$ 5,626	\$ (69)	\$ 138,743	\$ 152,872	\$ 6,421	\$ (80)	\$ 159,213
Other residential collateralized mortgage obligations	305	7		312	353	8		361
Obligations of state and political subdivisions	458,542	28,823	(1,793)	485,572	449,284	31,244	(829)	479,699
<b>Total held-to-maturity securities</b>	<b>\$ 592,033</b>	<b>\$ 34,456</b>	<b>\$ (1,862)</b>	<b>\$ 624,627</b>	<b>\$ 602,509</b>	<b>\$ 37,673</b>	<b>\$ (909)</b>	<b>\$ 639,273</b>
<b>Total securities</b>	<b>\$ 1,565,785</b>	<b>\$ 54,681</b>	<b>\$ (2,569)</b>	<b>\$ 1,617,897</b>	<b>\$ 1,603,014</b>	<b>\$ 59,036</b>	<b>\$ (1,533)</b>	<b>\$ 1,660,517</b>

At March 31, 2013, and December 31, 2012, there were no holdings of any one issuer, other than the U.S. government and its agencies, in an amount greater than 10% of WesBanco's shareholders' equity.

The following table presents the fair value of available-for-sale and held-to-maturity securities by contractual maturity at March 31, 2013. In many 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, 2013						Total
	One Year or less	One to Five Years	Five to Ten Years	After Ten Years	Mortgage-backed and Equity		
<b>Available-for-sale</b>							
Other government agencies	\$	\$ 17,866	\$ 38,441	\$ 9,142	\$	\$	\$ 65,449
Residential mortgage-backed securities and						738,942	738,942

Edgar Filing: WESBANCO INC - Form 10-Q

collateralized mortgage obligations of						
government agencies <sup>(1)</sup>						
Obligations of states and political subdivisions	8,767	42,834	35,567	52,452		139,620
Corporate debt securities	5,135	17,316	7,744	7,941		38,136
Equity securities <sup>(2)</sup>					11,123	11,123
<b>Total available-for-sale securities</b>	<b>\$ 13,902</b>	<b>\$ 78,016</b>	<b>\$ 81,752</b>	<b>\$ 69,535</b>	<b>\$ 750,065</b>	<b>\$ 993,270</b>
Held-to-maturity <sup>(3)</sup>						
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies <sup>(1)</sup>						
	\$	\$	\$	\$	\$	138,743
Other residential collateralized mortgage obligations <sup>(1)</sup>					312	312
Obligations of states and political subdivisions	2,728	9,390	117,252	356,202		485,572
<b>Total held-to-maturity securities</b>	<b>\$ 2,728</b>	<b>\$ 9,390</b>	<b>\$ 117,252</b>	<b>\$ 356,202</b>	<b>\$ 139,055</b>	<b>\$ 624,627</b>
<b>Total securities</b>	<b>\$ 16,630</b>	<b>\$ 87,406</b>	<b>\$ 199,004</b>	<b>\$ 425,737</b>	<b>\$ 889,120</b>	<b>\$ 1,617,897</b>

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

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

(3) The held-to-maturity portfolio is carried at an amortized cost of \$592.0 million.

**Table of Contents**

Securities with aggregate par values of \$686.1 million and \$710.5 million at March 31, 2013 and December 31, 2012, respectively, were pledged as security for public and trust funds, and securities sold under agreements to repurchase. Proceeds from the sale of available-for-sale securities were \$3.4 million and \$3.1 million for the three months ended March 31, 2013 and 2012, respectively. Net unrealized gains on available-for-sale securities included in accumulated other comprehensive income, net of tax, as of March 31, 2013 and December 31, 2012 were \$12.3 million and \$13.0 million, respectively. Gross security gains of \$53 thousand and \$0.1 million on available-for-sale securities were realized for the three months ended March 31, 2013 and 2012. Gross security losses on available-for-sale securities of \$37 thousand were realized for the three months ended March 31, 2013.

The following table provides information on unrealized losses on investment securities that have been in an unrealized loss position for less than twelve months and twelve months or more as of March 31, 2013 and December 31, 2012:

	Less than 12 months			March 31, 2013 12 months or more			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
<i>(unaudited, dollars in thousands)</i>									
Other government agencies	\$ 8,047	\$ (4)	3	\$ 4,664	\$ (27)	1	\$ 12,711	\$ (31)	4
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	93,980	(502)	18	7,294	(94)	8	101,274	(596)	26
Obligations of states and political subdivisions	97,422	(1,736)	145	3,999	(104)	3	101,421	(1,840)	148
Corporate debt securities	1,980	(3)	1	7,941	(59)	3	9,921	(62)	4
Equity securities	2,848	(40)	2				2,848	(40)	2
Total temporarily impaired securities	\$ 204,277	\$ (2,285)	169	\$ 23,898	\$ (284)	15	\$ 228,175	\$ (2,569)	184

	Less than 12 months			December 31, 2012 12 months or more			Total		
	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities	Fair Value	Unrealized Losses	# of Securities
<i>(unaudited, dollars in thousands)</i>									
Other government agencies	\$ 18,894	\$ (56)	6	\$	\$		\$ 18,894	\$ (56)	6
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	38,913	(258)	20	9,966	(126)	10	48,879	(384)	30
Obligations of states and political subdivisions	72,521	(838)	107				72,521	(838)	107
Corporate debt securities	1,526	(57)	2	10,878	(177)	5	12,404	(234)	7
Equity securities	2,838	(21)	2				2,838	(21)	2
Total temporarily impaired securities	\$ 134,692	\$ (1,230)	137	\$ 20,844	\$ (303)	15	\$ 155,536	\$ (1,533)	152

Unrealized losses on debt securities in the table 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 to other comprehensive income in shareholders equity.

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

Securities that do not have readily determinable fair values and for which WesBanco does not exercise significant influence are carried at cost. Cost method investments consist primarily of FHLB of Pittsburgh and FHLB of Cincinnati stock totaling \$18.4 million and \$21.3 million at March 31, 2013 and December 31, 2012, 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 following table presents the recorded investment in loans by category net of deferred loan fees and costs of \$2.4 million and \$2.5 million at March 31, 2013 and December 31, 2012, respectively:

<i>(unaudited, in thousands)</i>	March 31, 2013	December 31, 2012
Commercial real estate:		
Land and construction	\$ 184,802	\$ 193,004
Improved property	1,646,952	1,665,341
Total commercial real estate	1,831,754	1,858,345
Commercial and industrial	495,748	478,025
Residential real estate	808,528	793,702
Home equity	278,812	277,226
Consumer	268,959	280,464
Total portfolio loans	3,683,801	3,687,762
Loans held for sale	14,299	21,903
Total loans	\$ 3,698,100	\$ 3,709,665

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

**Allowance for Credit Losses By Category  
For the Three Months Ended March 31, 2013 and 2012**

<i>(unaudited, in thousands)</i>	Commercial Real Estate - Land and Construction	Commercial Real Estate - Improved Property	Commercial & Industrial	Residential Real Estate	Home Equity	Consumer	Deposit Overdraft	Total
<b>Balance at December 31, 2012:</b>								
Allowance for loan losses	\$ 3,741	\$ 23,614	\$ 9,326	\$ 7,182	\$ 2,458	\$ 5,557	\$ 821	\$ 52,699
Allowance for loan commitments	27	25	215	6	49	19		341
Total beginning allowance for credit losses	3,768	23,639	9,541	7,188	2,507	5,576	821	53,040
Provision for credit losses:								
Provision for loan losses	252	342	606	285	188	464	(140)	1,997
Provision for loan commitments	5		89	3	8			105
Total provision for credit losses	257	342	695	288	196	464	(140)	2,102
Charge-offs	(51)	(995)	(650)	(553)	(176)	(1,129)	(190)	(3,744)
Recoveries	3	228	107	38	5	269	62	712
Net charge-offs	(48)	(767)	(543)	(515)	(171)	(860)	(128)	(3,032)



Edgar Filing: WESBANCO INC - Form 10-Q

**Balance at March 31, 2013:**

Allowance for loan losses	3,945	23,189	9,389	6,952	2,475	5,161	553	51,664
Allowance for loan commitments	32	25	304	9	57	19		446
<b>Total ending allowance for credit losses</b>	<b>\$ 3,977</b>	<b>\$ 23,214</b>	<b>\$ 9,693</b>	<b>\$ 6,961</b>	<b>\$ 2,532</b>	<b>\$ 5,180</b>	<b>\$ 553</b>	<b>\$ 52,110</b>

**Balance at December 31, 2011:**

Allowance for loan losses	\$ 4,842	\$ 24,748	\$ 11,414	\$ 5,638	\$ 1,962	\$ 5,410	\$ 796	\$ 54,810
Allowance for loan commitments	74	21	323	4	33	13		468
<b>Total beginning allowance for credit losses</b>	<b>4,916</b>	<b>24,769</b>	<b>11,737</b>	<b>5,642</b>	<b>1,995</b>	<b>5,423</b>	<b>796</b>	<b>55,278</b>

Provision for credit losses:

Provision for loan losses	1,670	1,948	386	835	641	893	(171)	6,202
Provision for loan commitments	(21)	(15)	23		11	2		
<b>Total provision for credit losses</b>	<b>1,649</b>	<b>1,933</b>	<b>409</b>	<b>835</b>	<b>652</b>	<b>895</b>	<b>(171)</b>	<b>6,202</b>

Charge-offs	(2,117)	(1,885)	(761)	(851)	(335)	(1,115)	(180)	(7,244)
Recoveries	36	88	92	87	4	226	94	627

Net charge-offs	(2,081)	(1,797)	(669)	(764)	(331)	(889)	(86)	(6,617)
-----------------	---------	---------	-------	-------	-------	-------	------	---------

**Balance at March 31, 2012:**

Allowance for loan losses	4,431	24,899	11,131	5,709	2,272	5,414	539	54,395
Allowance for loan commitments	53	6	346	4	44	15		468
<b>Total ending allowance for credit losses</b>	<b>\$ 4,484</b>	<b>\$ 24,905</b>	<b>\$ 11,477</b>	<b>\$ 5,713</b>	<b>\$ 2,316</b>	<b>\$ 5,429</b>	<b>\$ 539</b>	<b>\$ 54,863</b>

**Table of Contents**

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

<i>(unaudited, in thousands)</i>	Allowance for Credit Losses and Recorded Investment in Loans							
	Commercial Real Estate-Land and Construction	Commercial Real Estate-Improved Property	Commercial and Industrial	Residential Real Estate	Home Equity	Consumer	Over-draft	Total
<b>March 31, 2013</b>								
Allowance for credit losses:								
Allowance for loans individually evaluated for impairment	\$ 850	\$ 394	\$	\$	\$	\$	\$	\$ 1,244
Allowance for loans collectively evaluated for impairment	3,095	22,795	9,389	6,952	2,475	5,161	553	50,420
Allowance for loans acquired with deteriorated credit quality								
Allowance for loan commitments	32	25	304	9	57	19		446
<b>Total allowance for credit losses</b>	<b>\$ 3,977</b>	<b>\$ 23,214</b>	<b>\$ 9,693</b>	<b>\$ 6,961</b>	<b>\$ 2,532</b>	<b>\$ 5,180</b>	<b>\$ 553</b>	<b>\$ 52,110</b>
Portfolio loans:								
Individually evaluated for impairment <sup>(1)</sup>	\$ 2,036	\$ 4,491	\$	\$	\$	\$	\$	\$ 6,527
Collectively evaluated for impairment	182,268	1,642,421	495,304	806,310	278,721	268,458		3,673,482
Loans acquired with deteriorated credit quality	498	40	444	2,218	91	501		3,792
<b>Total portfolio loans</b>	<b>\$ 184,802</b>	<b>\$ 1,646,952</b>	<b>\$ 495,748</b>	<b>\$ 808,528</b>	<b>\$ 278,812</b>	<b>\$ 268,959</b>	<b>\$</b>	<b>\$ 3,683,801</b>
<b>December 31, 2012</b>								
Allowance for credit losses:								
Allowance for loans individually evaluated for impairment	\$ 832	\$ 911	\$	\$	\$	\$	\$	\$ 1,743
Allowance for loans collectively evaluated for impairment	2,909	22,703	9,326	7,182	2,458	5,557	821	50,956
Allowance for loans acquired with deteriorated credit quality								
Allowance for loan commitments	27	25	215	6	49	19		341
<b>Total allowance for credit losses</b>	<b>\$ 3,768</b>	<b>\$ 23,639</b>	<b>\$ 9,541</b>	<b>\$ 7,188</b>	<b>\$ 2,507</b>	<b>\$ 5,576</b>	<b>\$ 821</b>	<b>\$ 53,040</b>
Portfolio loans:								
Individually evaluated for impairment <sup>(1)</sup>	\$ 2,545	\$ 6,987	\$	\$	\$	\$	\$	\$ 9,532
Collectively evaluated for impairment	189,839	1,658,306	477,594	791,475	277,126	279,980		3,674,320
Loans acquired with deteriorated credit quality	620	48	431	2,227	100	484		3,910
<b>Total portfolio loans</b>	<b>\$ 193,004</b>	<b>\$ 1,665,341</b>	<b>\$ 478,025</b>	<b>\$ 793,702</b>	<b>\$ 277,226</b>	<b>\$ 280,464</b>	<b>\$</b>	<b>\$ 3,687,762</b>

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

<sup>(1)</sup> Commercial loans greater than \$1 million that are reported as non-accrual or as a troubled debt restructuring ( 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. Other factors that are considered for commercial and industrial loans include the type, quality and marketability of non-real estate collateral and whether the structure of the loan increases or reduces its risk. The type, age, condition, location and any environmental risks associated with a property are also considered for all types of commercial real estate. The overall financial condition and repayment capacity of any guarantors is also evaluated to determine the extent to which they mitigate other risks of the loan. The following descriptions of risk grades apply to commercial real estate and commercial and industrial loans:

Excellent or minimal risk loans are fully secured by liquid or readily marketable collateral and therefore have virtually no risk of loss. Good or desirable risk loans are extended in the normal course of business to creditworthy borrowers that exhibit a history of positive financial results that are at least comparable to the average for their industry or type of real estate. These loans are expected to perform satisfactorily during most economic cycles and there are no significant external factors that are expected to adversely affect these borrowers more than others in the same industry. Any minor unfavorable characteristics of these loans are outweighed or mitigated by strong positive factors including but not limited to adequate secondary sources of repayment or guarantees.

