WESBANCO INC
Form 10-Q
April 27, 2011
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, 2011

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

For the transition period from $\qquad$ to $\qquad$
Commission File Number 000-08467
WESBANCO, INC.
(Exact name of Registrant as specified in its charter)


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 p 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 p
Non-acceleratedfiler (Do notcheckif a smaller reporting company)

Smaller reporting company ${ }^{\prime}$

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

As of April 26, 2011, there were 26,593,510 shares of WesBanco, Inc. common stock, $\$ 2.0833$ par value, outstanding.

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ITEM 1. FINANCIAL STATEMENTS
WESBANCO, INC. CONSOLIDATED BALANCE SHEETS
(unaudited, in thousands, except shares and per share amounts)

## ASSETS

Cash and due from banks, including interest bearing amounts of $\$ 13,712$ and $\$ 21,894$, respectively
Securities:
Available-for-sale, at fair value
Held-to-maturity (fair values of $\$ 531,581$ and $\$ 465,902$ respectively)
Total s
Loans held for
Portfolio loans,
Allowance for
$\quad$ Net po
Premises and eq
Accrued interes
Goodwill and o
Bank-owned lif
Other assets
Total Assets
LIABILITIES

## Deposits:

Non-interest bearing demand
Interest bearing demand
Money market
Savings deposits
Certificates of deposit
Total deposits
Federal Home Loan Bank borrowings
Other short-term borrowings
Junior subordinated debt owed to unconsolidated subsidiary trusts
Total borrowings
Accrued interest payable
Other liabilities
Total Liabilities

## 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; 26,633,848 shares issued in 2011
and 2010; outstanding: 26,593,510 and 26,586,953 shares in 201 55,487 55,487
and 2010, respectively
Capital surplus 191,919 191,987
Retained earnings 367,766 361,513
Treasury stock (40,338 and 46,895 shares in 2011 and 2010, respectively, at cost)

March 31, December 31, 20112010
\$ 97,076 \$ 79,136

935,600 957,481
531,284 468,710
1,466,884 1,426,191
4,087 10,800
3,243,244 3,288,676
$(61,440) \quad(61,051)$
3,181,804 3,227,625
84,952
85,928
21,599 20,536
284,941 285,559
107,397 106,502
120,112 119,181
\$ 5,368,852 \$ 5,361,458
\$ 611,496 \$ 591,052
511,168 481,129
887,803 854,836
558,800 530,701
1,642,942 1,714,705
4,212,209 4,172,423
232,247 253,606
168,014 187,385
106,042 106,034
506,303 547,025
6,035 $\quad 6,559$
32,327 28,588
4,756,874 4,754,595

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| Accumulated other comprehensive income | $(1,101)$ | 131 |
| :--- | ---: | ---: |
| Deferred benefits for directors | $(1,174)$ | $(1,192)$ |
| Total Shareholders' Equity | 611,978 | 606,863 |
| Total Liabilities and Shareholders' Equity | $\$$ | $5,368,852 \$$ |

See Notes to Consolidated Financial Statements.

## WESBANCO, INC. CONSOLIDATED

STATEMENTS OF INCOME

| (unaudited, in thousands, except shares and per share amounts) | For the Three Months Ended March 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2011 |  | 2010 |  |
| INTEREST AND DIVIDEND INCOME |  |  |  |  |
| Loans, including fees | \$ | 44,348 | \$ | 48,375 |
| Interest and dividends on securities: |  |  |  |  |
| Taxable |  | 8,708 |  | 9,111 |
| Tax-exempt |  | 2,986 |  | 2,994 |
| Total interest and dividends on securities |  | 11,694 |  | 12,105 |
| Other interest income |  | 56 |  | 85 |
| Total interest and dividend income |  | 56,098 |  | 60,565 |
| INTEREST EXPENSE |  |  |  |  |
| Interest bearing demand deposits |  | 503 |  | 670 |
| Money market deposits |  | 1,572 |  | 1,943 |
| Savings deposits |  | 488 |  | 602 |
| Certificates of deposit |  | 8,050 |  | 10,160 |
| Total interest expense on deposits |  | 10,613 |  | 13,375 |
| Federal Home Loan Bank borrowings |  | 2,026 |  | 4,334 |
| Other short-term borrowings |  | 1,182 |  | 1,178 |
| Junior subordinated debt owed to |  | 801 |  | 1,045 |
| unconsolidated subsidiary trusts |  |  |  |  |
| Total interest expense |  | 14,622 |  | 19,932 |
| NET INTEREST INCOME |  | 41,476 |  | 40,633 |
| Provision for credit losses |  | 8,041 |  | 11,500 |
| Net interest income after provision for credit |  | 33,435 |  | 29,133 |
| losses |  |  |  |  |
| NON-INTEREST INCOME |  |  |  |  |
| Trust fees |  | 4,762 |  | 4,058 |
| Service charges on deposits |  | 4,222 |  | 5,317 |
| Electronic banking fees |  | 2,284 |  | 1,915 |
| Net securities brokerage and insurance |  | 1,721 |  | 1,852 |
| services revenue |  |  |  |  |
| Bank-owned life insurance |  | 895 |  | 944 |
| Net securities gains |  | 17 |  | 1,405 |
| Net losses on other real estate owned and |  | (545) |  | $(1,530)$ |
| other assets |  |  |  |  |
| Other income |  | 1,148 |  | 1,080 |

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See Notes to Consolidated Financial Statements.

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WESBANCO, INC. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2011 and 2010
Accumulated
Other Deferred
(unaudited, in Common Stock Capital Retained Treasury Comprehensive Benefits for thousands, except shares and per Shares Amount Surplus Earnings Stock Income (Loss) Directors Total share amounts) January 1, 2011
Net income
$26,586,953$ \$ $55,487 \$ 191,987 \$ 361,513 \$(1,063) \$$
131 \$ (1,192) \$ 606,863
Other 10,240

10,240
comprehensive
income (1)
Total
comprehensive
income
Common
dividends

$$
\begin{equation*}
(3,987) \tag{3,987}
\end{equation*}
$$

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| declared (\$0.15 per share) |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Stock options exercised | 1,775 |  |  | (13) |  |  | 39 |  |  |  |  | 26 |
| Restricted stock granted | 4,782 |  |  | (105) |  |  | 105 |  |  |  |  | - |
| Stock compensation expense |  |  |  | 68 |  |  |  |  |  |  |  | 68 |
| Deferred benefits for directors- net |  |  |  | (18) |  |  |  |  |  | 18 |  |  |
| March 31, 2011 | 26,593,510 \$ | 55,487 | \$ | 191,919 | \$ | 367,766 \$ | (919) |  | $(1,101)$ \$ | $(1,174)$ | \$ | 611,978 |
| January 1, 2010 | 26,567,653 \$ | 55,487 | , | 192,268 | \$ | 340,788 \$ | ( 1,498 ) | \$ | 2,949 \$ | $(1,278)$ | \$ | 588,716 |
| Net income |  |  |  |  |  | 7,910 |  |  |  |  |  | 7,910 |
| Other comprehensive income (1) |  |  |  |  |  |  |  |  | 3,567 |  |  | 3,567 |
| Total |  |  |  |  |  |  |  |  |  |  |  | 11,477 |
| comprehensive income |  |  |  |  |  |  |  |  |  |  |  |  |
| Common dividends declared |  |  |  |  |  | $(3,720)$ |  |  |  |  |  | $(3,720)$ |
| $\begin{aligned} & (\$ 0.14 \text { per } \\ & \text { share) } \end{aligned}$ |  |  |  |  |  |  |  |  |  |  |  |  |
| March 31, 2010 | 26,567,653 \$ | 55,487 | \$ | 192,268 | , | 344,978 \$ | ( 1,498 ) | \$ | 6,516 \$ | $(1,278)$ | \$ | 596,473 |

(1) Other comprehensive income in 2010 and 2011 consists primarily of the net change in unrealized gains and losses in available-for-sale securities.

See Consolidated Notes to Financial Statements.

WESBANCO, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | For the Three Months Ended |  |  |  |
| :--- | :---: | :---: | :---: | :---: |
| March 31, |  |  |  |  |
| (unaudited, in thousands) | 2011 |  |  | 2010 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $\$$ | 30,527 | $\$$ | 24,242 |

INVESTING ACTIVITIES:
Securities available-for-sale:

| Proceeds from sales | - | 66,025 |
| :--- | ---: | ---: |
| Proceeds from maturities, prepayments and calls | 70,856 | 104,996 |
| Purchases of securities | $(51,739)$ | $(115,255)$ |
| ecurities held-to-maturity: | 21,827 | - |
| Proceeds from maturities, prepayments and calls | $(85,344)$ | - |
| Purchases of securities | 36,740 | 25,828 |
| et decrease in loans | $(540)$ | $(153)$ |
| urchases of premises and equipment - net | $(8,200)$ | 81,441 |
| et cash (used in) provided by investing activities |  |  |
| INANCING ACTIVITIES: | 39,823 | 67,457 |
| et increase in deposits | $(21,257)$ | $(99,268)$ |
| roceeds from Federal Home Loan Bank borrowings | $(19,258)$ | $(7,226)$ |
| epayment of Federal Home Loan Bank borrowings | - | $(5,000)$ |
| Decrease in other short-term borrowings | $(3,721)$ | $(3,720)$ |
| Decrease in federal funds purchased | 26 | - |
| Dividends paid to common shareholders | $(4,387)$ | $(27,757)$ |
| Teasury shares sold - net | 17,940 | 77,926 |
| et cash used in financing activities | 79,136 | 82,867 |
| et increase in cash and cash equivalents | $97,076 \$$ | 160,793 |
| ash and cash equivalents at beginning of the period | $\$$ | $15,146 \$$ |

See Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION- The accompanying unaudited interim financial statements of WesBanco, Inc. ("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, 2010.