**Table of Contents**

Fair or acceptable risk loans have a somewhat higher credit risk profile due to specific weaknesses or uncertainties that could adversely impact repayment capacity. Loans in this category generally warrant additional attention or monitoring, or a more rigid loan structure. These loans represent the maximum level of risk accepted in the normal course of lending. Specific issues that may warrant this grade include financial results that are less favorable than the average for the borrower's industry or type of real estate, cyclical financial results, loans based on projections that have a reasonable probability of being achieved, start-up businesses, construction projects, and other external factors that indicate a higher level of credit risk. Loans that are underwritten primarily on the basis of the repayment capacity or financial condition of guarantors may also be assigned this grade.

Criticized or marginal loans are currently protected but have weaknesses, which, if not corrected, may inadequately protect WesBanco Bank, Inc. (the Bank) 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, 2013</b>				
Excellent - minimal risk	\$	\$ 771	\$ 66,402	\$ 67,173
Good - desirable risk	31,402	676,809	151,710	859,921
Fair - acceptable risk	135,898	837,327	259,049	1,232,274
Criticized - marginal	9,357	65,968	8,821	84,146
Classified - substandard	8,145	66,077	9,766	83,988
Classified - doubtful				
Total	<b>\$ 184,802</b>	<b>\$ 1,646,952</b>	<b>\$ 495,748</b>	<b>\$ 2,327,502</b>
<b>As of December 31, 2012</b>				
Excellent - minimal risk	\$	\$ 789	\$ 64,255	\$ 65,044
Good - desirable risk	38,292	701,447	152,853	892,592
Fair - acceptable risk	136,643	826,790	242,564	1,205,997
Criticized - marginal	10,573	66,906	9,298	86,777
Classified - substandard	7,496	69,409	9,055	85,960
Classified - doubtful				
Total	<b>\$ 193,004</b>	<b>\$ 1,665,341</b>	<b>\$ 478,025</b>	<b>\$ 2,336,370</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 were \$15.6 million at March 31, 2013 and \$17.9 million at December 31, 2012, of which \$3.6 and \$4.9 million were accruing, for each period, respectively. The aggregate amount of residential real estate, home equity and consumer loans classified as substandard are not included in the tables above.



**Table of Contents**

The following table summarizes the age analysis of all categories of loans:

<i>(unaudited, in thousands)</i>	Age Analysis of Loans						90 Days or More Past Due and Accruing <sup>(1)</sup>
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total Loans	
<b>As of March 31, 2013</b>							
Commercial real estate:							
Land and construction	\$ 181,026	\$ 264	\$	\$ 3,512	\$ 3,776	\$ 184,802	\$
Improved property	1,627,755	2,573	4,067	12,557	19,197	1,646,952	625
Total commercial real estate	1,808,781	2,837	4,067	16,069	22,973	1,831,754	625
Commercial and industrial	492,605	864	443	1,836	3,143	495,748	86
Residential real estate	792,086	4,555	2,296	9,591	16,442	808,528	2,666
Home equity	275,812	1,652	209	1,139	3,000	278,812	482
Consumer	264,842	2,887	569	661	4,117	268,959	486
Total portfolio loans	3,634,126	12,795	7,584	29,296	49,675	3,683,801	4,345
Loans held for sale	14,299					14,299	
Total loans	\$ 3,648,425	\$ 12,795	\$ 7,584	\$ 29,296	\$ 49,675	\$ 3,698,100	\$ 4,345

Non-performing loans included above are as follows:

Non-accrual loans	\$ 12,949	\$ 1,160	\$ 4,180	\$ 24,437	\$ 29,777	\$ 42,726
TDRs accruing interest <sup>(1)</sup>	19,374	487	45	514	1,046	20,420

**As of December 31, 2012**

Commercial real estate:							
Land and construction	\$ 189,072	\$ 1,470	\$	\$ 2,462	\$ 3,932	\$ 193,004	\$
Improved property	1,643,833	5,722	2,224	13,562	21,508	1,665,341	338
Total commercial real estate	1,832,905	7,192	2,224	16,024	25,440	1,858,345	338
Commercial and industrial	475,186	283	412	2,144	2,839	478,025	98
Residential real estate	774,006	4,231	4,833	10,632	19,696	793,702	3,199
Home equity	274,235	1,352	197	1,442	2,991	277,226	722
Consumer	273,329	4,655	1,123	1,357	7,135	280,464	937
Total portfolio loans	3,629,661	17,713	8,789	31,599	58,101	3,687,762	5,294
Loans held for sale	21,903					21,903	
Total loans	\$ 3,651,564	\$ 17,713	\$ 8,789	\$ 31,599	\$ 58,101	\$ 3,709,665	\$ 5,294

Non-performing loans included above are as follows:

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

Non-accrual loans	\$ 11,724	\$ 591	\$ 1,747	\$ 25,310	\$ 27,648	\$ 39,372
TDRs accruing interest <sup>(1)</sup>	21,665	794	827	995	2,616	24,281

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

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

Loans are generally placed on non-accrual status when they become past due 90 days or more unless they are both well-secured and in the process of collection. Loans may also be placed on non-accrual when full collection of principal is in doubt even if payments on such loans remain current, or may remain on non-accrual if they are 90 days or more past due but subsequently brought current and maintained current for at least six consecutive months.

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

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

WesBanco acquired impaired loans with a book value of \$16.6 million in the Fidelity Bancorp, Inc. ( Fidelity ) acquisition. These loans were recorded at their fair value of \$11.2 million. Acquired impaired loans with a fair value of \$7.3 million were sold in December 2012. The balance of these loans at March 31, 2013 was \$3.8 million, of which \$1.8 million were non-accrual and \$2.0 million were accruing TDRs. The accretion that is expected to be recognized into future earnings upon these impaired loans totaled \$0.6 million at March 31, 2013.

**Table of Contents**

The following tables summarize impaired loans:

	Impaired Loans					
	March 31, 2013			December 31, 2012		
	Unpaid Principal Balance (1)	Recorded Investment	Related Allowance	Unpaid Principal Balance (1)	Recorded Investment	Related Allowance
<i>(unaudited, in thousands)</i>						
<b>With no related allowance recorded:</b>						
Commercial real estate:						
Land and construction	\$ 9,653	\$ 6,257	\$	\$ 9,278	\$ 5,577	\$
Improved property	26,406	23,875		27,515	24,455	
Commercial and industrial	4,839	4,231		4,546	4,019	
Residential real estate	22,210	20,245		22,146	20,269	
Home equity	2,225	2,040		2,437	2,207	
Consumer	1,731	1,462		1,757	1,517	
<b>Total impaired loans without a related allowance</b>	<b>67,064</b>	<b>58,110</b>		<b>67,679</b>	<b>58,044</b>	
<b>With an allowance recorded:</b>						
Commercial real estate:						
Land and construction	1,544	1,544	850	1,627	1,627	832
Improved property	3,492	3,492	394	4,098	3,982	911
<b>Total impaired loans with an allowance</b>	<b>5,036</b>	<b>5,036</b>	<b>1,244</b>	<b>5,725</b>	<b>5,609</b>	<b>1,743</b>
<b>Total impaired loans</b>	<b>\$ 72,100</b>	<b>\$ 63,146</b>	<b>\$ 1,244</b>	<b>\$ 73,404</b>	<b>\$ 63,653</b>	<b>\$ 1,743</b>

(1) The difference between the unpaid principal balance and the recorded investment generally reflects amounts that have been previously charged-off.

	Impaired Loans			
	For the Three Months Ended March 31, 2013		For the Three Months Ended March 31, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>(unaudited, in thousands)</i>				
<b>With no related allowance recorded:</b>				
Commercial real estate:				
Land and construction	\$ 5,917	\$ 60	\$ 11,981	\$ 92
Improved Property	24,165	131	33,370	120
Commercial and industrial	4,125	33	8,327	18
Residential real estate	20,257	194	16,153	74
Home equity	2,124	15	1,200	2
Consumer	1,490	27	274	
<b>Total impaired loans without a related allowance</b>	<b>58,078</b>	<b>460</b>	<b>71,305</b>	<b>306</b>

**With an allowance recorded:**



Edgar Filing: WESBANCO INC - Form 10-Q

Commercial real estate:				
Land and construction	1,586	13	4,197	
Improved Property	3,737	15	8,438	109
Commercial and industrial				
<b>Total impaired loans with an allowance</b>	<b>5,323</b>	<b>28</b>	12,635	109
<b>Total impaired loans</b>	<b>\$ 63,401</b>	<b>\$ 488</b>	\$ 83,940	\$ 415

**Table of Contents**

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

<i>(unaudited, in thousands)</i>	Non-accrual Loans <sup>(1)</sup>	
	March 31, 2013	December 31, 2012
Commercial real estate:		
Land and construction	\$ 6,123	\$ 4,668
Improved Property	20,998	18,239
Total commercial real estate	27,121	22,907
Commercial and industrial	3,642	3,387
Residential real estate	10,219	11,247
Home equity	1,090	1,184
Consumer	654	647
Total	\$ 42,726	\$ 39,372

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

<i>(unaudited, in thousands)</i>	TDRs					
	March 31, 2013			December 31, 2012		
	Accruing	Non-Accrual	Total	Accruing	Non-accrual	Total
Commercial real estate:						
Land and construction	\$ 1,679	\$ 3,877	\$ 5,556	\$ 2,537	\$ 2,935	\$ 5,472
Improved Property	6,368	8,088	14,456	10,198	6,452	16,650
Total commercial real estate	8,047	11,965	20,012	12,735	9,387	22,122
Commercial and industrial	589	723	1,312	632	728	1,360
Residential real estate	10,026	3,470	13,496	9,022	4,077	13,099
Home equity	950	511	1,461	1,022	519	1,541
Consumer	808	437	1,245	870	290	1,160
Total	\$ 20,420	\$ 17,106	\$ 37,526	\$ 24,281	\$ 15,001	\$ 39,282

As of March 31, 2013, there were three TDRs greater than \$1.0 million, all of which were non-accrual, representing \$4.8 million or 12.9% of total TDRs, comprised of one commercial real estate land and construction loan and two commercial real estate improved property loans with specific reserves of \$1.2 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.

The following table presents details related to loans identified as TDRs during the three months ended March 31, 2013 and March 31, 2012, respectively:

<i>(unaudited, dollars in thousands)</i>	New TDRs <sup>(1)</sup>	New TDRs <sup>(1)</sup>
	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012

Edgar Filing: WESBANCO INC - Form 10-Q

	Number of Modifications	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment	Number of Modifications	Pre- Modification Outstanding Recorded Investment	Post- Modification Outstanding Recorded Investment
<b>Commercial real estate:</b>						
Land and construction	1	\$ 299	\$ 299		\$	\$
Improved Property	5	891	721	6	903	909
Total commercial real estate	6	1,190	1,020	6	903	909
<b>Commercial and industrial</b>						
Residential real estate	7	1,193	1,155	4	395	403
Home equity	1	2	2			
Consumer	6	55	46			
Total	26	\$ 2,605	\$ 2,388	10	\$ 1,298	\$ 1,312

(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 or more) during the three months ended March 31, 2013 and 2012 that were restructured within the last twelve months prior to March 31, 2013 and 2012:

<i>(unaudited, dollars in thousands)</i>	Defaulted TDRs <sup>(1)</sup> For the Three Months Ended March 31, 2013		Defaulted TDRs <sup>(1)</sup> For the Three Months Ended March 31, 2012	
	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate:				
Land and construction		\$	1	\$ 139
Improved property	2	645	10	2,627
Total commercial real estate	2	645	11	2,766
Commercial and industrial	4	410	3	488
Residential real estate	19	1,644		
Home equity	8	191		
Consumer	2	32		
Total	35	\$ 2,922	14	\$ 3,254

<sup>(1)</sup> Excludes loans that were either charged-off or cured by period end. The recorded investment is as of March 31, 2013 and 2012. TDRs that defaulted during the three month period and that were restructured within the last twelve months represented 7.8% of the total TDR balance at March 31, 2013. These loans are placed on non-accrual status unless they are both well-secured and in the process of collection. The majority of new TDRs and defaults in the tables above for the three months ended March 31, 2013 relate to the implementation of a regulatory requirement in late 2012 which placed \$9.4 million of loans discharged in bankruptcy into the TDR category. At March 31, 2013, only one loan in the table above was accruing interest.

WesBanco had unfunded commitments to debtors whose loans were classified as TDRs of \$21 thousand and \$49 thousand at March 31, 2013 and December 31, 2012, respectively.

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

<i>(unaudited, in thousands)</i>	March 31, 2013	December 31, 2012
Other real estate owned	\$ 4,928	\$ 5,741
Repossessed assets	219	247
Total other real estate owned and repossessed assets	\$ 5,147	\$ 5,988

**NOTE 5. FEDERAL HOME LOAN BANK BORROWINGS**

WesBanco is a member of the FHLB System. WesBanco's FHLB borrowings, which consist of borrowings from both the FHLB of Pittsburgh and the FHLB of Cincinnati, are secured by a blanket lien by the FHLB on certain residential mortgages and other loan types or securities with a market value in excess of the outstanding balances of the borrowings. At March 31, 2013 and December 31, 2012, WesBanco had FHLB borrowings of \$60.8 million and \$111.2 million, with a weighted-average interest rate of 2.7% and 3.04%, respectively. The decline in borrowings from December 31, 2012 was due to scheduled maturities. The terms of the security agreement with the FHLB include a specific

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

assignment of collateral that requires the maintenance of qualifying mortgage and other types of loans as pledged collateral with unpaid principal amounts in excess of the FHLB advances, when discounted at certain pre-established percentages of the loans' unpaid principal balances. FHLB stock owned by WesBanco totaling \$18.4 million at March 31, 2013 and \$21.3 million at December 31, 2012 is also pledged as collateral on these advances. The remaining maximum borrowing capacity by WesBanco with the FHLB at March 31, 2013 and December 31, 2012 was estimated to be approximately \$1.4 billion and \$1.3 billion, respectively.

Certain FHLB advances contain call features, which allow the FHLB to call the outstanding balance or convert a fixed rate borrowing to a variable rate advance if the strike rate goes beyond a certain predetermined rate. The probability that these advances will be called depends primarily on the level of related interest rates during the call period. Of the \$60.8 million outstanding at March 31, 2013, \$6.0 million in FHLB convertible advances are subject to call or conversion to a variable rate advance by the FHLB.

**Table of Contents**

The following table presents the aggregate annual maturities and weighted-average interest rates of FHLB borrowings at March 31, 2013 based on their contractual maturity dates and effective interest rates:

*(unaudited, dollars in thousands)*

Year	Scheduled Maturity	Weighted Average Rate
2013	\$ 20,536	0.55%
2014	16,080	3.40%
2015	899	4.69%
2016	99	4.35%
2017	15,721	3.77%
2018 and thereafter	7,432	4.74%
<b>Total</b>	<b>\$ 60,767</b>	<b>2.72%</b>

**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>	For the Three Months Ended	
	March 31,	
	2013	2012
Service cost - benefits earned during year	\$ 958	\$ 681
Interest cost on projected benefit obligation	1,096	965
Expected return on plan assets	(1,603)	(1,378)
Amortization of prior service cost	12	11
Amortization of net loss	822	569
<b>Net periodic pension cost</b>	<b>\$ 1,285</b>	<b>\$ 848</b>

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

A minimum required contribution of \$3.7 million is due for 2013 which will be partially funded by the Plan's \$23.6 million available credit balance. No decision has been made as of March 31, 2013 relative to the level of contribution in excess of the required minimum that will be made to the Plan, if any.

## **Table of Contents**

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

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

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

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

Securities available-for-sale: The fair value of securities available-for-sale which are measured on a recurring basis are determined primarily by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities relationship to other similar securities. These securities are classified within level 1 or 2 of 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.

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

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

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

Mortgage servicing rights: The fair value of mortgage servicing rights is based on an independent valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions based on management's best judgment that are significant inputs to the discounting calculations. If the carrying value exceeds fair value, they are considered impaired and are classified within level 3 of the fair value hierarchy as a result.

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

**Table of Contents**

The following tables set forth WesBanco's financial assets and liabilities that were accounted for at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as of March 31, 2013:

	March 31, 2013			
	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(unaudited, in thousands)</i>	March 31, 2013			
<b>Recurring fair value measurements</b>				
Securities - available-for-sale				
Other government agencies	\$ 65,449	\$	\$ 65,449	\$
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies <sup>(1)</sup>	738,942		738,942	
Obligations of state and political subdivisions	139,620		139,620	
Corporate debt securities	38,136		38,136	
Equity securities	11,123	8,986	2,137	
Total securities - available-for-sale	\$ 993,270	\$ 8,986	\$ 984,284	\$
Total recurring fair value measurements	\$ 993,270	\$ 8,986	\$ 984,284	\$
<b>Nonrecurring fair value measurements</b>				
Impaired loans	\$ 3,792	\$		\$ 3,792
Other real estate owned and repossessed assets	5,147			5,147
Mortgage servicing rights	693			693
Loans held for sale	14,299		14,299	
Total nonrecurring fair value measurements	\$ 23,931	\$	\$ 14,299	\$ 9,632

<sup>(1)</sup> Mortgage-backed securities of government agencies at March 31, 2013 were \$41.2 million.

WesBanco's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between level 1 and level 2 for the three months ended March 31, 2013.

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 December 31, 2012:

	December 31, 2012			
	Fair Value Measurements Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<i>(unaudited, in thousands)</i>				



Edgar Filing: WESBANCO INC - Form 10-Q

1)

**Recurring fair value measurements**

Securities - available-for-sale				
Other government agencies	\$ 96,612	\$	\$ 96,612	\$
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies <sup>(1)</sup>	732,210		732,210	
Obligations of state and political subdivisions	148,635		148,612	23
Corporate debt securities	32,685		32,685	
Equity securities	11,102	9,059	2,043	
Total securities - available-for-sale	\$ 1,021,244	\$ 9,059	\$ 1,012,162	\$ 23
Total recurring fair value measurements	\$ 1,021,244	\$ 9,059	\$ 1,012,162	\$ 23

**Nonrecurring fair value measurements**

Impaired loans	\$ 3,866	\$	\$	\$ 3,866
Other real estate owned and repossessed assets	5,988			5,988
Mortgage servicing rights	825			825
Loans held for sale	21,903		21,903	
Total nonrecurring fair value measurements	\$ 32,582	\$	\$ 21,903	\$ 10,679

<sup>(1)</sup> Mortgage-backed securities of government agencies at December 31, 2012 were \$45.8 million.

**Table of Contents**

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

<i>(unaudited, in thousands)</i>	Fair Value Estimate	Quantitative Information about Level 3 Fair Value Measurements		
		Valuation Techniques	Unobservable Input	Range (Weighted Average)
<b>March 31, 2013:</b>				
Impaired loans	\$ 3,792	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0% to (27.6%) / (11.4%)
			Liquidation expenses <sup>(2)</sup>	(5.5%) to (8.0%) / (6.7%)
Other real estate owned and repossessed assets	5,147	Appraisal of collateral <sup>(1), (3)</sup>		
Mortgage servicing rights	693	Discounted cash flow	Remaining term	2.9 yrs to 26.6 yrs / 15.3 yrs
			Discount rate	9.0% to 12.0% / 9.9%
<b>December 31, 2012:</b>				
Impaired loans	\$ 3,866	Appraisal of collateral <sup>(1)</sup>	Appraisal adjustments <sup>(2)</sup>	0% to (50.8%) / (13.7%)
			Liquidation expenses <sup>(2)</sup>	(3.9%) to (8.0%) / (6.8%)
Other real estate owned and repossessed assets	5,988	Appraisal of collateral <sup>(1), (3)</sup>		
Mortgage servicing rights	825	Discounted cash flow	Remaining term	2.8 yrs to 27.0 yrs / 15.8 yrs
			Discount rate	9.0% to 12.0% / 9.8%

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

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

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

**Table of Contents**

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

	Carrying Amount	Fair Value Estimate	Fair Value Measurements at March 31, 2013		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(unaudited, in thousands)</i>					
<b>Financial Assets</b>					
Cash and due from banks	\$ 178,263	\$ 178,263	\$ 178,263	\$	\$
Securities available-for-sale	993,270	993,270	8,986	984,284	
Securities held-to-maturity	592,033	624,627		623,824	803
Net loans	3,632,137	3,622,794			3,622,794
Loans held for sale	14,299	14,299		14,299	
Accrued interest receivable	19,909	19,909	19,909		
Bank owned life insurance	118,666	118,666	118,666		
<b>Financial Liabilities</b>					
Deposits	5,006,202	5,031,669	3,373,842	1,657,827	
Federal Home Loan Bank borrowings	60,767	66,083		66,083	
Other borrowings	128,372	132,218	81,286	50,932	
Junior subordinated debt	106,109	63,610		63,610	
Accrued interest payable	3,620	3,620	3,620		

	Carrying Amount	Fair Value Estimate	Fair Value Measurements at December 31, 2012		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>(unaudited, in thousands)</i>					
<b>Financial Assets</b>					
Cash and due from banks	\$ 125,605	\$ 125,605	\$ 125,605	\$	\$
Securities available-for-sale	1,021,244	1,021,244	9,059	1,012,162	23
Securities held-to-maturity	602,509	639,273		638,469	804
Net loans	3,635,063	3,600,068			3,600,068
Loans held for sale	21,903	21,903		21,903	
Accrued interest receivable	19,354	19,354	19,354		
Bank owned life insurance	119,671	119,671	119,671		
<b>Financial Liabilities</b>					
Deposits	4,944,284	4,963,356	3,294,664	1,668,692	
Federal Home Loan Bank borrowings	111,187	114,461		114,461	
Other borrowings	142,971	142,753	95,768	46,985	
Junior subordinated debt	113,832	64,624		64,624	
Accrued interest payable	3,856	3,856	3,856		

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.

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

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

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 market factors, including liquidity. The valuation of the loan portfolio reflects discounts that WesBanco believes are consistent with transactions occurring in the marketplace for both performing and distressed loan types. The carrying value that fair value is compared to is net of the allowance for loan losses and other associated premiums and discounts. Due to the significant judgment involved in evaluating credit quality, loans are classified within level 3 of the fair value hierarchy.

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

**Table of Contents**

Bank-Owned Life Insurance: The carrying value of bank-owned life insurance represents the net cash surrender value of the underlying insurance policies, should these policies be terminated. Management believes that the carrying value approximates 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 the rates currently offered for deposits of similar remaining maturities.

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

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

Junior subordinated debt owed to unconsolidated subsidiary trusts: Due to the pooled nature of these instruments, which are not actively traded, estimated fair value is based on broker prices from recent similar sales.

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 table.

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

The activity in accumulated other comprehensive income for the three months ended March 31, 2013 and 2012 is as follows:

<i>(unaudited, in thousands)</i>	Accumulated Other Comprehensive Income <sup>(1)</sup>			
	Defined Benefit Pension Plan	Unrealized Gains (Losses) on Securities Available-for-Sale	Unrealized Gains on Securities Transferred from Available-for-Sale to Held-to-Maturity	Total
Balance at December 31, 2012	\$ (21,401)	\$ 13,032	\$ 2,004	\$ (6,365)
Other comprehensive income before reclassifications		(729)		(729)
Amounts reclassified from accumulated other comprehensive income	475	(10)	(177)	288
Period change	475	(739)	(177)	(441)
Balance at March 31, 2013	\$ (20,926)	\$ 12,293	\$ 1,827	\$ (6,806)
Balance at December 31, 2011	\$ (15,155)	\$ 11,292	\$ 2,961	\$ (902)
Other comprehensive income before reclassifications		588		588
Amounts reclassified from accumulated other comprehensive income	309	(63)	(258)	(12)
Period change	309	525	(258)	576
Balance at March 31, 2012	\$ (14,846)	\$ 11,817	\$ 2,703	\$ (326)

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

Details about Accumulated Other Comprehensive Income Components <i>(unaudited, in thousands)</i>	Amount Reclassified from Accumulated Other Comprehensive Income For the Three months ended March 31,		Affected Line Item in the Statement of Net Income
	2013	2012	
Securities available-for-sale <sup>(1)</sup> :			
Net securities gains reclassified into earnings	\$ (16)	\$ (100)	Net securities gains
Related income tax expense	6	37	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	(10)	(63)	Net of tax
Securities held-to-maturity <sup>(1)</sup> :			
Amortization of unrealized gain transferred from available-for-sale	(288)	(426)	Interest and dividends on securities

Edgar Filing: WESBANCO INC - Form 10-Q

Related income tax expense	<b>111</b>	168	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	<b>(177)</b>	(258)	Net of tax
Defined benefit pension plan <sup>(2)</sup> :			
Amortization of net loss and prior service costs	<b>834</b>	580	Employee benefits
Related income tax expense	<b>(359)</b>	(271)	Provision for income taxes
Net effect on accumulated other comprehensive income for the period	<b>475</b>	309	Net of tax
Total reclassifications for the period	<b>\$ 288</b>	\$ (12)	Net of tax

(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 9. COMMITMENTS AND CONTINGENT LIABILITIES**

**Commitments** In the normal course of business, WesBanco offers off-balance sheet credit arrangements to enable its customers to meet their financing objectives. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. WesBanco's exposure to credit losses in the event of non-performance by the other parties to the financial instruments for commitments to extend credit and standby letters of credit is limited to the contractual amount of those instruments. WesBanco uses the same credit policies in making commitments and conditional obligations as for all other lending. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The allowance for credit losses associated with commitments was \$0.4 million as of March 31, 2013 and \$0.3 million as of December 31, 2012 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 is recorded at its estimated fair value of \$0.1 million as of both March 31, 2013 and December 31, 2012 and is included in other liabilities on the Consolidated Balance Sheets.