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 2010 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 July 2010, the Financial Accounting Standards Board ("FASB") issued an accounting pronouncement to improve disclosures about the credit quality of financing receivables and the allowance for credit losses. Companies are required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators disaggregated by portfolio segment and class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure. Required disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010, while required disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. Required disclosures specifically related to troubled debt restructurings were deferred in an accounting pronouncement issued in January 2011. The effect of this pronouncement is included in these notes to the financial statements, and the adoption of this pronouncement did not have a material impact on WesBanco's consolidated financial statements.

In April 2011, the FASB issued an accounting pronouncement which clarifies when a loan modification or restructuring is considered a troubled debt restructuring. The guidance is effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For purposes of measuring impairment on newly-considered impaired receivables an entity should apply the guidance prospectively in the first interim period beginning on or after June 15, 2011. The disclosures relating to troubled debt restructurings will be required in the first interim period beginning on or after June 15, 2011. The adoption of this pronouncement is not expected to have a material impact on WesBanco's consolidated financial statements.

In January 2010, the FASB issued an accounting pronouncement to improve disclosures about fair value measurements which requires new disclosures on transfers into and out of Level 1 and 2 measurements of the fair value hierarchy and requires separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures relating to the level of disaggregation and inputs and valuation techniques used to measure fair value. It was effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which was effective for fiscal years beginning after December 15, 2010. The adoption of this pronouncement 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:
(unaudited, in thousands, except shares and per share amounts)
Numerator for both basic and diluted earnings per common share:
Net income
Denominator:
Total average basic common shares outstanding
Effect of dilutive stock options
Total diluted average common shares outstanding

2010 \$ 10,240 \$ 7,910

> For the Three Months Ended March 31,

| 2011 | 2010 |  |
| :---: | :---: | :---: |
| \$ | 10,240 | $\$$ |

1,397

Earnings per common share - diluted
\$
0.39
\$ 0.30
7

## NOTE 3. SECURITIES

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

| March 31, 2011 |  |  | December 31, 2010 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Gross | Gross | Estimated |  | Gross | Gross | Estimated |
| Unrealized | Unrealized | Fair | Amortized | Unrealized | Unrealized | Fair |
| Gains | Losses | Value | Cost | Gains | Losses | Value |

(unaudfedt Gains Losses Value Cost
in
thousands)
Available-for-sale
OtBer 364,717 \$ 1,017 $\$(5,582) \$ 360,152 \quad \$ \quad 367,150 \quad \$ \quad 1,436 \quad \$ \quad(5,451) \quad \$ \quad 363,135$ government agencies

| Corporą2,677 | 16 | (212) | 22,481 | 25,775 | 12 | (204) |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |

debt
securities
Residential
mortgage-backed
securities
and
collateralized
mortgage
obligations
of
government

| agencią89,069 | 7,973 | $(819)$ | 336,223 | 344,787 | 9,412 | $(854)$ | 353,345 |  |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Obliga208,862 | 4,264 | $(1,271)$ | 211,855 | 208,198 | 4,321 | $(1,711)$ | 210,808 |  |
| of |  |  |  |  |  |  |  |  |
| state <br> and |  |  |  |  |  |  |  |  |
| political <br> subdivisions |  |  |  |  |  |  |  |  |
| Total 925,325 | 13,270 | $(7,884)$ | 930,711 | $\$$ | 945,910 | $\$$ | 15,181 | $\$$ |

debt
securities

| Equity <br> securities | 7,140 | - | 4,889 |  | 3,787 |  | 823 |  | - |  | 4,610 |
| :--- | ---: | :--- | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: | ---: |
| Tot | 929,465 | $\$$ | 14,019 | $\$(7,884)$ | $\$$ | 935,600 | $\$$ | 949,697 | $\$$ | 16,004 | $\$$ |

available-for-sale
securities
Held-to-maturity
$\begin{array}{llllllllllllll}\text { Co\$porate, } 452 & \$ & 67 & \$ & -\$ & 1,519 & \$ & 1,451 & \$ & 90 & \$ & - & \$ & 1,541\end{array}$
debt
securities $\begin{array}{ccccccc}254,014 & 1,657 & (306) & 255,365 & 202,062 & 1,721 & \text { (14) }\end{array}$

Residential
mortgage-backed
securities
and
collateralized
mortgage
obligations
of
government
agencies
Other
residential
collateralized
mortgage
$\begin{array}{llllllll}\text { obligatioh } \$ 058 & 13 & - & 1,071 & 1,224 & 14 & - & 1,238\end{array}$
$\begin{array}{lllllll}\text { Obligatioh } 860 & 1,858 & (2,992) & 273,626 & 263,973 & 973 & (5,592)\end{array}$
of
state
and
political
subdivisions
 held-to-maturity
securities
Tot\$11,460,749 \$ 17,614 \$ (11,182) \$ 1,467,181 \$ 1,418,407 \$ $\quad 18,802$ \$ $\quad(13,826) \quad \$ \quad 1,423,383$
securities
At March 31, 2011, and December 31, 2010, 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 maturity distribution of available-for-sale and held-to-maturity securities at fair value:

| (unaudited, in thousands) | Within One Year | After Withi Ye | e But Five s | March 31, 2011 <br> After Five But Within Ten Years |  | After Ten Years |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Available-for-sale Other government agencies | $\$ \quad 131,298$ | \$ | 76,909 | \$ | 68,345 | \$ | 83,600 | \$ | 360,152 |
| Corporate debt securities | 3,466 |  | 15,189 |  | 3,826 |  | - |  | 22,481 |
| ```Residential mortgage-backed securities and collateralized mortg government agencies (1)``` | gage obligations of 17,333 | 280,451 |  | 37,125 |  | 1,314 |  |  |  |
| Obligations of states and political subdivisions | 61,429 |  | 80,990 |  | 44,711 |  | 24,725 |  | 211,855 |


| Equity securities |  |  |  |  |  | - |  | 4,889 |  | 4,889 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Total | \$ | 213,526 | \$ | 453,539 | \$ | 154,007 | \$ | 114,528 | \$ | 935,600 |
| available-for-sale securities |  |  |  |  |  |  |  |  |  |  |
| Held-to-maturity(2) |  |  |  |  |  |  |  |  |  |  |
| Corporate debt securities |  | \$ - |  | \$ |  | \$ | \$ | 1,519 |  | ${ }_{1,519}$ |
| Residential mortgage-backed securities and collateralized mortgage obligations of |  |  |  |  |  |  |  |  |  |  |
| agencies (1) |  |  |  |  |  |  |  |  |  |  |
| Other residential collateralized mortgage |  |  |  |  |  |  |  |  |  |  |
| obligations (1) |  |  |  | 1,071 |  | - |  | - |  | 1,071 |
| Obligations of states and political |  |  |  |  |  |  |  |  |  |  |
|  |  | 15,290 |  | 38,525 |  | 115,689 |  | 104,122 |  | 273,626 |
| Total | \$ | 17,656 | \$ | 252,028 | \$ | 115,770 | \$ | 146,127 | \$ | 531,581 |
| held-to-maturity securities |  |  |  |  |  |  |  |  |  |  |
| Total securities | \$ | 231,182 | \$ | 705,567 | \$ | 269,777 | \$ | 260,655 | \$ | 1,467,181 |
| (1) Mortgage-backed and collateralized mortgage securities, which have prepayment provisions, are assigned to maturity categories based on estimated average lives or repricing information. |  |  |  |  |  |  |  |  |  |  |
| (2) The held-to-mat | urit | folio is carr | ed | mortized |  | . 3 millio |  |  |  |  |

Securities with aggregate par values of $\$ 661.0$ million and $\$ 621.4$ million at March 31, 2011 and December 31, 2010, 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 $\$ 66.0$ million for the three months ended March 31, 2010. There were no sales from the portfolio for the three months ended March 31, 2011. Net unrealized security gains on the available-for-sale portfolio were $\$ 6.1$ million and $\$ 7.8$ million for March 31, 2011 and December 31, 2010. These unrealized gains were recognized in other comprehensive income, net of tax. For the three months ended March 31, 2011, gross security gains were $\$ 22,000$ and gross losses of $\$ 5,000$ were recorded due to the write down of one equity security. For the three months ended March 31, 2010, gross security gains on available-for-sale securities were $\$ 1.4$ million with no realized losses.

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, 2011 and December 31, 2010:

| (unaudited, | Less than 12 months |  |  | March 31, 2011 <br> 12 months or more |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Fair | Unrealized | \# of Securities | Fair Value | Unrealized Losses | \# of Securities | Fair Value |
| dollars in thousands) |  |  |  |  |  |  |  |

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| Other government agencies | \$ | 233,337 | \$ $(5,582)$ | 28 | \$ | - |  | - |  |  | 233,337 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Corporate debt securities |  | 16,968 | (212) | 6 |  | - |  | - | - |  | 16,968 |
| Residential mortgage-backed securities and collateralized mortgage obligations of government |  |  |  |  |  |  |  |  |  |  |  |
| agencies |  | 159,682 | $(1,110)$ | 27 |  | 573 |  | (15) | 1 |  | 160,255 |
| Obligations of states and political subdivisions |  | 190,494 | $(4,249)$ | 206 |  | 342 |  | (14) | 2 |  | 190,836 |
| Total temporarily impaired securities | \$ | 600,481 | \$ $(11,153)$ | 267 | \$ | 915 | \$ | (29) | 3 | \$ | 601,396 |



Unrealized losses 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 substantially 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 Federal Home Loan Bank ("FHLB") stock totaling $\$ 26.1$ million and $\$ 28.0$ million at March 31, 2011 and December 31, 2010, 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.