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

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

	<b>March</b>	<b>December</b>
	<b>31,</b>	<b>31,</b>
	<b>2013</b>	<b>2012</b>
<i>(unaudited, in thousands)</i>		
Lines of credit	<b>\$ 872,377</b>	<b>\$ 769,525</b>
Loans approved but not closed	<b>127,218</b>	218,531
Overdraft limits	<b>88,234</b>	93,654
Letters of credit	<b>20,201</b>	20,078
Contingent obligations to purchase loans funded by other entities	<b>6,496</b>	6,668

**Contingent Liabilities** WesBanco is a party to various legal and administrative proceedings and claims. While any litigation contains an element of uncertainty, management believes that the outcome of such proceedings or claims pending or known to be threatened will not have a material adverse effect on WesBanco's consolidated financial position, results of operations or cash flows.



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

WesBanco operates two reportable segments: community banking and trust and investment services. WesBanco's community banking segment offers services traditionally offered by full-service commercial banks, including commercial demand, individual demand and time deposit accounts, as well as commercial, mortgage and individual installment loans, and certain non-traditional offerings, such as insurance and securities brokerage services. The trust and investment services segment offers trust services as well as various alternative investment products including mutual funds. The market value of assets managed or held in custody by the trust and investment services segment was approximately \$3.5 billion and \$3.2 billion at March 31, 2013 and 2012, 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>	Community Banking	Trust and Investment Services	Consolidated
<b>For the Three Months ended March 31, 2013:</b>			
Interest income	\$ 54,892	\$	\$ 54,892
Interest expense	8,764		8,764
Net interest income	46,128		46,128
Provision for credit losses	2,102		2,102
Net interest income after provision for credit losses	44,026		44,026
Non-interest income	12,478	5,018	17,496
Non-interest expense	37,752	2,995	40,747
Income before provision for income taxes	18,752	2,023	20,775
Provision for income taxes	3,945	809	4,754
Net income	\$ 14,807	\$ 1,214	\$ 16,021
<b>For the Three Months ended March 31, 2012:</b>			
Interest income	\$ 53,680	\$	\$ 53,680
Interest expense	11,850		11,850
Net interest income	41,830		41,830
Provision for credit losses	6,202		6,202
Net interest income after provision for credit losses	35,628		35,628
Non-interest income	10,569	4,753	15,322
Non-interest expense	32,808	2,857	35,665
Income before provision for income taxes	13,389	1,896	15,285
Provision for income taxes	2,536	759	3,295
Net income	\$ 10,853	\$ 1,137	\$ 11,990

Total non-fiduciary assets of the trust and investment services segment were \$3.1 million and \$2.9 million at March 31, 2013 and 2012, respectively. All goodwill and other intangible assets were allocated to the community banking segment.

---

## **Table of Contents**

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

Management's Discussion and Analysis ( MD&A ) represents an overview of the results of operations and financial condition of WesBanco for the three months ended March 31, 2013. 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, 2012 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 and Fidelity may not be integrated successfully or such integration may take longer to accomplish than expected; the expected cost savings and any revenue synergies from the merger of WesBanco and Fidelity may not be fully realized within the expected timeframes; disruption from the merger of WesBanco and Fidelity 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 Federal Deposit Insurance Corporation, the SEC, the Financial Institution Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investors Protection Corporation, and other regulatory bodies; potential legislative and federal and state regulatory actions and reform, including, without limitation, the impact of the implementation of the Dodd-Frank Act; adverse decisions of federal and state courts; fraud, scams and schemes of third parties; internet hacking; competitive conditions in the financial services industry; rapidly changing technology affecting financial services; marketability of debt instruments and corresponding impact on fair value adjustments; and/or other external developments materially impacting WesBanco's operational and financial performance. WesBanco does not assume any duty to update forward-looking statements.

#### **OVERVIEW**

WesBanco is a multi-state bank holding company operating through 118 branches, one loan production office and 106 ATM machines in West Virginia, Ohio and western Pennsylvania, offering retail banking, corporate banking, personal and corporate trust services, brokerage services, mortgage banking and insurance. WesBanco's businesses are significantly impacted by economic factors such as market interest rates, federal monetary and regulatory policies, local and regional economic conditions and the competitive environment's effect upon WesBanco's business volumes. WesBanco's deposit levels are affected by numerous factors including personal savings rates, personal income, and competitive rates on alternative investments, as well as competition from other financial institutions within the markets we serve and liquidity needs of WesBanco. Loan levels are also subject to various factors including construction demand, business financing needs, consumer spending and interest rates, as well as loan terms offered by competing lenders.

On November 30, 2012, WesBanco completed its acquisition of Fidelity, headquartered in Pittsburgh, Pennsylvania. The acquisition was valued at \$70.0 million and added 13 branches in the Pittsburgh area to the Bank's branch network as part of the western Pennsylvania region. WesBanco issued 2,538,460 shares of its common stock and \$15.4 million in cash in exchange for Fidelity common stock. The acquisition was accounted for as a tax-free exchange for tax purposes.

#### **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, 2013 have remained unchanged from the disclosures presented in WesBanco's Annual Report on Form 10-K for the year ended December 31, 2012 under the section Management's Discussion and Analysis of Financial Condition and Results of Operations.

**RESULTS OF OPERATIONS**

**EARNINGS SUMMARY**

Net income for the three months ended March 31, 2013 was \$16.0 million compared to \$12.0 million for the first quarter of 2012, representing an increase of 33.6%, while diluted earnings per share were \$0.55, compared to \$0.45 per share for the first quarter of 2012, representing an increase of 22.2%. The increased earnings improved the return on average assets to 1.07% from 0.87% in the first quarter of last year and the return on average equity grew to 9.00% from 7.54%. The \$4.0 million growth in net income was achieved through a 66.1% decrease in the provision for credit losses based on continued improvement in credit quality and a 10.3% improvement in net interest income through growth in average earning assets and the net interest margin. In addition, non-interest income increased 14.2% from trust, security brokerage and mortgage sale operations, and included a \$1.1 million bank-owned life insurance death benefit recorded in the first quarter of 2013. Non-interest expense grew 14.3%, partially offsetting the growth in income, due to \$1.2 million in merger-related expense, and increases in operating costs associated with the acquisition, as well as increases in pension expense, snow removal costs, electronic banking expense and real estate-owned expenses.

**Table of Contents**

Net interest income increased \$4.3 million or 10.3% in the first quarter of 2013 compared to the first quarter of 2012 due to an increase in average earning assets, primarily through increased average loan balances. Average earning assets increased \$412.2 million or 8.4% due to growth in average portfolio loan balances of \$413.0 million or 12.7%, with approximately two-thirds of this growth from the western Pennsylvania region, which includes the Fidelity acquired loans. The increase in average loans mitigated the effect of the low interest rate environment, as loans provide the highest rate earning assets. In addition, the net interest margin increased by seven basis points to 3.64% in the first quarter of 2013 through an increase in loan balances and a decrease in rates paid on interest bearing liabilities. This improvement in funding costs resulted from a 41.0% reduction in higher rate average FHLB and other borrowings, primarily through maturities, a 12.7% increase in total deposits, of which 89.7% were lower cost demand, money market or savings accounts, and the lowering of rates for certain deposit types. Average total FHLB and other borrowings were 4.9% of average interest bearing liabilities in the first quarter of 2013 compared to 8.8% in the same 2012 quarter. Accretion of the purchase accounting adjustments for loans, CDs and borrowings acquired with the Fidelity merger also benefited the net interest margin in the 2013 first quarter.

WesBanco has significantly improved credit quality over the past year. Total non-performing loans were \$63.1 million or 1.71% of total loans at March 31, 2013, which represents a 22.0% decrease from \$81.0 million or 2.51% at March 31 of the prior year. Criticized and classified loans decreased 29.1% over the last twelve months to \$168.1 million at March 31, 2013. Criticized and classified loans were 4.56% of total loans compared to 7.35% at the end of the 2012 first quarter. Improvements also occurred from year end, although at a slower pace.

Net charge-offs for the first quarter of 2013 were \$3.0 million, or 0.34% of average portfolio loans, and represented the lowest charge-off level in over three years. Net charge-offs were \$6.6 million or 0.82% for the first quarter of 2012. As a result of the improvement in all measures of credit quality, the provision for credit losses was \$2.1 million for the first quarter of 2013 compared to \$6.2 million for the same quarter of 2012. The allowance for loan losses represented 1.40% of total portfolio loans at the end of the first quarter. However, if the acquired Fidelity loans (which were recorded at fair value at the date of acquisition) were excluded from the ratio, the allowance would approximate 1.50% of the adjusted loan total compared to 1.69% at March 31, 2012.

Non-interest income in the quarter ended March 31, 2013 increased \$2.2 million or 14.2% compared to the same 2012 quarter. Trust fees increased \$0.3 million or 5.6% as assets under management continued to increase from customer development initiatives. Net securities brokerage revenues increased \$0.4 million due to additional market coverage in the Pittsburgh area and improved production in other markets. Net gains on sales of mortgage loans increased \$0.4 million due to increased volume and higher margins on sold loans. In addition, the first quarter of 2013 included a \$1.1 million bank-owned life insurance death benefit.

Non-interest expense increased \$5.1 million or 14.3% for the first quarter compared to the first quarter of 2012, partially due to Fidelity merger-related expenses of \$1.2 million. Total non-interest expense would have increased 10.9% for the quarter without these charges, to a large extent due to the normal operating expenses of the 13 acquired Fidelity offices in the Pittsburgh area. Salaries and wages increased \$1.5 million due to routine annual adjustments to compensation, increased commissions on higher loan origination and brokerage revenue and an increase in full-time equivalent employees ( FTE ) required to operate the Fidelity branches and maintain two operating systems until conversion in February 2013. Personnel cost savings from Fidelity were primarily achieved by the end of the first quarter. Employee benefits expense increased \$0.7 million primarily from increased pension and employee health insurance costs.

The provision for income taxes increased \$1.5 million due to the significant increase in pre-tax income. A higher effective tax rate of 22.9%, compared to 21.6% for the first quarter of 2012, was also primarily due to higher pre-tax income.

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

<i>(unaudited, dollars in thousands)</i>	For the Three Months Ended	
	March 31,	
	2013	2012
Net interest income	\$ 46,128	\$ 41,830
Taxable equivalent adjustments to net interest income	1,684	1,658
<b>Net interest income, fully taxable equivalent</b>	<b>\$ 47,812</b>	<b>\$ 43,488</b>
Net interest spread, non-taxable equivalent	<b>3.37%</b>	3.26%

Edgar Filing: WESBANCO INC - Form 10-Q

Benefit of net non-interest bearing liabilities	<b>0.14%</b>	0.17%
Net interest margin	<b>3.51%</b>	3.43%
Taxable equivalent adjustment	<b>0.13%</b>	0.14%
Net interest margin, fully taxable equivalent	<b>3.64%</b>	3.57%

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

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 \$4.3 million or 10.3% in the first quarter of 2013 compared to the first quarter of 2012 due to an 8.4% increase in average earning assets, primarily through increased average loan balances. Average earning assets increased \$412.2 million due to growth in average portfolio loan balances of \$413.0 million or 12.7%, with approximately two-thirds of this growth from the western Pennsylvania region, which includes the Fidelity acquired loans. The increase in average earning assets was funded primarily by increases in deposits. Total average deposits increased by \$560.7 million or 12.7% from the first quarter of 2012 with approximately 80% of the increase provided by the western Pennsylvania region. Deposit increases occurred primarily in demand deposit

---

**Table of Contents**

accounts, with increases other than through the acquisition resulting from marketing campaigns, customer incentives, wealth management and business initiatives as well as initial deposits from Marcellus and Utica shale gas bonus and royalty payments which totaled \$60 million in the first quarter. In addition, the net interest margin increased 7 basis points in the first quarter of 2013 to 3.64% compared to the first quarter of 2012. Cost of funds continued to improve due to lower offered rates on maturing certificates of deposit, an increase in balances of lower-cost products and lower balances of FHLB and other borrowings. Accretion of purchase accounting adjustments, totaling \$1.8 million for loans, CDs and borrowings related to the Fidelity acquisition, also benefited the margin in the 2013 first quarter. The average rate on interest bearing liabilities declined by 33 basis points while the rate on earning assets decreased by 23 basis points in the 2013 first quarter.

Interest income increased \$1.2 million or 2.3% in the quarter ending March 31, 2013 compared to the same quarter in 2012 due to the higher average earning assets, partially offset by the lower yields. Rates decreased on all significant earning asset categories from reduced rates on new and repriced assets due to competition and the lower interest rate environment. Repricing of loans and the competitive necessity of offering lower rates on quality credits in an increasingly competitive and lower interest rate environment caused a decline in loan yields of 29 basis points for 2013 year-to-date. However, the increase in average loans mitigated the effect of the low interest rate environment, as loans provide the highest rate for investment in new earning assets. In the first quarter of 2013, average loans represented 69.0% of average earning assets, compared to 66.4% in the same quarter of 2012. Securities yields decreased due to the reinvestment of funds from investment maturities, calls and sales, and additional investment purchases at current lower available interest rates, along with the acquired Fidelity investment portfolio. Taxable securities yields decreased 23 basis points in the first quarter of 2013 compared to the first quarter of 2012, while tax-exempt securities yields declined 73 basis points, due to purchases of municipals at lower rates. Because of their relative yield advantage the average balance of tax-exempts increased 15.4% over the last year. Average taxable securities decreased due to significant calls of other government agencies and prepayments in mortgage-backed and collateralized mortgage securities, somewhat offset by continued purchases of lower-premium collateralized mortgage securities. Purchases of collateralized mortgage securities minimizes the average life of the portfolio, particularly for the portion accounted for as available-for-sale, positioning the Bank for possible future increases in interest rates, while maintaining required levels of pledgable securities.

Portfolio loans increased \$460.1 million or 14.3% in the twelve months ended March 31, 2013 with \$312.3 million from the western Pennsylvania region and the remaining \$147.8 million from other WesBanco regions, as originations continued to outpace paydowns. Separate from the western Pennsylvania region, WesBanco grew outstanding loans 4.9% from March 31, 2012 as a result of a 52.2% growth in overall loan originations from the prior year. Loan growth was achieved in commercial, commercial real estate, residential real estate and home equity lending.

In the first quarter of 2013 interest expense decreased \$3.1 million or 26.0% compared to the first quarter of 2012, due to decreases in rates paid and a continued shift in the liability mix towards less expensive sources of funding, while total average interest bearing balances increased 6.1%. The average rate paid on interest bearing liabilities decreased to 0.81% in the 2013 first quarter from 1.14% in the same quarter of 2012, a 33 basis point decrease. Rates paid on deposits declined by 23 basis points due to declines in all deposit categories, as a result of management reducing offered interest rates for most products and mark-to-market accretion of the certificates of deposit acquired from Fidelity. Improvements in the deposit funding mix also lowered the cost of funds, with average certificates of deposit decreasing to 33.2% of total average deposits from 36.1% in the first quarter of last year. Average interest bearing deposits increased by \$395.2 million and non-interest bearing demand deposits increased by \$165.5 million from the 2012 first quarter. Average deposits increased most significantly in demand and savings product categories, even as offered rates on interest bearing accounts were reduced. Total average demand deposits, including interest bearing and non-interest bearing, increased \$309.6 million or 21.9% in the 2013 first quarter compared to the first quarter of 2012. Average certificates of deposit increased by only 3.6%, primarily due to the acquisition, as WesBanco continues to focus on reducing rate offerings and growing customers with multiple banking relationships, as opposed to single service certificates of deposit customers. Deposit increases were used to pay down higher-cost maturing FHLB borrowings and certain other borrowings, significantly contributing to the reduced cost of funds. Average total FHLB and other borrowings decreased \$149.2 million or 41.0%, due to maturities and paydowns, and were 4.9% of average interest bearing liabilities in the first quarter of 2013 compared to 8.8% in the same 2012 quarter.

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

<i>(unaudited, dollars in thousands)</i>	For the Three Months Ended March 31,			
	Average Balance	Average Rate	Average Balance	Average Rate
<b>ASSETS</b>				
Due from banks - interest bearing	\$ 66,623	0.15%	\$ 44,389	0.19%
Loans, net of unearned income <sup>(1)</sup>	3,664,629	4.90%	3,251,637	5.19%
Securities: <sup>(2)</sup>				
Taxable	1,199,706	2.48%	1,269,255	2.71%
Tax-exempt <sup>(3)</sup>	358,524	5.37%	310,617	6.10%
Total securities	1,558,230	3.14%	1,579,872	3.37%
Other earning assets	20,542	0.60%	21,920	0.47%
Total earning assets <sup>(3)</sup>	5,310,024	4.31%	4,897,818	4.54%
Other assets	754,962		651,344	
Total Assets	\$ 6,064,986		\$ 5,549,162	
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
Interest bearing demand deposits	\$ 846,494	0.14%	\$ 702,418	0.23%
Money market accounts	845,751	0.16%	790,181	0.38%
Savings deposits	750,430	0.08%	612,547	0.19%
Certificates of deposit	1,645,058	1.52%	1,587,353	1.77%
Total interest bearing deposits	4,087,733	0.69%	3,692,499	0.92%
Federal Home Loan Bank borrowings	75,438	1.72%	164,070	3.38%
Other borrowings	139,650	1.81%	200,232	2.37%
Junior subordinated debt	112,376	3.23%	106,070	3.31%
Total interest bearing liabilities <sup>(1)</sup>	4,415,197	0.81%	4,162,871	1.14%
Non-interest bearing demand deposits	874,078		708,570	
Other liabilities	53,497		38,541	
Shareholders Equity	722,214		639,180	
Total Liabilities and Shareholders Equity	\$ 6,064,986		\$ 5,549,162	
Taxable equivalent net interest spread		3.50%		3.40%
Taxable equivalent net interest margin		3.64%		3.57%

(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 \$1.0 million for both the three months ended March 31, 2013 and 2012, respectively. Additionally, loan accretion included in net interest income on acquired Fidelity loans was \$1.3 million for the three months ended March 31, 2013, while accretion on acquired Fidelity interest bearing liabilities was \$0.5 million for the three months ended March 31, 2013.

(2) Average yields on available-for-sale securities are calculated based on amortized cost.

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





**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, 2013 Compared to March 31, 2012		
	Volume	Rate	Net Increase (Decrease)
Increase (decrease) in interest income:			
Due from banks - interest bearing	\$ 9	\$ (5)	\$ 4
Loans, net of unearned income	5,176	(2,864)	2,312
Taxable securities	(455)	(702)	(1,157)
Tax-exempt securities <sup>(1)</sup>	681	(607)	74
Other earning assets	(2)	7	5
<b>Total interest income change <sup>(1)</sup></b>	<b>5,409</b>	<b>(4,171)</b>	<b>1,238</b>
Increase (decrease) in interest expense:			
Interest bearing demand deposits	70	(174)	(104)
Money market accounts	51	(454)	(403)
Savings deposits	54	(208)	(154)
Certificates of deposit	255	(1,086)	(831)
Federal Home Loan Bank borrowings	(551)	(507)	(1,058)
Other borrowings	(306)	(249)	(555)
Junior subordinated debt	50	(31)	19
<b>Total interest expense change</b>	<b>(377)</b>	<b>(2,709)</b>	<b>(3,086)</b>
<b>Net interest income increase (decrease) <sup>(1)</sup></b>	<b>\$ 5,786</b>	<b>\$ (1,462)</b>	<b>\$ 4,324</b>

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

**PROVISION FOR CREDIT LOSSES**

The provision for credit losses is the amount to be added to the allowance for credit losses after net charge-offs have been deducted to bring the allowance to a level considered appropriate to absorb probable losses in the loan portfolio. The provision for credit losses for the three months ended March 31, 2013 decreased \$4.1 million or 66.1% to \$2.1 million compared to \$6.2 million for the three months ended March 31, 2012. This decrease is the result of a 54% decrease in net charge-offs, a 21% decrease in non-performing loans, a 29% reduction in classified and criticized loans, relatively low delinquency, and improved economic conditions. The provision for credit losses was lower than net charge-offs by \$0.9 million in the first quarter of 2013 and \$0.4 million in the comparable 2012 quarter due to recognition of probable losses that were provided for in prior periods. (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,			
	2013	2012	\$ Change	% Change
Trust fees	\$ 5,018	\$ 4,753	\$ 265	5.6
Service charges on deposits	4,197	3,993	204	5.1
Electronic banking fees	2,866	2,763	103	3.7
Net securities brokerage revenue	1,497	1,075	422	39.3
Bank-owned life insurance	1,949	880	1,069	121.5
Net gains on sales of mortgage loans	712	268	444	165.7
Net securities gains	16	100	(84)	(84.0)
Net (loss)/gain on other real estate owned and other assets	(46)	32	(78)	(243.8)
<i>Other income:</i>				
Net insurance services revenue	757	688	69	10.0
Other	530	770	(240)	(31.2)
Total non-interest income	\$ 17,496	\$ 15,322	\$ 2,174	14.2

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. Non-interest income for the quarter ended March 31, 2013 increased \$2.2 million or 14.2% compared to the same 2012 quarter. Trust fees increased \$0.3 million or 5.6% as assets under management and custodial assets continued to increase by 9.1% in total over last year, from customer development initiatives of the trust and investment groups. Net securities brokerage revenues increased \$0.4 million or 39.3% due to additional market coverage in the Pittsburgh area, and improved production in other markets. Net gains on sales of mortgage loans increased \$0.4 million due to increased volume and higher margins on sold loans. In addition, the first quarter of 2013 included a \$1.1 million bank-owned life insurance death benefit.

Trust fees improved \$0.3 million or 5.6% compared to the first quarter to 2012, due to new business and higher average trust assets from overall market improvements and the implementation of an organization-wide trust and investment development program and a private banking program for high net worth customers which began in 2012. Trust assets at March 31, 2013 increased to \$3.5 billion from \$3.2 billion at March 31, 2012. Quarter end trust assets include managed assets of \$2.8 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's trust and investment services group, were \$839.4 million as of March 31, 2013 and \$796.0 million at December 31, 2012 and are included in trust managed assets.

Service charges on deposits, which are primarily customer overdraft fees, increased 5.1% compared to the first quarter of 2012 due to a higher number of demand deposit accounts which grew in the last twelve months, primarily from Fidelity, and the Bank's own marketing initiatives.

Electronic banking fees, which include debit card interchange fees, improved by \$0.1 million or 3.7% compared to the prior year, due to a higher volume of debit card transactions, which have continued to grow as customers move more towards electronic transactions.

Gains on the sale of mortgage loans increased \$0.4 million or 165.7% compared to the first quarter 2012 primarily from increased volume and margins on sold loans. Overall mortgage production increased 48.2% from the first quarter of 2012, while mortgages sold into the secondary market during the three months ended March 31, 2013 increased 105% compared to the first quarter of 2012.

Net securities brokerage revenue increased \$0.4 million or 39.3% compared to the first quarter of 2012 primarily due to increased production resulting from the implementation of an organization-wide cross-selling program, additional market coverage in the Pittsburgh area and overall improved production in other markets, as well as a new licensed banker program in several of our larger retail offices.



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

<i>(unaudited, dollars in thousands)</i>	For the Three Months Ended			
	March 31,			
	2013	2012	\$ Change	% Change
Salaries and wages	\$ 15,826	\$ 14,315	\$ 1,511	10.6
Employee benefits	6,345	5,618	727	12.9
Net occupancy	3,192	2,776	416	15.0
Equipment	2,407	2,174	233	10.7
Marketing	805	771	34	4.4
FDIC Insurance	971	1,045	(74)	(7.1)
Amortization of intangible assets	625	537	88	16.4
Restructuring and merger-related expenses	1,178		1,178	100.0
<i>Other operating expenses:</i>				
Miscellaneous, franchise, and other taxes	1,485	1,452	33	2.3
Postage	819	728	91	12.5
Consulting, regulatory, accounting and advisory fees	1,068	1,037	31	3.0
Other real estate owned and foreclosure expenses	726	393	333	84.7
Legal fees	653	687	(34)	(4.9)
Communications	663	658	5	0.8
ATM and interchange expenses	1,018	833	185	22.2
Supplies	674	625	49	7.8
Other	2,292	2,016	276	13.7
<b>Total other operating expenses</b>	<b>9,398</b>	<b>8,429</b>	<b>969</b>	<b>11.5</b>
<b>Total non-interest expense</b>	<b>\$ 40,747</b>	<b>\$ 35,665</b>	<b>\$ 5,082</b>	<b>14.3</b>

Non-interest expense increased \$5.1 million or 14.3% for the first quarter compared to the first quarter of 2012 partially due to Fidelity merger-related expenses of \$1.2 million. Total non-interest expense would have increased 10.9% for the quarter without these charges, to a large extent due to the normal operating expenses from the 13 Fidelity offices acquired in the Pittsburgh area and increased revenue generation activity throughout the organization.

Salaries and wages increased \$1.5 million from the first quarter of 2012 due to routine annual adjustments to compensation, increased commissions on higher loan origination and brokerage revenue and an increase in FTEs required to operate the Fidelity branches and maintain two operating systems until conversion in February, 2013. Employee benefits expense increased \$0.7 million year-to-date primarily due to higher health insurance expenses and higher pension expense from changes in certain assumptions. Supplemental employee retirement benefits were down \$0.3 million related to the bank-owned life insurance claim.

Net occupancy and equipment increased due to increased depreciation and other maintenance costs resulting from the Fidelity acquisition which added approximately \$9.1 million in depreciable assets at fair value.

Marketing expenses remained relatively flat as increased advertising in the western Pennsylvania market was offset by fewer marketing expenses in other markets over the comparable 2012 quarter.

Amortization of intangible assets increased due to the Fidelity acquisition, which added approximately \$4.7 million in core deposit intangibles.

Restructuring and merger-related expenses of \$1.2 million in 2013 include \$0.3 million related to systems conversion, \$0.4 million in employee severance and \$0.2 million in accounting and valuation expenses.

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

Other real estate owned and foreclosure expenses increased from the first quarter of 2012 due to tax payments and ongoing liquidation of properties in that category.

ATM and interchange expenses, which include debit card processing fees, increased \$0.2 million or 22% from the first quarter of 2012, due to a higher volume of debit card transactions and bill pay expenses during the period.

**Table of Contents**

**INCOME TAXES**

The provision for federal and state income taxes increased \$1.5 million to \$4.8 million for the three months ended March 31, 2013 compared to \$3.3 million in the comparable 2012 period. The increase in income tax expense was due to a \$5.5 million increase in pre-tax income, which caused a higher effective tax rate of 22.9% compared to 21.6% for 2012. The increase in the effective tax rate was due primarily to higher pre-tax income offset somewhat by higher income from a higher balance of tax-exempt securities.