In 2008 the FHLB of Pittsburgh announced that it would suspend dividends and the repurchase of excess capital stock from its member banks until further notice. However, the FHLB of Pittsburgh announced on October 28, 2010 that the suspension on the repurchase of excess capital stock would be partially lifted, and future excess capital stock repurchases would be reviewed on a quarter-to-quarter basis. The suspension of dividends was not affected by the announcement. The FHLB of Pittsburgh stock owned by WesBanco totaling $\$ 23.8$ million and $\$ 25.0$ million at March 31, 2011 and December 31, 2010, respectively, does not have a readily determinable fair value and is recorded as a cost method investment in other assets on the Consolidated Balance Sheet, and is held primarily to serve as collateral on FHLB borrowings. Although the FHLB of Pittsburgh has suspended dividends and only partially lifted the suspension on the repurchase of excess capital stock, they are meeting their current debt obligations, have continued to exceed all required capital ratios, and have remained in compliance with statutory and regulatory requirements. Accordingly, as of March 31, 2011, WesBanco believes that sufficient evidence exists to conclude that its investment in FHLB stock was not impaired. At March 31, 2011, WesBanco held excess capital stock of \$6.8 million that remains to be repurchased by the FHLB of Pittsburgh. The FHLB of Pittsburgh stock declined from December 31, 2010 to March 31, 2011 due to stock repurchases during the period.

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## NOTE 4. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

The recorded investment in loans is presented in the Consolidated Balance Sheets net of deferred loan fees and costs of $\$ 3.1$ million at March 31, 2011 and December 31, 2010.

The following table summarizes changes in the allowance for credit losses applicable to each category of the loan portfolio.

For the Three Months Ended
March 31,
March 31,
2010
Commercial
Real Estate Commercial
Land and Real Estate Commercial Residential Home Deposit
(unaudited, in Construction Other \& Industrial Real Estate Equity Consumer Overdraft Total Total thousands)
Balance at beginning of
year:

| Allowance | \$ | 4,701 | \$ | 30,836 | \$ | 10,793 | \$ | 5,950 | \$ | 2,073 | \$ | 5,641 | \$ | 1,057 | \$ 61,051 | \$ | 61,160 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| for loan losses |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Allowance |  | 1,037 |  | 285 |  | 65 |  | 1 |  | 14 |  | 2 |  | - | 1,404 |  | 195 |
| for loan commitments |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Total beginning allowance for credit losses |  | 5,738 |  | 31,121 |  | 10,858 |  | 5,951 |  | 2,087 |  | 5,643 |  | 1,057 | 62,455 |  | 61,355 |
| Provision for credit losses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Provision |  | 5,480 |  | (860) |  | 1,873 |  | 1,197 |  | 381 |  | 576 |  | 40 | 8,687 |  | 11,500 |
| for loan losses |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Provision |  | (376) |  | (260) |  | (10) |  | (1) |  | 1 |  | - |  | - | (646) |  |  |

for loan
commitments

| Total | 5,104 | $(1,120)$ | 1,863 | 1,196 | 382 | 576 | 40 | 8,041 | 11,500 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |

provision for
credit losses

| Charge-offs | $(4,352)$ | $(1,834)$ | (894) | (997) | (256) | $(1,085)$ | (173) | $(9,591)$ | (7,740) |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Recoveries |  | 495 | 153 | 232 | 7 | 307 | 96 | 1,293 | 705 |
| Net | $(4,349)$ | $(1,339)$ | (741) | (765) | (249) | (778) | (77) | $(8,298)$ | $(7,035)$ |
| charge-offs |  |  |  |  |  |  |  |  |  |
| Balance at end of year: |  |  |  |  |  |  |  |  |  |
| Allowance | 5,832 | 28,637 | 11,925 | 6,382 | 2,205 | 5,439 | 1,020 | 61,440 | 65,625 |
| for loan losses |  |  |  |  |  |  |  |  |  |
| Allowance | 661 | 25 | 55 | - | 15 | 2 | - | 758 | 195 |

for loan
commitments

allowance for
credit losses

The following table presents the allowance for credit losses and recorded investments in loans by category:
Allowance for Credit Losses and Recorded Investment in Loans
March 31, 2011


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losses:

| Allowance for loans individually evaluated for impairment | \$ | 1,805 | \$ | 6,517 | \$ | 2,054\$ |  | - |  |  |  | - | \$ | \$ | 10,376 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Allowance for loans collectively evaluated for impairment |  | 4,027 |  | 22,120 |  | 9,871 |  | 6,382 |  | 2,205 |  | 5,439 | 1,020 |  | 51,064 |
| Allowance for loan commitments |  | 661 |  | 25 |  | 55 |  | - |  | 15 |  | 2 | - |  | 758 |
| Total allowance for credit losses | \$ | 6,493 | \$ | 28,662 | \$ | 11,980 | \$ | 6,382 | \$ | 2,220 | \$ | 5,441 | $\begin{gathered} \$ \\ 1,020 \end{gathered}$ | \$ | 62,198 |
| Portfolio |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| loans: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Individually evaluated for impairment |  | 11,498 |  | 45,323 |  | 8,152 |  | - |  | - |  | - | - |  | 64,973 |
| Collectively evaluated for impairment |  | 150,475 |  | 1,533,604 |  | 399,115 |  | 597,267 |  | 248,203 |  | 249,607 | - |  | 3,178,271 |
| Total portfolio loans | \$ | 161,973 | \$ | 1,578,927 | \$ | 407,267 | \$ | 597,267 | \$ | 248,203 | \$ | 249,607 \$ | - |  | 3,243,244 |

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 consists of loans to purchase, construct or refinance 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

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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's debt, and the capital resources, liquidity and leverage of the business, but also considers the industry in which the business operates, the business's 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.

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 and classified loans are equivalent to the classifications used by banking regulators. Criticized or marginal loans are currently protected but have weaknesses, which if not corrected, may inadequately protect 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 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 nonaccrual. 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 table summarizes commercial loans by their assigned risk grade:
(unaudited, in thousands)
Excellent - minimal risk
Good - desirable risk
Fair - acceptable risk
Criticized - marginal
Classified - substandard
Classified - doubtful
Total

| Commercial |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Real Estate- <br> Land and Construction |  |  | Commercial Real EstateOther | Commercial \& Industrial |  | Total Commercial Loans |  |
|  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |
| \$ | 550 | \$ | 170 | \$ | 49,519 | \$ | 50,239 |
|  | 36,138 |  | 588,094 |  | 163,433 |  | 787,665 |
|  | 82,512 |  | 762,488 |  | 155,696 |  | 1,000,696 |
|  | 21,246 |  | 138,520 |  | 12,994 |  | 172,760 |
|  | 21,527 |  | 89,655 |  | 25,625 |  | 136,807 |
|  | - |  | - |  | - |  |  |
| \$ | 161,973 | \$ | 1,578,927 | \$ | 407,267 \$ |  | 2,148,167 |

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Commercial Loans by Internally Assigned Risk Grade
As of December 31, 2010


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. The aggregate amount of residential real estate, home equity and consumer loans classified as substandard in accordance with regulatory guidelines and accruing were $\$ 4.0$ million at March 31,2011 and $\$ 6.6$ million at December 31, 2010, with non-accrual loans representing $\$ 13.0$ million and $\$ 11.7$ million, for each period respectively.

The following table summarizes the age analysis of all categories of loans. Nonaccrual, renegotiated and other impaired loans which are also set forth separately in this footnote are included in the following table according to their payment status, some of which are current as to payment status.

| (unaudited, in thousands) |  | Current | 30-59 Days Past Due | $\begin{aligned} & \text { 60-89 Days } \\ & \text { Past Due } \end{aligned}$ | 90 Days or More <br> Past Due | Total <br> Past Due | Total <br> Loans | 90 Days <br> or More <br> Past Due <br> and Accruing |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Commercial real estate: |  |  |  |  |  |  |  |  |
| Land and construction | \$ | 153,713 \$ | \$ 2,859 | \$ 168 \$ | 5,233 \$ | 8,260 \$ | 161,973 \$ | \$ 148 |
| Other |  | 1,555,149 | 5,214 | 1,640 | 16,924 | 23,778 | 1,578,927 | 570 |
| Total commercial real estate |  | 1,708,862 | 8,073 | 1,808 | 22,157 | 32,038 | 1,740,900 | 718 |
| Commercial and industrial |  | 395,864 | 873 | 2,716 | 7,814 | 11,403 | 407,267 | 125 |
| Residential real estate |  | 576,682 | 6,228 | 3,082 | 11,275 | 20,585 | 597,267 | 2,574 |
| Home equity |  | 245,113 | 1,215 | 124 | 1,751 | 3,090 | 248,203 | 863 |
| Consumer |  | 244,516 | 3,797 | 540 | 754 | 5,091 | 249,607 | 589 |
| Total portfolio loans |  | 3,171,037 | 20,186 | 8,270 | 43,751 | 72,207 | 3,243,244 | 4,869 |
| Loans held for sale |  | 4,087 | - | - | - |  | 4,087 |  |
| Total loans | \$ | 3,175,124 \$ | \$ 20,186 | \$ 8,270 \$ | 43,751 \$ | 72,207 \$ | 3,247,331 \$ | \$ 4,869 |