**FINANCIAL CONDITION**

Total assets increased 0.1% while stockholders' equity increased 1.4% compared to December 31, 2012. Loan production increased by 23.0% during the quarter. However, the net loan portfolio declined 0.1% from December 31, 2012, as the low interest rate environment and continued competition for high quality credits resulted in approximately \$45 million of identified payoffs of certain commercial real estate loans that were refinanced in the secondary market or as a result of borrowers selling properties. Deposits increased 1.3% from December 31, 2012 primarily due to a 3.5% increase in savings deposits, a 3.0% increase in demand deposits, and a 0.2% increase in money market deposits, which more than offset the 1.0% decrease in CDs. The increase in demand and savings deposits are primarily a result of marketing campaigns, customer incentives, additional wealth management deposits, and treasury management and other business banking initiatives for commercial customers. Deposits also increased from customers receiving bonus and royalty payments from natural gas companies operating in the Marcellus and Utica shale formations in southwestern Pennsylvania, eastern Ohio and northern West Virginia. The reduction in CDs was due to anticipated reductions through lower offered rates for new and rollover CDs, and customers' desire to shorten interest rate maturities. FHLB borrowings decreased 45.4% from December 31, 2012 as higher cost maturing FHLB borrowings were paid down using available funding provided by the increase in lower cost deposits. Total shareholders' equity increased by approximately \$10.2 million, or 1.4%, compared to December 31, 2012, due to net income exceeding dividends for the period by \$10.5 million, which was partially offset by \$0.7 million of unrealized losses in the available-for-sale securities portfolio in accumulated other comprehensive income.

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

<i>(unaudited, dollars in thousands)</i>	March 31, 2013	December 31, 2012	\$ Change	% Change
<b>Available-for-sale (at fair value)</b>				
Other government agencies	\$ 65,449	\$ 96,612	\$ (31,163)	(32.3)
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	738,942	732,210	6,732	0.9
Obligations of states and political subdivisions	139,620	148,635	(9,015)	(6.1)
Corporate debt securities	38,136	32,685	5,451	16.7
<b>Total debt securities</b>	<b>982,147</b>	1,010,142	(27,995)	(2.8)
Equity securities	11,123	11,102	21	0.2
<b>Total available-for-sale securities</b>	<b>\$ 993,270</b>	\$ 1,021,244	\$ (27,974)	(2.7)
<b>Held-to-maturity (at amortized cost)</b>				
Residential mortgage-backed securities and collateralized mortgage obligations of government agencies	\$ 133,186	\$ 152,872	\$ (19,686)	(12.9)
Other residential collateralized mortgage obligations	305	353	(48)	(13.6)
Obligations of states and political subdivisions	458,542	449,284	9,258	2.1
<b>Total held-to-maturity securities</b>	<b>592,033</b>	602,509	(10,476)	(1.7)
<b>Total securities</b>	<b>\$ 1,585,303</b>	\$ 1,623,753	\$ (38,450)	(2.4)
<b>Available-for-sale securities:</b>				
Weighted average yield at the respective period end <sup>(2)</sup>	2.35%	2.36%		
As a % of total securities	62.7%	62.9%		
Weighted average life (in years)	3.5	3.2		
<b>Held-to-maturity securities:</b>				
Weighted average yield at the respective period end <sup>(2)</sup>	4.54%	4.52%		
As a % of total securities	37.3%	37.1%		
Weighted average life (in years)	5.4	5.2		
<b>Total securities:</b>				
Weighted average yield at the respective period end <sup>(2)</sup>	3.17%	3.16%		
As a % of total securities	100.0%	100.0%		
Weighted average life (in years)	4.2	3.9		

(1) At March 31, 2013 and December 31, 2012, there were no holdings of any one issuer, other than the U.S. government and certain federal or federally-related agencies, in an amount greater than 10% of WesBanco's shareholders' equity.

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

Total investment securities, which are a source of liquidity for WesBanco as well as a contributor to interest income, decreased by \$38.5 million or 2.4% from December 31, 2012 to March 31, 2013. There were decreases in both the available-for-sale and held-to-maturity portfolios specifically due to paydowns, calls, and maturities exceeding purchases. For the three months ended March 31, 2013, security sales totaled \$3.4 million and maturities, paydowns, and calls totaled \$116.9 million. These were partially offset by purchases of \$84.9 million in the first quarter.





**Table of Contents****TABLE 7. COMPOSITION OF MUNICIPAL SECURITIES**

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:

<i>(unaudited, dollars in thousands)</i>	March 31, 2013		December 31, 2012	
	Amount	% of Total	Amount	% of Total
<b>Municipal bonds (at fair value):</b>				
AAA rating	\$ 54,615	8.7	\$ 55,225	8.8
AA rating	427,981	68.4	470,259	74.8
A rating	117,317	18.8	77,071	12.3
Below an A rating (1)	9,238	1.5	14,005	2.2
No rating	16,041	2.6	11,774	1.9
<b>Total municipal bond portfolio</b>	<b>\$ 625,192</b>	<b>100.0</b>	<b>\$ 628,334</b>	<b>100.0</b>

(1) All securities noted as below an A rating are rated as 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):

<i>(unaudited, dollars in thousands)</i>	March 31, 2013		December 31, 2012	
	Amount	% of Total	Amount	% of Total
<b>Municipal bond type:</b>				
General Obligation	\$ 449,027	71.8	\$ 456,405	72.6
Revenue	176,165	28.2	171,929	27.4
<b>Total municipal bond portfolio</b>	<b>\$ 625,192</b>	<b>100.0</b>	<b>\$ 628,334</b>	<b>100.0</b>
<b>Municipal bond issuer:</b>				
State Issued	\$ 43,275	6.9	\$ 43,268	6.9
Local Issued	581,917	93.1	585,066	93.1
<b>Total municipal bond portfolio</b>	<b>\$ 625,192</b>	<b>100.0</b>	<b>\$ 628,334</b>	<b>100.0</b>

The amortized cost of the municipal bond portfolio at March 31, 2013 and December 31, 2012 was \$589.5 million and \$588.8 million, respectively. The municipal bond portfolio is broadly spread across the U.S. with 62% of the portfolio's fair value in the top five states of Pennsylvania, Ohio, Texas, Illinois, and Michigan, respectively.

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



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

Loans represent WesBanco's single largest balance sheet asset classification and the largest source of interest income. Business purpose loans consist of commercial real estate ( CRE ) loans and other commercial and industrial ( C&I ) loans that are not secured by real estate. CRE loans are further segmented into land and construction loans, and loans for improved property. Consumer purpose loans consist of residential real estate loans, home equity lines of credit and other consumer loans. Loans held for sale generally consist of residential real estate loans originated for sale in the secondary market, but at times may also include other types of loans. The outstanding balance of each major category of the loan portfolio is summarized in Table 8.

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 8. COMPOSITION OF LOANS (1)**

<i>(unaudited, dollars in thousands)</i>	March 31, 2013		December 31, 2012	
	Amount	% of Loans	Amount	% of Loans
Commercial real estate:				
Land and construction	\$ 184,802	5.0	\$ 193,004	5.2
Improved property	1,646,952	44.5	1,665,341	44.9
Total commercial real estate	1,831,754	49.5	1,858,345	50.1
Commercial and industrial	495,748	13.4	478,025	12.9
Residential real estate:				
Land and construction	14,240	0.4	11,805	0.3
Other	794,288	21.5	781,897	21.0
Home equity	278,812	7.5	277,226	7.5
Consumer	268,959	7.3	280,464	7.6
Total portfolio loans	3,683,801	99.6	3,687,762	99.4
Loans held for sale	14,299	0.4	21,903	0.6
Total loans	\$ 3,698,100	100.0	\$ 3,709,665	100.0

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

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

Total loans decreased \$11.6 million or 0.3% from December 31, 2012 to March 31, 2013 despite a 23% increase in new loan origination in the first quarter compared to the fourth quarter of last year. CRE land and construction loans decreased \$8.2 million or 4.2% as completed projects transferred to CRE improved property loans exceeded new construction loans funded during the period. Even with the transfer of completed constructed projects, CRE improved property loans decreased \$18.4 million or 1.1% primarily as a result of unscheduled principal reductions and payoffs that exceeded new loan origination. C&I loans increased \$17.7 million or 3.7% due to an increase in the usage of lines of credit and new loan originations. Residential real estate loans, increased \$14.8 million or 1.9% primarily due to a 48% increase in new loan originations during the three months ended March 31, 2013 over the comparable quarter in 2012 and a 11.7% increase over the fourth quarter of 2012. Residential mortgage loan originations in the first quarter of 2013 were \$105.6 million compared to \$71.3 million in the first quarter of 2012 and \$94.6 million in the fourth quarter of 2012. Home equity lines of credit were relatively unchanged from December 31, 2012, while consumer loans decreased \$11.5 million or 4.1% due to reduced loan demand. Loans held for sale decreased \$7.6 million due to timing of scheduled closings and a greater portion of production held in the loan portfolio. All loan categories were also impacted by a continued focus on improving the overall profitability and quality of the loan portfolio through disciplined underwriting and pricing practices, as well as the current highly competitive lending market for high quality borrowers.

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

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

**TABLE 9. NON-PERFORMING ASSETS**

<i>(unaudited, dollars in thousands)</i>	March 31, 2013	December 31, 2012
Non-accrual loans:		
Commercial real estate - land and construction	\$ 6,123	\$ 4,668
Commercial real estate - improved property	20,998	18,239
Commercial and industrial	3,642	3,387
Residential real estate	10,219	11,247
Home equity	1,090	1,184
Consumer	654	647
 Total non-accrual loans	 42,726	 39,372
TDRs accruing interest:		
Commercial real estate - land and construction	1,679	2,537
Commercial real estate - improved property	6,368	10,198
Commercial and industrial	589	632
Residential real estate	10,026	9,022
Home equity	950	1,022
Consumer	808	870
 Total TDRs accruing interest (1)	 20,420	 24,281
 Total non-performing loans	 \$ 63,146	 \$ 63,653
 Other real estate owned and repossessed assets	 5,147	 5,988
 Total non-performing assets	 \$ 68,293	 \$ 69,641
 Non-performing loans/total loans	 1.71%	 1.73%
Non-performing assets/total assets	1.12%	1.15%
Non-performing assets/total loans, other real estate and repossessed assets	1.85%	1.89%

(1) TDRs on nonaccrual of \$17.1 million and \$15.0 million at March 31, 2013 and December 31, 2012, respectively, are included in total nonaccrual loans.

Non-performing loans, which consist of non-accrual loans and TDRs, were relatively unchanged from December 31, 2012 to March 31, 2013. TDRs accruing interest decreased \$3.9 million primarily due to the migration of certain commercial real estate TDRs to non-accrual. (Please see the Notes to the Consolidated Financial Statements for additional discussion.)

Other real estate owned and repossessed assets decreased \$0.8 million from December 31, 2012 to March 31, 2013, as sales of foreclosed properties exceeded new foreclosures and repossessions.



**Table of Contents**

The following table presents non-performing asset activity:

**TABLE 10. NON-PERFORMING ASSET ACTIVITY**

<i>(unaudited, in thousands)</i>	For the Three Months Ended March 31, 2013					Total Non-Performing Assets
	TDRs	Non-Accrual Loans Other	Total	Accruing TDRs	Other Real Estate and Reposessed Assets	
Beginning balance	\$ 15,001	\$ 24,371	\$ 39,372	\$ 24,281	\$ 5,988	\$ 69,641
Activity during the period:						
Additions to non-accrual or TDR	1,184	9,008	10,192	493		10,685
Foreclosed real estate					472	472
Reposessed other collateral					686	686
Charge-offs or charge-downs	(605)	(2,949)	(3,554)		(110)	(3,664)
Loans returned to accrual	(854)	(448)	(1,302)			(1,302)
Other real estate sold					(1,175)	(1,175)
Reposessed assets sold					(714)	(714)
Transfer between categories	3,690		3,690	(3,690)		
Principal payments / other changes, net	(1,310)	(4,362)	(5,672)	(664)		(6,336)
Ending balance	\$ 17,106	\$ 25,620	\$ 42,726	\$ 20,420	\$ 5,147	\$ 68,293

**TABLE 11. PAST DUE AND ACCRUING LOANS EXCLUDING TDRs**

<i>(unaudited, dollars in thousands)</i>	March 31, 2013	December 31, 2012
Loans past due 90 days or more:		
Commercial real estate - land and construction	\$	\$
Commercial real estate - improved property	625	338
Commercial and industrial	86	98
Residential real estate	2,666	3,199
Home equity	482	722
Consumer	486	937
Total portfolio loans	4,345	5,294
Loans held for sale		
Total loans past due 90 days or more	\$ 4,345	\$ 5,294
Loans past due 30 to 89 days:		
Commercial real estate - land and construction	\$ 264	\$ 750
Commercial real estate - improved property	2,753	6,328
Commercial and industrial	728	500
Residential real estate	5,799	7,977
Home equity	1,656	1,322
Consumer	3,307	5,666
Total portfolio loans	14,507	22,543
Loans held for sale		



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

Total loans past due 30 to 89 days	\$ 14,507	\$ 22,543
Loans past due 90 days or more and accruing to total loans	0.12%	0.14%
Loans past due 30-89 days to total loans	0.39%	0.61%

Loans past due 90 days or more and accruing interest excluding TDRs decreased \$0.9 million or 17.9% from December 31, 2012. These loans continue to accrue interest because they are both well-secured and in the process of collection. Loans past due 30-89 days decreased \$8.0 million or 35.6% between December 31, 2012 and March 31, 2013 as a result of a continued focus on controlling early stage delinquency and improvement in economic conditions, as well as more aggressive collection activities on former Fidelity past due loans.

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

The allowance for credit losses decreased \$0.9 million from December 31, 2012 to March 31, 2013 and represented 1.40% of total loans at March 31, 2013, compared to 1.43% at December 31, 2012 and 1.69% at March 31, 2012. However, if the acquired Fidelity loans, which were recorded at fair value at the date of acquisition, were excluded from the ratio, the allowance would approximate 1.50% of the adjusted loan total at March 31, 2013. The allowance for loans individually evaluated decreased by \$0.5 million to \$1.2 million from December 31, 2012 to March 31, 2013. The allowance for loans collectively evaluated also decreased \$0.5 million to \$50.4 million due to lower delinquency, decreases in net charge-offs, and reduced levels of classified and criticized loans. The overall improvement in credit quality supported a reduction in the allowance and a lower provision expense for the three months ended March 31, 2013.

Net charge-offs for the first quarter of 2013 were \$3.0 million compared to \$4.1 million for the previous quarter and \$6.6 million for the first quarter of 2012 and represented the lowest charge-off level in over three years. The decline in net charge-offs in the first three months of 2013 and improvements in credit quality enabled a decrease in the quarterly provision for credit losses of \$1.2 million as compared to the fourth quarter ended December 31, 2012 and \$4.1 million as compared to the first three months of 2012. Net annualized loan charge-offs to average loans for the first quarter of 2013 were 0.34% compared to 0.82% for the same period in 2012.

The allowance for loan commitments from December 31, 2012 to March 31, 2013 was relatively unchanged.

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 reclassification of CRE loans from land and construction to improved property upon the completion of construction.

The internal risk rating is the primary factor for establishing the allowance for all commercial loans, and 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 is the internal risk grade of the loan, although certain non-performing loans carry established specific reserves and are also typically considered classified under the Bank's risk grading system. Classified and criticized loans decreased \$68.9 million or 29.1% from March 31, 2012, from principal reductions, charge-offs, migration of certain loans back to a pass grade as a result of improved risk profiles, and orderly exits of certain loans. Classified and criticized loans decreased \$4.6 million or 2.7% from December 31, 2012.

Table 12 summarizes the allocation of the allowance for credit losses to each category of the loan portfolio. The allocation of the allowance was relatively unchanged from December 31, 2012.

**TABLE 12. ALLOCATION OF THE ALLOWANCE FOR CREDIT LOSSES**

<i>(unaudited, dollars in thousands)</i>	March 31, 2013	Percent of Total	December 31, 2012	Percent of Total
Allowance for loan losses:				
Commercial real estate - land and construction	\$ 3,945	7.6	\$ 3,741	7.1
Commercial real estate - improved property	23,189	44.5	23,614	44.5
Commercial and industrial	9,389	18.0	9,326	17.6
Residential real estate	6,952	13.3	7,182	13.5
Home equity	2,475	4.7	2,458	4.6
Consumer	5,161	9.9	5,557	10.5
Deposit account overdrafts	553	1.1	821	1.6
<b>Total allowance for loan losses</b>	<b>\$ 51,664</b>	<b>99.1</b>	<b>\$ 52,699</b>	<b>99.4</b>
Allowance for loan commitments:				
Commercial real estate - land and construction	\$ 32	0.1	\$ 27	0.1
Commercial real estate - improved property	25	0.0	25	0.0

Edgar Filing: WESBANCO INC - Form 10-Q

Commercial and industrial	<b>304</b>	<b>0.7</b>	215	0.4
Residential real estate	<b>9</b>	<b>0.0</b>	6	0.0
Home equity	<b>57</b>	<b>0.1</b>	49	0.1
Consumer	<b>19</b>	<b>0.0</b>	19	0.0
<b>Total allowance for loan commitments</b>	<b>446</b>	<b>0.9</b>	341	0.6
Total allowance for credit losses	<b>\$ 52,110</b>	<b>100.0</b>	\$ 53,040	100.0

Although the allowance for credit losses is allocated as described in Table 12, 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, 2013.

**Table of Contents****DEPOSITS****TABLE 13. DEPOSITS**

<i>(unaudited, dollars in thousands)</i>	March 31, 2013	December 31, 2012	\$ Change	% Change
<b>Deposits</b>				
Non-interest bearing demand	\$ 888,109	\$ 874,923	\$ 13,186	1.5
Interest bearing demand	870,067	831,368	38,699	4.7
Money market	849,401	847,805	1,596	0.2
Savings deposits	766,265	740,568	25,697	3.5
Certificates of deposit	1,632,360	1,649,620	(17,260)	(1.0)
<b>Total deposits</b>	<b>\$ 5,006,202</b>	<b>\$ 4,944,284</b>	<b>\$ 61,918</b>	<b>1.3</b>

Deposits, which represent WesBanco's primary source of funds, are offered in various account forms at various rates through WesBanco's 118 branches. The FDIC insures all deposits up to \$250,000 and insured all deposits held in non-interest bearing transaction accounts until December 31, 2012.

Total deposits increased by \$61.9 million or 1.3% during the first three months of 2013. Demand deposits and savings deposits increased 3.0% and 3.5%, respectively, due to marketing, incentive compensation paid to customers and employees, focused retail and business strategies to obtain more account relationships and customers' preferences for shorter-term maturities. In addition, initial deposits from Marcellus and Utica shale gas bonus and royalty payments totaled \$60 million in the first quarter, contributing to the increase.

The 1.0% decline in certificates of deposit is due to the effects of an overall corporate strategy designed to increase and remix retail deposit relationships with a focus on overall products that can be offered at a lower cost to the Bank. The decline is also impacted by lowered offered rates on maturing certificates of deposit and customer preferences for other non-maturity deposit types. WesBanco does not generally solicit brokered or other deposits out-of-market or over the internet, but does participate in the Certificate of Deposit Account Registry Services (CDARS®) program, which had \$272.4 million in total outstanding balances at March 31, 2013 compared to \$263.9 million in total outstanding balances at December 31, 2012. Certificates of deposit greater than \$250,000 were approximately \$192.4 million at March 31, 2013 compared to \$189.9 million at December 31, 2012. Certificates of deposit of \$100,000 or more were approximately \$837.5 million at March 31, 2013 compared to \$827.6 million at December 31, 2012. Certificates of deposit totaling approximately \$891.1 million at March 31, 2013 with a cost of 1.57% are scheduled to mature within the next 12 months. WesBanco will continue to focus on its core deposit strategies and improving its overall mix of transaction accounts to total deposits. From time to time the Bank may offer special promotions on certain certificates of deposit maturities and savings products based on competition, sales strategies, liquidity needs and wholesale borrowing costs, although in the current interest rate environment, CD rate offerings are generally equal or lower for all maturities and types compared to rates paid on existing CDs.

**BORROWINGS****TABLE 14. BORROWINGS**

<i>(unaudited, dollars in thousands)</i>	March 31, 2013	December 31, 2012	\$ Change	% Change
Federal Home Loan Bank Borrowings	\$ 60,767	\$ 111,187	\$ (50,420)	(45.3)
Other short-term borrowings	128,372	142,971	(14,599)	(10.2)
Junior subordinated debt owed to unconsolidated subsidiary trusts	106,109	113,832	(7,723)	(6.8)
<b>Total</b>	<b>\$ 295,248</b>	<b>\$ 367,990</b>	<b>\$ (72,742)</b>	<b>(19.8)</b>

Borrowings are currently a less significant source of funding for WesBanco compared to total deposits. During the first quarter of 2013, WesBanco reduced other short-term borrowings and paid down Federal Home Loan Bank borrowings scheduled to mature, utilizing funds provided by lower cost deposits or other available cash flows for their payoff. Additional maturities of \$20.5 million are scheduled for the last

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

quarter of the year which will result in a further lowering of the cost of wholesale borrowings as these borrowings are paid off with available funds or renewed at lower market rates. WesBanco also redeemed a \$7.5 million former Fidelity trust preferred security with available cash in March at a redemption price of 100% of the principal plus accrued and unpaid interest.

Other short-term borrowings, which consist primarily of securities sold under agreements to repurchase, were \$128.4 million at March 31, 2013 compared to \$143.0 million at December 31, 2012. The decrease in these borrowings has occurred primarily as a result of a \$14.6 million decrease in securities sold under agreements to repurchase. A revolving line of credit with another bank is available at the parent company. The revolving line of credit, which accrues interest at an adjusted LIBOR rate, provides for aggregate borrowings secured by a pledge of WesBanco's banking subsidiary common stock of up to \$25.0 million. There were no outstanding balances as of March 31, 2013 or December 31, 2012.

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

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

**CAPITAL RESOURCES**

Shareholders' equity was \$724.4 million at March 31, 2013 compared to \$714.2 million at December 31, 2012. Total equity increased due to net income during the current three month period of \$16.0 million. The increase was partially offset by a \$0.4 million decrease in other comprehensive income and the declaration of common shareholder dividends totaling \$5.6 million for the three months ended March 31, 2013. WesBanco also increased its quarterly dividend rate to \$0.19 per share in February, representing a 5.6% increase over the prior quarter rate and a cumulative 36% increase over the last two years.

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, 2013, 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, 2013, under FDIC regulations, WesBanco could receive, without prior regulatory approval, a dividend of approximately \$31.4 million from the Bank. WesBanco will continue to improve its consolidated and Bank capital ratios 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 Value (1)	Well Capitalized (2)	March 31, 2013		December 31, 2012			
			Amount	Ratio	Minimum Amount (1)	Amount	Ratio	Minimum Amount (1)
<i>(unaudited, dollars in thousands)</i>								
<b>WesBanco, Inc.</b>								
Tier 1 leverage	4.00% <sup>(3)</sup>	N/A	\$ 514,912	8.92%	\$ 230,834	\$ 510,512	9.34%	\$ 218,640
Tier 1 capital to risk-weighted assets	4.00%	6.00%	514,912	12.88%	159,928	510,512	12.82%	159,287
Total capital to risk-weighted assets	8.00%	10.00%	564,761	14.13%	319,856	560,331	14.07%	318,573
<b>WesBanco Bank, Inc.</b>								
Tier 1 leverage	4.00%	5.00%	\$ 482,935	8.40%	\$ 229,963	\$ 475,527	8.80%	\$ 216,132
Tier 1 capital to risk-weighted assets	4.00%	6.00%	482,935	12.16%	158,920	475,527	12.00%	158,504
Total capital to risk-weighted assets	8.00%	10.00%	532,629	13.41%	317,841	525,104	13.25%	317,007

(1) Minimum to remain adequately capitalized.

(2) Well capitalized under prompt corrective action regulations.

(3) Minimum requirement is 3% for certain highly-rated bank holding companies.

In June 2012, the Board of Governors of the Federal Reserve System announced Notices of Proposed Rulemaking ( NPRs ) that, if adopted, would result in higher risk-based and leverage capital requirements consistent with the Basel Committee on Banking Supervision capital rules, commonly referred to as Basel III, with a transition period that originally was to be effective beginning on January 1, 2013, and full implementation of the capital rules by January 1, 2019. However, the banking agencies have deferred the start date of these proposed rules, while changes are considered based on comments received from banks and other affected parties. When finalized, the proposed rules will increase both the quantity and quality of capital that banks and bank holding companies are required to hold.

**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. Cash flow from the loan portfolio, the investment portfolio, and other sources, adequately meet the liquidity requirements of WesBanco.

The following table lists the sources of liquidity at March 31, 2013 expected within the next year:

<i>(unaudited, dollars in thousands)</i>	
Cash and cash equivalents	<b>\$ 178,263</b>
Securities with a maturity date within the next year	<b>16,457</b>
Projected payments and prepayments on mortgage-backed securities and collateralized mortgage obligations (1)	<b>236,167</b>
Callable securities	<b>82,954</b>
Loans held for sale	<b>14,299</b>
Accruing loans scheduled to mature	<b>541,457</b>
Normal loan repayments	<b>699,677</b>
 Total sources of liquidity expected within the next year	 <b>\$ 1,769,274</b>

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

Deposit flows are another principal factor affecting overall WesBanco liquidity. Deposits totaled \$5.0 billion at March 31, 2013. 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 \$891.1 million at March 31, 2013, which includes jumbo regular certificates of deposit totaling \$320.1 million with a weighted-average cost of 2.32%, and jumbo CDARS® deposits of \$122.0 million with a cost of 0.70%.

WesBanco maintains a line of credit with the FHLB as an additional funding source. Available credit with the FHLB at March 31, 2013 approximated \$1.4 billion, compared to \$1.3 billion at December 31, 2012. At March 31, 2013, the Bank had unpledged available-for-sale securities with an amortized cost of \$402.3 million, a portion of which is an available liquidity source, or could be pledged to secure additional FHLB borrowings. The FHLB requires securities to be specifically pledged to the FHLB and maintained in a FHLB-approved custodial arrangement if the member wishes to include such securities in the maximum borrowings capacity calculation. WesBanco has elected not to specifically pledge to the FHLB otherwise unpledged securities.

WesBanco participates in the Federal Reserve Bank's Borrower-in-Custody Program (BIC) whereby WesBanco pledges certain consumer loans as collateral for borrowings. At March 31, 2013, WesBanco had a BIC line of credit totaling \$145.1 million, none of which was outstanding. Alternative funding sources may include the utilization of existing overnight lines of credit with third party banks totaling \$145.0 million, none of which was outstanding at March 31, 2013, 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.

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

Other short-term borrowings of \$128.4 million at March 31, 2013 consisted of callable repurchase agreements and overnight sweep checking accounts for large commercial customers. There has not been a significant fluctuation in the average deposit balance of these overnight sweep checking accounts during 2013. The repurchase agreements require securities to be pledged equal to or greater than the instrument's purchase price and may be called at any time by the purchaser, although due to current low interest rates, that is unlikely. The overnight sweep checking accounts require securities to be pledged equal to or greater than the average deposit balance in the related customer accounts.