Age Analysis of Loans
As of December 31, 2010

| (unaudited, in thousands) |  | Current | $\begin{aligned} & \text { 30-59 Days } \\ & \text { Past Due } \end{aligned}$ | 60-89 Days Past Due | 90 Days or More Past Due | Total <br> Past Due | Total <br> Loans | 90 Days <br> or More <br> Past Due <br> and Accruing |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Commercial real estate: |  |  |  |  |  |  |  |  |
| Land and construction | \$ | 150,190 | \$ 429 | \$ 311 \$ | 3,911 \$ | 4,651 \$ | 154,841 \$ | \$ 277 |
| Other |  | 1,579,400 | 4,365 | 2,956 | 15,687 | 23,008 | 1,602,408 | 692 |
| Total commercial real estate |  | 1,729,590 | 4,794 | 3,267 | 19,598 | 27,659 | 1,757,249 | 969 |
| Commercial and industrial |  | 401,400 | 3,530 | 1,370 | 6,426 | 11,326 | 412,726 | 95 |
| Residential real estate |  | 588,212 | 2,084 | 5,704 | 12,693 | 20,481 | 608,693 | 4,535 |
| Home equity |  | 245,471 | 1,665 | 633 | 1,654 | 3,952 | 249,423 | 1,126 |
| Consumer |  | 253,407 | 4,898 | 1,122 | 1,158 | 7,178 | 260,585 | 958 |
| Total portfolio loans |  | 3,218,080 | 16,971 | 12,096 | 41,529 | 70,596 | 3,288,676 | 7,683 |
| Loans held for sale |  | 10,800 | - | - | - | - | 10,800 |  |
| Total loans | \$ | 3,228,880 | \$ 16,971 | \$ 12,096 \$ | 41,529 \$ | 70,596 \$ | 3,299,476 \$ | \$ 7,683 |

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Impaired Loans - Impaired loans consist of nonaccrual loans, renegotiated loans and other impaired loans.
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 are categorized as renegotiated or troubled debt restructured when WesBanco, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that it would not otherwise consider. Concessions that may be granted include a reduction of the interest rate below the current market interest rate, the amount of accrued interest, or the principal amount of the loan. These loans remain on accrual status as long as they continue to perform in accordance with their modified terms. Loans may be removed from renegotiated status or troubled debt restructured after they have performed according to the renegotiated terms for a period of time if the interest rate under the modified terms is at or above market, or they may move to non-accrual if they do not perform in accordance with the loans' modified terms.

Other impaired loans consist of loans that are internally classified as substandard or doubtful that have not been placed on non-accrual or renegotiated but are not fully secured by the value of the collateral or the observable market price for the loan is less than its outstanding balance. Other impaired loans may include loans for which a specific reserve is established and acquired loans for which a credit valuation adjustment was recorded at the time of acquisition. Other impaired loans exhibit some adverse credit characteristics but continue to accrue interest because they are generally paying current.

The following table summarizes impaired loans:


| Total impaired <br> loans with an <br> allowance | 34,204 | 34,204 | 10,376 | 41,297 | 380 | 48,390 | 10,430 |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Total impaired <br> loans | $\$$ | $117,493 \$$ | $105,858 \$$ | $10,376 \$$ | $108,031 \$$ | 656 | $\$ 110,202$ | 10,430 |

(1) The average recorded investment and interest income were calculated for the three months ended March 31, 2011.

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

| (unaudited, in thousands) | Renegotiated Loans |  |  |
| :---: | :---: | :---: | :---: |
|  | March 31, <br> 2011 |  | December 31, $2010$ |
| Commercial real estate: |  |  |  |
| Land and construction | \$ | 4,827 \$ | 10,764 |
| Other |  | 28,147 | 33,122 |
| Total commercial real estate |  | 32,974 | 43,886 |
| Commercial and industrial |  | 342 | 73 |
| Residential real estate |  | 3,267 | 3,443 |
| Home equity |  | - |  |
| Consumer |  | 53 | 81 |
| Total | \$ | 36,636 \$ | 47,483 |

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| (unaudited, in thousands) | Non-accrual Loans |  |  |
| :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { March 31, } \\ 2011 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2010 \end{gathered}$ |
| Commercial real estate: |  |  |  |
| Land and construction | \$ | 8,874 \$ | 4,391 |
| Other |  | 27,225 | 24,833 |
| Total commercial real estate |  | 36,099 | 29,224 |
| Commercial and industrial |  | 10,461 | 7,933 |
| Residential real estate |  | 11,711 | 10,688 |
| Home equity |  | 1,117 | 755 |
| Consumer |  | 183 | 220 |
| Total | \$ | 59,571 \$ | 48,820 |

WesBanco had unfunded commitments to debtors whose loans were classified as impaired of $\$ 0.7$ million and $\$ 1.4$ million at March 31, 2011 and December 31, 2010, respectively.

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

|  | March 31, |  | December 31, |
| :--- | :---: | :---: | ---: |
| (unaudited, in thousands) | 2011 | 2010 |  |
| Other real estate owned |  | $5,308 \$$ | 7,724 |
| Repossessed assets |  | 246 | 345 |
| Total other real estate owned and repossessed assets | $\$$ | $5,554 \$$ | 8,069 |

## 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 mortgage and other loan types or securities with a market value in excess of the outstanding balances of the borrowings. At March 31, 2011 and December 31, 2010 WesBanco had FHLB borrowings of $\$ 232.2$ million and $\$ 253.6$ million, respectively, with a weighted-average interest rate of $3.65 \%$ and $3.64 \%$, respectively. The decline in borrowings from December 31, 2010 was due to scheduled maturities. The terms of the security agreement with the FHLB include a specific 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 $\$ 26.1$ million at March 31, 2011 and $\$ 28.0$ million at December 31, 2010 is also pledged as collateral on these advances. The remaining maximum borrowing capacity by WesBanco with the FHLB at March 31, 2011 and December 31, 2010 was estimated to be approximately $\$ 962.6$ million and $\$ 1.0$ 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 $\$ 232.2$ million outstanding at March 31, 2011, $\$ 106.0$ million in FHLB convertible advances are subject to call or conversion to a variable rate advance by the FHLB.

The following table presents the aggregate annual maturities and weighted-average interest rates of FHLB borrowings at March 31, 2011 based on their contractual maturity dates and effective interest rates:

| (unaudited, dollars in thousands) | Scheduled <br> Maturity | Weighted <br> Average |
| :--- | ---: | ---: | :---: |
| Year | $\$$ | Rate |
| 2011 | 63,128 | $3.82 \%$ |
| 2012 | 76,581 | $3.64 \%$ |
| 2013 | 50,458 | $3.28 \%$ |
| 2014 | 16,249 | $3.40 \%$ |
| 2015 | 942 | $4.69 \%$ |
| 2016 and thereafter | 24,889 | $4.10 \%$ |
| Total | $\$ 232,247$ | $3.65 \%$ |

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## NOTE 6. PENSION PLAN

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

| (unaudited, in thousands) | For the Three Months Ended March 31, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2011 |  | 2010 |  |
| Service cost - benefits earned during year | \$ | 636 | \$ | 574 |
| Interest cost on projected benefit obligation |  | 896 |  | 867 |
| Expected return on plan assets |  | $(1,396)$ |  | $(1,184)$ |
| Amortization of prior service cost |  | 15 |  | (29) |
| Amortization of net loss |  | 315 |  | 300 |

Net periodic pension cost \$ 466 \$ 528
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 $\$ 2.6$ million is due for 2011 which will be funded by the Plan's available credit balance. No decision has been made as of March 31, 2011 relative to the level of contribution in excess of the required minimum that will be made to the Plan, if any.

## NOTE 7. FAIR VALUE MEASUREMENTS

Certain assets and liabilities are measured at fair value on a recurring or nonrecurring basis. The following is a discussion of these assets and liabilities and valuation techniques applied to each for fair value measurement:

Securities: 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.

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.

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 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 management's best judgment is a significant input in arriving at the fair value measure of the underlying collateral and therefore other real estate owned and repossessed assets are classified within level 3 of the fair value hierarchy.

Loans held for sale: Loans held for sale are carried, in aggregate, at the lower of cost or fair value. The use of a valuation model and management's best judgment are significant inputs in arriving at the fair value and therefore loans held for sale are classified within level 3 of the fair value hierarchy.

The following tables set forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis by level within the fair value hierarchy:

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The Company'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 levels 1 and 2 for the three months ending March 31, 2011.


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

|  | Other residential <br> collateralized <br> mortgage | Obligations of <br> state and political |  |
| :--- | :---: | :---: | :--- |
| (unaudited, in thousands) | obligations | subdivisions | Equity securities |

For the Three Months ended March 31, 2011:

| Beginning balance | \$ |  | \$ | 68 |  |  | \$ | 68 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Total gains and losses included in other comprehensive |  | - |  |  |  | - |  |  |
| income |  |  |  |  |  |  |  |  |
| Settlements |  | - |  | (22) |  |  |  | (22) |
| Ending balance | \$ |  |  | 46 | \$ |  | \$ | 46 |
| For the Three Months ended March 31, 2010: |  |  |  |  |  |  |  |  |
| Beginning balance | \$ | 33 | \$ | 1,401 |  | 242 | \$ | 1,676 |
| Total gains and losses included in other comprehensive |  | 3 |  | 11 |  | - |  | 14 |
| income |  |  |  |  |  |  |  |  |
| Settlements |  | (13) |  | (60) |  | - |  | (73) |
| Ending balance | \$ | 23 |  | 1,352 | \$ | 242 |  | 1,617 |

We may be required from time to time to measure certain assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. For assets measured at fair value on a nonrecurring basis, the following table provides the level of valuation assumptions used to determine each adjustment in the carrying value of the related individual assets or portfolios:

| (unaudited, in thousands) | Assets at Fair |  |  | Fair Value Measurements Using:Quoted Prices in |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | Active Markets for Identical |  | Significant Oth <br> Observable <br> Inputs <br> (Level 2) | Significant Other Observable |  | cant <br> vable <br> ts <br> 3) |
| March 31, 2011 |  |  |  |  |  |  |  |  |  |
| Impaired loans (1) |  | \$ | 23,828 | \$ | - \$ |  | - | \$ | 23,828 |
| Other real estate owned and repossessed assets (2) |  |  | 5,554 |  | - |  | - |  | 5,554 |
| Mortgage servicing rights (3) |  |  | 1,433 |  | - |  | - |  | 1,433 |
| Loans held for sale (4) |  |  | 4,087 |  | - |  | - |  | 4,087 |
| December 31, 2010 |  |  |  |  |  |  |  |  |  |
| Impaired loans (1) | \$ |  | 37,960 |  | - \$ |  | \$ |  | 37,960 |
| Other real estate owned and repossessed assets (2) |  |  | 8,069 |  | - |  | - |  | 8,069 |
| Mortgage servicing rights (3) |  |  | 1,675 |  | - |  | - |  | 1,675 |
| Loans held for sale (4) |  |  | 10,800 |  | - |  | - |  | 10,800 |

(1) Represents the carrying value of loans for which adjustments are based on the appraised value and management's judgment of the value of collateral.
(2) 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.
(3)

Represents the carrying value of mortgage servicing rights whose value has been impaired and therefore carried at their fair value as determined from independent valuations.
(4) Loans held for sale are carried, in aggregate, at the lower of cost or fair value.

## NOTE 8. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates of financial instruments are based on the present value of expected future cash flows, quoted market prices of similar financial instruments, if available, 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 financial instruments and, therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

The following table represents the estimates of fair value of financial instruments:

|  | March 31, |  | December 31, |  |  |
| :--- | ---: | ---: | ---: | ---: | ---: |
|  | 2011 |  |  | 2010 |  |
|  | Carrying | Fair | Carrying | Fair |  |
| (unaudited, in thousands) | Amount | Value | Amount | Value |  |
| Financial assets: |  |  |  |  |  |
| Cash and due from banks | $\$ 97,076 \$$ | 97,076 | $\$$ | $79,136 \$$ | 79,136 |
| Securities available-for-sale | 935,600 | 935,600 | 957,481 | 957,481 |  |
| Securities held-to-maturity | 531,284 | 531,581 | 468,710 | 465,902 |  |
| Net loans | $3,181,804$ | $3,023,130$ | $3,227,625$ | $3,070,061$ |  |
| Loans held for sale | 4,087 | 4,087 | 10,800 | 10,800 |  |
| Accrued interest receivable | 21,599 | 21,599 | 20,536 | 20,536 |  |
| Bank owned life insurance | 107,397 | 107,397 | 106,502 | 106,502 |  |
| Financial liabilities: |  |  |  |  |  |
| Deposits | $4,212,209$ | $4,233,590$ | $4,172,423$ | $4,201,934$ |  |
| Federal Home Loan Bank borrowings | 232,247 | 237,979 | 253,606 | 263,983 |  |
| Other borrowings | 168,014 | 169,912 | 187,385 | 189,094 |  |
| Junior subordinated debt | 106,042 | 67,934 | 106,034 | 55,397 |  |
| Accrued interest payable | 6,035 | 6,035 | 6,559 | 6,559 |  |

The following methods and assumptions were used to estimate the fair value of financial instruments:
Cash and due from banks - The carrying amount for cash and due from banks is a reasonable estimate of fair value.
Securities - Fair values for securities are based on quoted market prices, if available. If market prices are not available, then quoted market prices of similar instruments are used. If quoted prices of similar instruments are not available, the fair value is generated from model-based techniques using assumptions not observable in the market.

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. In the current market environment for loans, investors are generally requiring a much higher rate of return than the return inherent in loans if held to maturity given the general lack of market 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.

Loans held for sale - Loans held for sale are carried, in aggregate, at the lower of cost or fair value.
Accrued interest receivable - The carrying amount of accrued interest receivable approximates its fair value.
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 - For FHLB borrowings, fair value is based on rates currently available to WesBanco for borrowings with similar terms and remaining maturities.

Other borrowings - Fair values for federal funds purchased and repurchase agreements are based on quoted market prices, if available. If market prices are not available, 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 on an equity market, 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 not presented in the above table.

## 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 loan commitments was $\$ 0.8$ million and $\$ 1.4$ million as of March 31, 2011 and December 31, 2010 respectively, and is included in other liabilities on the Consolidated Balance Sheets.

Letters of credit are conditional commitments issued by banks to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including normal business activities, bond financing and similar transactions. Standby letters of credit are considered guarantees. The liability associated with standby letters of credit is recorded at its estimated fair value of $\$ 0.1$ million as of both March 31, 2011 and December 31, 2010, respectively, and is included in other liabilities on the Consolidated Balance Sheets.

Affordable housing plan guarantees are performance guarantees for various building project loans. The guarantee amortizes as the loan balances decrease.

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

|  | March 31, |  |
| :--- | :---: | :---: |
| December 31, |  |  |
| (unaudited, in thousands) | 2011 | 2010 |
| Commitments to extend credit | $697,548 \$$ | 648,839 |
| Standby letters of credit | 35,733 | 35,794 |
| Affordable housing plan guarantees | 4,226 | 4,255 |

In addition to the commitments above, WesBanco Bank Community Development Corporation ("WBCDC"), a wholly-owned subsidiary of WesBanco Bank, Inc. has made a $\$ 1.0$ million commitment to an investment company in order to provide investments in early stage companies in the State of Ohio.

CONTINGENT LIABILITIES—WesBanco and its subsidiaries are parties to various legal and administrative proceedings and claims. While any claim 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.

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## 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 of the trust and investment services segment was approximately $\$ 3.1$ billion and $\$ 2.8$ billion at March 31, 2011 and 2010, 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:

|  | Trust and |  |  |
| :--- | :---: | :---: | :---: |
| (unaudited, in thousands) | Community | Investment |  |
| Banking | Services | Consolidated |  |

For the Three Months ended March 31, 2011:

| Interest income | \$ | 56,098 | \$ | - \$ | 56,098 |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Interest expense |  | 14,622 |  | - | 14,622 |
| Net interest income |  | 41,476 |  | - | 41,476 |
| Provision for credit losses |  | 8,041 |  | - | 8,041 |
| Net interest income after provision for credit losses |  | 33,435 |  | - | 33,435 |
| Non-interest income |  | 9,742 |  | 4,762 | 14,504 |
| Non-interest expense |  | 32,914 |  | 2,577 | 35,491 |
| Income before provision for income taxes |  | 10,263 |  | 2,185 | 12,448 |
| Provision for income taxes |  | 1,334 |  | 874 | 2,208 |
| Net income | \$ | 8,929 \$ |  | 1,311 \$ | 10,240 |
| For the Three Months ended March 31, 2010: |  |  |  |  |  |
| Interest income | \$ | 60,565 | \$ | - \$ | 60,565 |
| Interest expense |  | 19,932 |  | - | 19,932 |
| Net interest income |  | 40,633 |  | - | 40,633 |
| Provision for credit losses |  | 11,500 |  | - | 11,500 |
| Net interest income after provision for credit losses |  | 29,133 |  | - | 29,133 |
| Non-interest income |  | 10,983 |  | 4,058 | 15,041 |
| Non-interest expense |  | 32,940 |  | 2,454 | 35,394 |
| Income before provision for income taxes |  | 7,176 |  | 1,604 | 8,780 |
| Provision for income taxes |  | 228 |  | 642 | 870 |
| Net income | \$ | 6,948 \$ |  | 962 \$ | 7,910 |

Total non-fiduciary assets of the trust and investment services segment were $\$ 2.6$ million and $\$ 1.5$ million at March 31, 2011 and 2010, respectively. All goodwill and other intangible assets were allocated to the community banking segment.

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

Management's Discussion and Analysis represents an overview of the results of operations and financial condition of WesBanco. 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, 2010 and documents subsequently filed by WesBanco with the Securities and Exchange Commission ("SEC"), which are available at the SEC's website www.sec.gov or at WesBanco's website, www.wesbanco.com. Investors are cautioned that forward-looking statements, which are not historical fact, involve risks and uncertainties, including those detailed in WesBanco's most recent Annual Report on Form 10-K filed with the SEC under "Risk Factors" in Part I, Item 1A. Such statements are subject to important factors that could cause actual results to differ materially from those contemplated by such statements, including without limitation, the effects of changing regional and national economic conditions; changes in interest rates, spreads on earning assets and
interest-bearing liabilities, and associated interest rate sensitivity; sources of liquidity available to WesBanco and its related subsidiary operations; potential future credit losses and the credit risk of commercial, real estate, and consumer loan customers and their borrowing activities; actions of the Federal Reserve Board, the Federal Deposit Insurance Corporation, the SEC, Financial Institution Regulatory Authority, Municipal Securities Rulemaking Board, 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 112 branches and 126 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 and loan terms offered by competing lenders.

## APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

WesBanco's critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of March 31, 2011 have remained unchanged from the disclosures presented in WesBanco's Annual Report on Form 10-K for the year ended December 31, 2010 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, 2011 was $\$ 10.2$ million as compared to $\$ 7.9$ million for the first quarter of 2010 , representing an increase of $29.5 \%$, while diluted earnings per share were $\$ 0.39$, as compared to $\$ 0.30$ per share for the first quarter of 2010.