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

The principal sources of parent company liquidity are dividends from the Bank, \$17.9 million in cash and investments on hand, and a \$25 million revolving line of credit with another bank, which did not have an outstanding balance at March 31, 2013. 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, 2013, under FDIC and State of West Virginia regulations, WesBanco could receive, without prior regulatory approval, dividends of approximately \$31.4 million from the Bank.

At March 31, 2013, WesBanco had outstanding commitments to extend credit in the ordinary course of business approximating \$1.1 billion, which was unchanged from December 31, 2012. On a historical basis, only a small portion of these commitments will result in an outflow of funds. Please refer to Note 9, Commitments and Contingent Liabilities, of the Consolidated Financial Statements and the Loans and Credit Risk section of this MD&A for additional information.

**Table of Contents**

Federal financial regulatory agencies issued guidance in 2010 to provide sound practices for managing funding and liquidity risk and strengthening liquidity risk management practices. The guidance recommends that financial institutions maintain a comprehensive management process for identifying, measuring, monitoring, and controlling liquidity risk and that liquidity risk management be fully integrated into its risk management process. WesBanco has completed the implementation of these policies, and management believes WesBanco has sufficient current liquidity to meet current obligations to borrowers, depositors and others as of March 31, 2013 and that WesBanco's current liquidity risk management policies and procedures adequately address this guidance. Further changes to the required levels of liquidity for community banks may be specified in revised forthcoming Basel III regulations, although such liquidity requirements are primarily targeted to large national and regional banking institutions.

---

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

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

**MARKET RISK**

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

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

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

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

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

Interest rate risk policy limits are determined by measuring the anticipated change in net interest income over a twelve month period assuming an immediate and sustained 100 and 200 basis point increase or decrease in market interest rates compared to a stable rate environment or base model. WesBanco's current policy limits this exposure to a reduction of 5.0% and 12.5% or less, respectively, of net interest income from the base model over a twelve month period. The table below shows WesBanco's interest rate sensitivity at March 31, 2013 and December 31, 2012 assuming both a 100 and 200 basis point interest rate change, compared to a base model. Due to the current low interest rate environment, particularly for short-term rates, the 200 basis point decreasing change is not calculated, and instead a 300 basis point rising rate environment is shown. The policy limit for an increasing 300 basis point rising rate environment is a negative 25%.

TABLE 1. NET INTEREST INCOME SENSITIVITY

Immediate Change in Interest Rates (basis points)	Percentage Change in Net Interest Income from Base over One Year		ALCO Guidelines
	March 31, 2013	December 31, 2012	
+300	1.6%	0.4%	- 25%
+200	2.6%	0.9%	- 12.5%
+100	2.2%	0.9%	- 5%
-100	(2.2%)	(4.1%)	- 5%

**Table of Contents**

As per the table above, the earnings simulation model at March 31, 2013 currently projects that net interest income for the next twelve month period would decrease by 2.2% if interest rates were to fall immediately by 100 basis points, compared to a decrease of 4.1% for the same scenario as of December 31, 2012.

For rising rate scenarios, net interest income would increase by 2.2%, 2.6%, and 1.6% if rates increased by 100, 200 and 300 basis points, respectively, as of March 31, 2013 compared to increases of 0.9%, 0.9% and 0.4% in a 100, 200 and 300 basis point increasing rate environment as of December 31, 2012.

The balance sheet for the next year is more asset sensitive as of March 31, 2013 compared to December 31, 2012 due primarily to continued changes in the deposit mix and the overall level and term of short-term borrowings, as well as certain changes in modeling assumptions. The restructuring of certain acquired earning assets and costing liabilities from Fidelity also had a slightly positive impact compared to Fidelity's combined assets and liabilities at acquisition which were more liability sensitive. Should rates rise more rapidly and by a higher amount, which is not currently anticipated in the short to intermediate term, the asset sensitivity may be somewhat neutralized due to slower anticipated prepayment speeds and extension risk associated with residential mortgages and mortgage-backed securities. In addition, variable rate commercial loans with rate floors approximated \$1.0 billion at March 31, 2013, which represented approximately 44% of commercial loans, with an average floor of 4.61%. In a 100 basis point rising rate environment, these loans would not significantly reprice from their current floor level. However, not all such loans are currently priced at their floor. In the current flat to decreasing interest rate environment, WesBanco expects that the net interest margin may be somewhat negatively impacted through the remainder of 2013 and into 2014, as short term interest rates are not anticipated to increase until sometime in 2015 at the earliest, and loan runoff and investment security maturities are reinvested at lower rates. It is also anticipated that accretion from loans acquired from Fidelity, as well as CDs and short-term borrowings, will have a reduced impact on net interest income thru the rest of 2013 and for 2014. Partially offsetting those negative factors are maturities of higher-cost borrowings and certificates of deposit scheduled over the next year, which should assist somewhat in mitigating margin compression from loan yield decreases and investment security reinvestments. The Bank continues to experience pricing competition for new loans which may result in reduced loan yields that may be somewhat mitigated by future loan growth. CDs totaling \$891.1 million mature within the next year at an average cost of 1.57%. Approximately \$310.0 million of higher costing CDs will mature during the final four months of 2013 at an average cost of 2.50%.

The Bank has significant additional borrowing capacity with the FHLB of Pittsburgh, the Federal Reserve Bank of Cleveland, and various correspondent banks, and may utilize these funding sources as necessary to mitigate the impact on our balance sheet of embedded options in commercial and residential loans and to lengthen liabilities to help offset mismatches in various asset maturities, as well as to manage short term cash needs. CDARS® deposits also continue to be used to lengthen maturities in certificates of deposit, and for some customers, as an alternative to the recently expired Transaction Account Guarantee Program.

Current balance sheet strategies to reduce the impact of decreasing margins in a low rate environment, where asset yields continue to fall as reinvestment of cash flows occur and liability costs may not be able to be reduced in the same proportion, include:

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

investing non-essential available short-term liquidity;

marketing programs to increase consumer loan types and the mix of certain types of transaction accounts versus short-term certificates of deposit;

reinvestment of securities cash flows into a mix of short-to intermediate-term collateralized mortgage obligations and 10-15 year state and municipal securities;

paying down maturities of FHLB and other short-term borrowings with available cash, or borrowing at lower rates; and

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

extending a portion of CD maturities through the CDARS<sup>®</sup> program and continuing to decrease offered rates on CDs and other costing deposit types.

As an alternative to the immediate rate shock analysis, the ALCO monitors interest rate risk by ramping or increasing interest rates 200 basis points gradually over a twelve month period. WesBanco's current policy limits this exposure to 5.0% of net interest income from the base model for a twelve month period. Management believes that the ramping analysis reflects a more realistic movement of interest rates, whereas the immediate rate shock reflects a less likely scenario. The simulation model at March 31, 2013, using the 200 basis point increasing rate ramp analysis, projects that net interest income would increase 1.7% over the next twelve months, compared to a 1.2% increase at December 31, 2012.

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

WesBanco also periodically measures the economic value of equity, which is defined as the market value of tangible equity in various increasing and decreasing rate scenarios. At March 31, 2013, the market value of tangible equity as a percent of base in a 200 basis point rising rate environment indicates an increase of 8.5%, compared to an increase of 15.4% at December 31, 2012. In a 100 basis point falling rate environment, the model indicates a decrease of 0.1%, compared to an increase of 5.2% as of December 31, 2012. WesBanco's policy is to limit such change to minus 25% for a 200 basis point change in interest rates, as long as the Tier 1 leverage capital ratio is not forecasted to decrease below 5.0% as a result of the change. Balance sheet strategies in loan and securities portfolios, continued maturities of borrowings and certificates of deposit, and adding certain transaction-type deposits as well as certain other modeling assumptions have resulted in the change in equity market value. In a rising rate environment, non-interest bearing deposits and other low cost transaction accounts are worth more than in the current low interest rate environment. For liabilities, this equates to a below cost fair market value as rates rise, which results in increased equity fair value.

**Table of Contents**

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

**CHANGES IN INTERNAL CONTROLS** There were no changes in WesBanco's internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2013 as required to be reported by paragraph (d) of Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, that materially affected, or are reasonably likely to materially affect, WesBanco's internal control over financial reporting.



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

On October 18, 2012, Mordechai Nagel, a purported shareholder of Fidelity, filed a purported shareholder class and derivative action in the Court of Common Pleas of Allegheny County, Pennsylvania, Civil Action No. 12-019908 (the Allegheny County Lawsuit). The lawsuit names as Defendants each of the former members of Fidelity's board of directors (the Director Defendants), as well as WesBanco and Fidelity (collectively with the Director Defendants, the Defendants). The complaint alleges, among other things, that the Director Defendants breached their fiduciary duties as a result of the price and certain other terms of the Fidelity Merger. The lawsuit also claims that the Director Defendants breached their fiduciary duties because the registration statement on Form S-4 filed by WesBanco with the SEC on September 14, 2012 allegedly contained misstatements and omitted information material to the Fidelity Merger and to a decision by Fidelity's shareholders regarding whether or not to approve the Fidelity Merger. The lawsuit also alleges that WesBanco aided and abetted the Director Defendants' alleged breaches of fiduciary duties. The lawsuit sought, among other things, an injunction against WesBanco's acquisition of Fidelity, as well as the payment of the fees and expenses of the plaintiffs' attorneys.

On November 16, 2012, solely to avoid the costs, risks and uncertainties inherent in litigation and to allow Fidelity shareholders to vote on the proposals required in connection with the Fidelity Merger at the scheduled meeting on November 27, 2012, the Defendants entered into a Memorandum of Settlement (MOS) with the Plaintiff that describes a settlement of the Allegheny County Lawsuit. The settlement is expressly subject to approval by the court. Pursuant to the terms of the MOS, Fidelity and WesBanco agreed to file with the SEC and make publicly available supplemental disclosures. In return, the Plaintiff agreed to stay the Allegheny County Lawsuit, withdraw all requests for interim relief, and not take any action to delay or disrupt the November 27, 2012 Fidelity shareholder meeting. The MOS provides for limited discovery to confirm the fairness of the settlement. If the court approves the settlement contemplated in the MOS, the Allegheny County Lawsuit will be dismissed with prejudice, and all claims that were or could have been brought relating to the Fidelity Merger, the Merger Agreement, and any disclosure made in connection therewith will be released and barred, other than claims under the federal securities laws with respect to any period prior to the date of the Merger Agreement that are not based upon the foregoing. Under the terms of the MOS, counsel for the Plaintiff will petition the court for an award of attorneys' fees and expenses. The Defendants have reserved the right to contest the fee and expense petition. The amount of the fees and expenses awarded will ultimately be determined and approved by the court. In the MOS, the parties have agreed to negotiate in good faith to prepare a stipulation of settlement to be filed with the court and other documentation as may be required to effectuate the settlement. There can be no assurance that the parties will ultimately enter into a stipulation of settlement or that the court will approve the settlement even if the parties were to enter into such stipulation. The proposed settlement contemplated by the MOS becomes void in the event that the parties do not enter into such stipulation or the court does not approve the settlement.

The Defendants have denied and continue to deny that they have committed, or aided and abetted in the commission of, any violation of law or duty or engaged in any wrongful acts and that any supplemental disclosure of the information is required under any applicable state or federal law, statute, rule or regulation. The Defendants also expressly maintain that they diligently and scrupulously complied with all applicable fiduciary, disclosure and all other legal duties. WesBanco does not expect the settlement to be material in relation to its business, financial condition or results of operations.

**Other Litigation**

WesBanco is also involved in lawsuits, claims, investigations and proceedings which arise in the ordinary course of business. There are none of these matters pending that WesBanco expects to be material in relation to its business, financial condition or results of operations.

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

As of March 31, 2013, WesBanco had a current stock repurchase plan in which up to one million shares can be acquired. The plan was originally approved by the Board of Directors on March 21, 2007 and provides for shares to be repurchased for general corporate purposes, which may include a subsequent resource for potential acquisitions, shareholder dividend reinvestment and employee benefit plans. The timing, price and quantity of purchases are at the discretion of WesBanco, and the plan may be discontinued or suspended at any time. There were no repurchases during the first quarter of 2013, other than those for KSOP, dividend reinvestment plans and repurchases from employees for the payment of withholding taxes to facilitate the vesting of restricted stock.

The following table presents the monthly share purchase activity during the quarter ended March 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
Balance at December 31, 2012				580,737
<b>January 1, 2013 to January 31, 2013</b>				
Open market repurchases				580,737
Other transactions (1)	19,507	\$ 22.92	N/A	N/A
<b>February 1, 2013 to February 28, 2013</b>				
Open market repurchases				580,737
Other transactions (1)	1,859	\$ 23.12	N/A	N/A
<b>March 1, 2013 to March 31, 2013</b>				
Open market repurchases				580,737
Other repurchases (2)	620	\$ 23.37	620	580,117
Other transactions (1)	3,121	24.16	N/A	N/A
<b>First Quarter 2013</b>				
Open market repurchases				580,737
Other repurchases (2)	620	\$ 23.37	620	580,117
Other transactions (1)	24,487	23.09	N/A	N/A
Total	25,107	\$ 23.10	620	580,117

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

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

**Table of Contents**

**ITEM 6. EXHIBITS**

- 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, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at March 31, 2013 and December 31, 2012, (ii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012, (iii) the Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2013 and 2012, (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012, and (v) the Notes to Consolidated Financial Statements.\*

\* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**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 26, 2013

/s/ Paul M. Limbert  
Paul M. Limbert  
President and Chief Executive Officer

(Principal Executive Officer)

Date: April 26, 2013

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