Net interest income increased $\$ 0.8$ million or $2.1 \%$ in the first quarter as compared to the first quarter of 2010 due to the management of rates on loans and other earning assets, while significantly improving the funding mix to reduce overall cost of funds for both deposits and other borrowings. The net interest margin improved to $3.67 \%$ in the first three months of 2011, an increase of 10 basis points as compared to the first quarter of 2010, and it was also slightly higher than the 2010 fourth quarter rate of $3.66 \%$. The average rate on interest bearing liabilities decreased by 47 basis points, while the rate on earning assets declined at a slower pace of 34 basis points. Lower offered rates on maturing, higher-rate certificates of deposit, an increase in lower-cost transaction account products such as non-interest bearing checking and money market accounts and utilization of liquidity from increased deposits and loan balance reductions to reduce higher cost borrowings all contributed to the improvement in the cost of funds.

The provision for credit losses decreased $\$ 3.5$ million in the first quarter as compared to the same quarter of 2010 and decreased $\$ 1.6$ million as compared to the fourth quarter of 2010. The allowance for loan losses was relatively unchanged at March 31, 2011 as compared to December 31, 2010 and was $1.89 \%$ of total loans as compared to $1.86 \%$ at December 31, 2010 and $1.91 \%$ at March 31, 2010. Net charge-offs increased $\$ 1.3$ million in the first quarter as compared to the first quarter of 2010 , and $\$ 1.7$ million as compared to the fourth quarter of 2010 , but remain significantly below average quarterly net charge-offs over the last two years. Non-accrual loans at March 31, 2011 decreased $\$ 8.9$ million compared to March 31, 2010, but increased $\$ 10.8$ million from the fourth quarter of 2010. The increase in non-accrual loans did not have a material effect on the allowance or provision for credit losses because loans that migrated to non-accrual during the quarter were previously classified and in certain instances also reported as renegotiated, and adequately reserved in prior periods. Total classified and criticized loans at March 31, 2011 decreased

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$\$ 32.2$ million compared to March 31, 2010 and $\$ 10.6$ million compared to the fourth quarter of 2010. Renegotiated loans increased $\$ 7.4$ million compared to March 31, 2010, but decreased $\$ 10.8$ million from the fourth quarter of 2010.

Non-interest income decreased $\$ 0.5$ million or $3.6 \%$ as compared to the first quarter of 2010 principally due to a $\$ 1.4$ million decline in net security gains and a $\$ 1.1$ million decline in service charges on deposits resulting from regulatory changes which led to fewer customer overdraft transactions. However, these decreases were mostly offset by a $\$ 0.7$ million or $17.4 \%$ increase in trust fees from new business and market value improvements, and a $\$ 1.0$ million improvement in net losses on other real estate owned and a $\$ 0.4$ million increase in electronic banking fees.

In the first quarter, non-interest expense was relatively unchanged as compared to the first quarter of 2010. Salaries, wages and employee benefits increased $\$ 0.6$ million due to regular compensation increases late in the first quarter of 2010 and increased health and other employee insurance costs, while marketing expense increased $\$ 0.4$ million from promotions focused on growing demand deposits and home equity loans. These increases were offset by decreases in occupancy and equipment expense due to reductions in required seasonal maintenance and decreases in depreciation expense and restructuring costs. Non-interest expense decreased in many other categories as WesBanco continued to improve the expense structure and efficiency of its operations.

## NET INTEREST INCOME

## TABLE 1. NET INTEREST INCOME

| (unaudited, dollars in thousands) | For the Three Months Ended March 31, |  |  |
| :---: | :---: | :---: | :---: |
|  | 2011 |  | 2010 |
| Net interest income | \$ | 41,476 \$ | 40,633 |
| Taxable equivalent adjustments to net interest income |  | 1,608 | 1,612 |
| Net interest income, fully taxable equivalent | \$ | 43,084 \$ | 42,245 |
| Net interest spread, non-taxable equivalent |  | 3.33\% | 3.23\% |
| Benefit of net non-interest bearing liabilities |  | 0.20\% | 0.21\% |
| Net interest margin |  | 3.53\% | 3.44\% |
| Taxable equivalent adjustment |  | 0.14\% | 0.13\% |
| Net interest margin, fully taxable equivalent |  | 3.67\% | 3.57\% |

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, comprised of deposits and short and long-term borrowings. Net interest income is affected by the general level of and changes in interest rates, the steepness 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 and turnover of those assets and liabilities. Net interest income increased $\$ 0.8$ million or $2.1 \%$ in the first quarter of 2011 as compared to the first quarter of 2010 due to the management of rates on loans and other earning assets, while significantly improving the funding mix to reduce overall cost of funds for both deposits and other borrowings. Average earning assets were nearly unchanged. The net interest margin improved to $3.67 \%$ in the first three months of 2011, an increase of 10 basis points as compared to the first quarter of 2010, and was also slightly higher than the 2010 fourth quarter rate of $3.66 \%$. The average rate on interest bearing liabilities decreased by 47 basis points, while the rate on earning assets declined at a slower pace of 34 basis points. Lower offered rates on maturing, higher-rate certificates of deposit, and an increase in lower-cost transaction account products such as non-interest bearing checking and money market accounts all contributed to the improvement in the cost of funds. In addition, the average balance for borrowings, which generally have higher interest costs, decreased by $\$ 230.3$ million or $35.0 \%$ in the first quarter of 2011 from the first quarter of 2010. Total borrowings, excluding junior subordinated debt, dropped to $7.5 \%$ of total assets from $11.0 \%$ at March 31, 2010. In addition, average non-interest bearing deposit balances increased $11.7 \%$ as a result of retail marketing campaigns and customer incentives, as well as increased balances of the Bank's business customers. Part of the growth in deposits is attributed to deposits received from customers participating in Marcellus shale gas lease and royalty payments in our northern West Virginia markets.

The yield on total average earning assets decreased 34 basis points to $4.92 \%$ from $5.26 \%$ in the first quarter of 2010. Rates decreased on all significant earning asset categories from reduced rates on new and repriced assets due to management of offered rates and the lower interest rate environment. In addition, the percentage of earning assets invested in lower yielding securities increased, as compared to typically higher-yielding loans. Securities yields decreased 78 basis points, primarily due to the reinvestment of funds from investment maturities and calls, and from loan payments, at current lower available interest rates. Taxable securities yields decreased 83 basis points while tax-exempt securities yields declined only 29 basis points due to the longer average life of the tax-exempt portfolio and limited additions to this portfolio. Recent securities purchase decisions have considered the increased risk premium associated with tax-exempt bonds, which somewhat limited investment opportunities. In addition, variable rate and government supported (Build America Bonds during 2010) rate opportunities were available in taxable securities, resulting in an increase in average taxable securities. 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 17 basis points. In addition, during a period where customer loan demand and the economic environment limited loan growth opportunities, proceeds from loan principal reductions, which generally have higher yields than typical investment types, have been reinvested at lower yields, thus reducing the overall yield of the earning assets.

Average loan balance decreases over the past year are primarily due to management's continued focus on overall profitability and quality of the loan portfolio through disciplined underwriting and pricing practices, the continued strategic decreases in residential real estate loans through the sale of most originations and the sale of certain non-accrual commercial loans. In addition, the slow economic recovery has resulted in business and consumers remaining cautious, leading to lower demand for new development projects in our markets and reduced commercial line usage. Write-
downs, charge-offs and foreclosures have also impacted commercial balances, as well as strategic decreases in certain customer property and commercial types. Consumer loans declined due to reduced demand for automobile and other consumer loan types, other competitive bank and non-bank rate offerings and continued tighter underwriting standards leading to lower approval rates.

In the first quarter of 2011 , interest expense decreased $\$ 5.3$ million or $26.6 \%$ as compared to the first quarter of 2010 due to a 47 basis point decline in the average rate paid on interest bearing liabilities and a decrease in average interest bearing liabilities of $3.1 \%$. Rates paid on deposits declined by 36 basis points primarily due to a 38 basis point decline in rates paid on CDs, due to management reducing certain interest rates on renewing and new CDs to competitive levels in order to realize a lower cost of funds during a period of declining loan yields. Improvements in the mix of deposit accounts also contributed to the improved cost of funds, with average CDs decreasing to $40.1 \%$ of total average deposits, from $44.2 \%$ in the first quarter of 2010 , while all other account types increased to $59.9 \%$. This change in the mix of deposit types, and the reductions in higher cost borrowings also contributed to the reduced cost of funds. The reduction in average interest bearing liabilities is due to the $\$ 235.4$ million decrease in borrowings, primarily FHLB , partially offset by increases in interest bearing deposits of $\$ 105.8$ million. Current balance sheet liquidity from the deposit increases and loan reductions were used to pay down the higher cost maturing borrowings, further reducing interest expense. Borrowings, excluding junior subordinated debt, were $10.4 \%$ of average interest bearing liabilities as compared to $15.5 \%$ in 2010 . Deposits increased significantly in every category other than CDs with the largest increase in money market accounts, even as offered rates were reduced. Certificates of deposits decreased by $\$ 96.3$ million due to the aggressive reductions in rate offerings and customer demand for other deposit products.

TABLE 2. AVERAGE BALANCE SHEETS AND NET INTEREST MARGIN ANALYSIS


Total interest bearing
deposits
Federal Home Loan Bank
borrowings
Other borrowings
Junior subordinated debt
Total interest bearing
liabilities
Non-interest bearing demand deposits
Other liabilities
Shareholders' Equity
Total Liabilities and
Shareholders' Equity
$3,579,306 \quad 1.20 \% \quad 3,473,515 \quad 1.56 \%$
$240,144 \quad 3.42 \% \quad 471,925 \quad 3.72 \%$
187,761 $\quad 2.55 \% \quad 186,254 \quad 2.56 \%$
$106,038 \quad 3.06 \% \quad 111,171 \quad 3.81 \%$
$4,113,249 \quad 1.44 \% \quad 4,242,865 \quad 1.91 \%$
601,270 538,052
38,769
35,402
598,022
\$ 5,414,341

| Taxable equivalent net | $3.47 \%$ | $3.35 \%$ |
| :--- | :--- | :--- |
| interest spread |  |  |
| Taxable equivalent net | $3.67 \%$ | $3.57 \%$ |
| interest margin |  |  |

(1) Gross of allowance for loan losses and net of unearned income. Includes non-accrual and loans held for sale. Loan fees included in interest income on loans totaled $\$ 0.9$ million and $\$ 1.1$ million for the three months ended March 31, 2011 and 2010, respectively.
(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.

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TABLE 3. RATE/VOLUME ANALYSIS OF CHANGES IN INTEREST INCOME AND INTEREST EXPENSE
Three Months Ended March 31, 2011
Compared to March 31, 2010
Net Increase
(unaudited, in thousands)
Increase (decrease) in interest income:
Due from banks - interest \$
bearing
Loans, net of unearned
income
Taxable securities
Tax-exempt securities (1)
\$
(15) $\$$

2 \$
Volume Rate (Decrease)

Federal funds sold
Other earning assets
Total interest income change

## (1)

Increase (decrease) in interest expense:
Interest bearing demand
deposits
(213)

| Money market accounts | 284 | $(655)$ | $(371)$ |
| :--- | ---: | ---: | ---: |
| Savings deposits | 53 | $(167)$ | $(114)$ |
| Certificates of deposit | $(530)$ | $(1,580)$ | $(2,110)$ |
| Federal Home Loan Bank | $(1,980)$ | $(328)$ | $(2,308)$ |
| borrowings |  |  |  |
| Other borrowings | 10 | $(6)$ | 4 |
| Junior subordinated debt | $(46)$ | $(198)$ | $(244)$ |
| $\quad$ Total interest expense |  | $(2,163)$ | $(3,147)$ |
| change |  |  | $(5,310)$ |
| Net interest income increase | $\$$ | $1,397 \$$ | $(558) \$$ | (decrease) (1)

(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 inherent in the loan portfolio. The provision for credit losses for the three months ended March 31, 2011 decreased $\$ 3.5$ million or $30.1 \%$ to $\$ 8.0$ million compared to $\$ 11.5$ million for the same period in 2010. The provision was higher in 2010 due to the ongoing impact of the recession on all categories of the portfolio but the decrease in 2011 compared to 2010 reflects a gradually improving economic environment. Net charge-offs in the first quarter of 2011 were significantly below average quarterly net charge-offs over the last two years and non-performing loans were comparable to levels in the first quarter of last year and at December 31, 2010. The allowance for loan losses was relatively unchanged at March 31, 2011 and was $1.89 \%$ of total loans as compared to $1.86 \%$ at December 31, 2010 and $1.91 \%$ at March 31, 2010. (Please see the Allowance for Credit Losses section of this MD\&A for additional discussion).

## NON-INTEREST INCOME

## TABLE 4. NON-INTEREST INCOME

| (unaudited, dollars in thousands) | For the Three Months Ended March 31, |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2011 |  | 2010 |  |  | \%\%Change |  |
|  |  |  |  |  |  |  |  |
| Trust fees | \$ | 4,762 | \$ | 4,058 | \$ | 704 | 17.3\% |
| Service charges on deposits |  | 4,222 |  | 5,317 |  | $(1,095)$ | (20.6\%) |
| Electronic banking fees |  | 2,284 |  | 1,915 |  | 369 | 19.3\% |
| Net securities brokerage and insurance services revenue |  | 1,721 |  | 1,852 |  | (131) | (7.1\%) |
| Bank-owned life insurance |  | 895 |  | 944 |  | (49) | (5.2\%) |
| Net securities gains |  | 17 |  | 1,405 |  | $(1,388)$ | (98.8\%) |
| Net losses on other real estate owned and other |  | (545) |  | $(1,530)$ |  | 985 | 64.4\% |

Other income:

| Net gains on sales of mortgage loans | 582 | 525 | 57 | $10.9 \%$ |
| :--- | ---: | ---: | ---: | ---: |
| Other | 566 | 555 | 11 | $2.0 \%$ |
| Total other income | 1,148 | 1,080 | 68 | $6.3 \%$ |
| Total non-interest income | $\$$ | $14,504 \$$ | $15,041 \$$ | $(537)$ |

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. Total non-interest income for the three months ended March 31, 2011 decreased $\$ 0.5$ million or $3.6 \%$ as compared to the same period in 2010. This decrease is due to decreases in service charges on deposits, decreases in net security gains, and decreases in net securities brokerage income. Improvements in non-interest income included trust fee growth of $17.3 \%$, a $\$ 1.0$ million improvement in net losses on other real estate owned, a $19.3 \%$ increase in electronic banking fees, and a $29.7 \%$ increase in net insurance services revenue. For the three months ended March 31, 2011, non-interest income was $25.9 \%$ of total net revenues as compared to $27.0 \%$ for the comparable 2010 period, with net revenue being defined as the total of net interest income and non-interest income.

Service charges on deposits, which are primarily comprised of customer overdraft fees, were $20.6 \%$ lower in the first quarter of 2011 as compared to the same period in 2010 due to changes in customer behavior and recent regulatory changes that include requirements for customers to opt in for overdraft coverage of certain types of electronic banking activities. Preceding the August 15, 2010 implementation of the new rules on existing accounts, WesBanco experienced lower daily and monthly overdraft usage patterns as average retail demand deposit balances were higher. Changes in marketing strategies and effectiveness for new demand deposit customers may have also had an impact on the decrease. While an overwhelming majority of WesBanco's heaviest overdraft users have opted-in to continue such coverage, low response rates from infrequent users may have some impact on our ability to earn associated fees, as does continuing higher average customer deposit account balances.

Trust fees improved $\$ 0.7$ million in the first quarter of 2011 as compared to the same period in 2010 due to higher market values of managed assets, new business and the implementation of a fee increase in October of 2010. The market value of trust assets under management increased from $\$ 2.8$ billion to $\$ 3.1$ billion from March 31, 2010 to March 31, 2011. At March 31, 2011, trust assets include managed assets of $\$ 2.4$ billion and non-managed (custodial) assets of $\$ 0.7$ billion. Assets managed for the WesMark funds, a proprietary group of mutual funds that are advised by WesBanco's trust and investment services group, were $\$ 772.0$ million as of March 31, 2011 and $\$ 683.8$ million at March 31, 2010 and are included in trust managed assets.

Electronic banking fees improved by $\$ 0.4$ million in the first quarter of 2011 as compared to the same period in the prior year, due to a higher volume of debit card transactions during the period which have continued to grow as customers move more towards electronic transactions from checks and other forms of payment.

Net losses on the sale of other real estate owned improved by $\$ 1.0$ million due to ongoing liquidation efforts and a prior year loss taken on a large hospitality owned property, while gains on the sale of mortgage loans increased in 2011 by $10.9 \%$ as compared to 2010 as the result of more aggressive loan pricing.

## NON-INTEREST EXPENSE

TABLE 5. NON-INTEREST EXPENSE

For the Three Months Ended March 31,

| (unaudited, dollars in thousands) | 2011 | 2010 | $\$$ Change |
| :--- | ---: | ---: | ---: | ---: |
|  |  |  | $\%$ |
| Change |  |  |  |$)$

Non-interest expense for the three months ended March 31, 2011 remained relatively unchanged as compared to the same period in 2010 as increases in employee-related expenses and marketing costs were offset by reductions in many expense categories, including net occupancy and equipment, restructuring and merger-related costs, and miscellaneous taxes.

Salaries and wages increased $2.8 \%$ for the three months ended March 31, 2011 as compared to the same period in 2010, primarily due to regular employee compensation increases effective late in the first quarter of 2010. Employee benefits also increased slightly due to higher employee health insurance costs and stock compensation expense partially offset by lower defined benefit pension expense.

Marketing expenses increased $\$ 0.4$ million in the first quarter of 2011 as compared to the same period in 2010 primarily due to increased cash incentive and free checking promotions.

Restructuring and merger-related expenses declined $\$ 0.2$ million from the prior period primarily as a result of charges early in 2010 relating to personnel reductions.

Net occupancy declined for the three months ended March 31, 2011 as compared to the same period in 2010 due to lower seasonal maintenance expenses, while equipment declined due to regular depreciation with some additional reductions in service agreement expenses.

Miscellaneous taxes, ATM and interchange expenses, legal, communications and postage expenses all slightly declined in 2011 mostly due to WesBanco's continued efforts to manage costs. Other real estate owned and foreclosure expenses remained flat as foreclosure activity and related property management expenses have stabilized.

## INCOME TAXES

The provision for federal and state income taxes increased to $\$ 2.2$ million for the three months ended March 31, 2011 as compared to $\$ 0.9$ million in the same 2010 period. The increase in income tax expense was due to a $\$ 3.7$ million increase in pre-tax income, and a higher effective tax rate of $17.7 \%$ as compared to $10.0 \%$ for the same period in 2010. The increase in the effective tax rate was due primarily to higher realized and 2011 full year expected pre-tax income and a lower percentage of tax-exempt income to total income.

## FINANCIAL CONDITION

Total assets increased $0.1 \%$ in the first three months of 2011, while total shareholders' equity increased $0.8 \%$ as compared to December 31, 2010. The net loan portfolio declined $1.4 \%$ from December 31, 2010, while investment securities and cash and due from banks increased by $3.9 \%$. The loan portfolio decrease is a result of a reduction in residential loan balances, a continuing focus on improving overall credit quality, and a reduction in commercial and consumer loan demand along with normal pay downs. Deposits increased $1.0 \%$ from December 31, 2010 primarily due
to a $3.9 \%$ increase in money market deposits, which, combined with a $4.7 \%$ increase in demand deposits and a $5.3 \%$ increase in savings deposits more than offset a $4.2 \%$ decrease in CDs. The reduction in CDs was due to planned reductions of single-relationship customers and lower offered rates for newer CDs. The increase in deposits, coupled with the decrease in loans, funded the paydown of $\$ 40.7$ million of total borrowings from December 31, 2010. Total shareholders' equity increased by approximately $\$ 5.1$ million primarily due to net income exceeding dividends for the period by $\$ 6.3$ million, which was partially offset by a $\$ 1.2$ million decrease in unrealized gains in the available-for-sale portfolio, which are included net of the tax effect in accumulated other comprehensive income.

TABLE 6. COMPOSITION OF SECURITIES (1)

| (unaudited, dollars in thousands) | March 31, $2011$ | $\begin{gathered} \text { December 31, } \\ 2010 \end{gathered}$ | \$ Change | \% |
| :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | Change |
| Securities available-for-sale (at fair value): |  |  |  |  |
| Other government agencies | \$ | \$ | \$ $(2,983)$ | (0.8\%) |
|  | 360,152 | 363,135 |  |  |
| Corporate debt securities | 22,481 | 25,583 | $(3,102)$ | (12.1\%) |
| Residential mortgage-backed securities and |  |  |  |  |
| collateralized |  |  |  |  |
| mortgage obligations of government agencies | 336,223 | 353,345 | $(17,122)$ | (4.8\%) |
| Obligations of states and political subdivisions | 211,855 | 210,808 | 1,047 | 0.5\% |
| Equity securities | 4,889 | 4,610 | 279 | 6.1\% |
| Total securities available-for-sale | \$ | \$ | \$ $(21,881)$ | (2.3\%) |
|  | 935,600 | 957,481 |  |  |
| Securities held-to-maturity (at amortized cost): |  |  |  |  |
| Corporate debt securities | 1,452 | 1,451 |  | 0.1\% |
| Residential mortgage-backed securities and | 254,014 | 202,062 | 51,952 | 25.7\% | collateralized

mortgage obligations of government agencies

Other residential collateralized mortgage
obligations
Obligations of states and political subdivisions
Total securities held-to-maturity
Total securities

Available-for-sale securities:
Weighted average taxable equivalent yield at the respective period end
As a \% of total securities
Weighted average life (in years)
Held-to-maturity securities:
Weighted average taxable equivalent yield at the respective period end
As a \% of total securities
Weighted average life (in years)

| 1,058 | 1,224 |  | $(166)(13.6 \%)$ |
| :---: | :---: | :---: | ---: |
|  |  |  |  |
| 274,760 | 263,973 | 10,787 | $4.1 \%$ |
| $\$$ | $\$ \$$ | 62,574 | $13.4 \%$ |
| 531,284 | 468,710 |  |  |
| $\$$ | $\$$ | $\$$ | 40,693 |

(1) At March 31, 2011 and December 31, 2010, there were no holdings of any one issuer in an amount greater than $10 \%$ of WesBanco's shareholders' equity, other than the U.S. government and its agencies.

Total investment securities, which are a source of liquidity for WesBanco as well as a contributor to interest income, increased by $2.9 \%$ from December 31, 2010 to March 31, 2011. The increase in investments for the first quarter of 2011 was directly attributable to a $13.4 \%$ increase in the held-to-maturity portfolio, as the available-for-sale portfolio showed a slight decline of $2.3 \%$. The proceeds used to purchase investment securities for the quarter were from loan prepayments and an increase in deposits, in addition to the reinvestment of calls, maturities, and prepayments in the investment portfolio. For the three months ended March 31, 2011, security purchases of $\$ 137.1$ million were partially offset by maturities, pay-downs, and calls totaling $\$ 92.7$ million. There were no security sales in the first quarter of 2011.

## 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:
(unaudited, dollars in thousands)
Municipal bonds:

| AAA rating | $\$$ | 46,603 | $9.6 \%$ | $\$$ | 44,277 |
| :--- | ---: | ---: | ---: | ---: | ---: |
| AA rating |  | 320,819 | $66.1 \%$ | 311,792 | $66.3 \%$ |
| A rating |  | 58,896 | $12.1 \%$ | 55,703 | $11.8 \%$ |
| Below an A rating |  | 37,594 | $7.8 \%$ | 38,321 | $8.2 \%$ |
| No rating |  | 21,569 | $4.4 \%$ | 20,069 | $4.3 \%$ |
| Total municipal bond portfolio | $\$$ | 485,481 | $100.0 \%$ | $\$$ | 470,162 |

WesBanco's municipal bond portfolio consists of both taxable (primarily Build America Bonds) and tax-exempt general obligation and revenue bonds. As of March 31, 2011, $\$ 352.9$ million or $72.7 \%$ were categorized as general obligation bonds and $\$ 132.6$ million or $27.3 \%$ were categorized as revenue bonds. At December 31, 2010, $\$ 346.4$ million or $73.7 \%$ were categorized as general obligation bonds and $\$ 123.8$ million or $26.3 \%$ were categorized as revenue bonds.

In addition, at March 31, 2011, $\$ 57.3$ million or $11.8 \%$ of the municipal bond portfolio consisted of state issued bonds, and $\$ 428.2$ million or $88.2 \%$ were locally issued, approximately the same as the totals at December 31, 2010. The portfolio is broadly spread across the U.S., with bonds totaling $58 \%$ in the top five states of Ohio, Pennsylvania, Illinois, West Virginia, and Texas, respectively. Securities noted as below an A rating in the table are all investment grade.

## 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. 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. Each category entails certain distinct elements of risk that impact the manner in which those loans are underwritten, monitored, and administered. 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. In addition to the inherent risk of a change in a borrower's repayment capacity, economic conditions and other factors beyond WesBanco's control can adversely impact credit risk. WesBanco's 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 that varies by the type of loan. WesBanco'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; and other factors unique to each loan that may increase or mitigate its risk.

Credit risk is mitigated for all types of loans by continuously monitoring delinquency levels and pursuing collection efforts at the earliest stage of delinquency. WesBanco also monitors general economic conditions, including employment, housing activity and real estate values in each of its markets. WesBanco also periodically evaluates and changes its underwriting standards when conditions indicate that a change is 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 Company's earnings and capital.

## TABLE 8. COMPOSITION OF LOANS (1)

| (unaudited, dollars in thousands) | March 31, 2011 |  |  | December 31, 2010 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Amount $\quad \begin{gathered}\text { \% of } \\ \text { Loans }\end{gathered}$ |  |  | Amount |  | \% of Loans |
| Commercial real estate: |  |  |  |  |  |  |
| Land and construction | \$ | 161,973 | 5.0\% | \$ | 154,841 | 4.7\% |
| Other |  | 1,578,927 | 48.6\% |  | 1,602,408 | 48.6\% |
| Total commercial real estate |  | 1,740,900 | 53.6\% |  | 1,757,249 | 53.3\% |


| Commercial and industrial | 407,267 | $12.6 \%$ |  | 412,726 |
| :--- | ---: | ---: | ---: | ---: |

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

Total loans decreased $\$ 52.1$ million or $1.6 \%$ between December 31, 2010 and March 31, 2011. CRE land and construction loans increased $\$ 7.1$ million or $4.6 \%$ as a result of funding new commercial construction loans net of $\$ 4.4$ million of charge downs on two land development loans. Other CRE loans decreased $\$ 23.5$ million or $1.5 \%$ due to scheduled principal repayments outpacing new loan origination. C\&I loans decreased $\$ 5.5$ million or $1.3 \%$ due to a reduction in business activity, as many businesses remain cautious about the economy, and seasonal reductions in certain lines of credit balances. Residential real estate loans decreased $\$ 11.4$ million or $1.9 \%$ due to scheduled principal repayments and the continued sale of a majority of new loans to the secondary market. Home equity lines of credit decreased $\$ 1.2$ million or $0.5 \%$ due to lower line usage, and consumer loans decreased $\$ 11.0$ million or $4.2 \%$ due to reduced loan demand as consumers also remain cautious about the economy and continue to deleverage rather than incur new debt. Loans held for sale decreased $\$ 6.7$ million or $62.2 \%$ due to a decline in new loan originations as the housing markets remain sluggish. 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.

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## NON-PERFORMING ASSETS, IMPAIRED LOANS AND LOANS PAST DUE 90 DAYS OR MORE

Non-performing assets consist of non-accrual and renegotiated loans, 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

|  | March 31, | December 31, |
| :--- | ---: | ---: |
| (unaudited, dollars in thousands) | 2011 | 2010 |
| Non-accrual loans: | $\$$ | 8,874 |
| Commercial real estate - land and construction | 27,225 | 4,391 |
| Commercial real estate - other | 10,461 | 24,833 |
| Commercial and industrial | 11,711 | 10,633 |
| Residential real estate | 1,117 | 755 |
| Home equity | 183 | 220 |
| Consumer | - | - |
| Loans held for sale | 59,571 | 48,820 |
| Total non-accrual loans | 4,827 | 10,764 |
| Renegotiated loans: | 28,147 | 33,122 |
| Commercial real estate - land and construction | 342 | 73 |
| Commercial real estate - other | 3,267 | 3,443 |
| Commercial and industrial | - | - |
| Residential real estate |  |  |
| Home equity |  |  |


| Consumer |  | 53 | 81 |
| :--- | ---: | ---: | ---: |
| Total renegotiated loans | 36,636 | 47,483 |  |
| Total non-performing loans | $\$$ | 96,207 | $\$$ |
| Other real estate owned and repossessed assets | 96,303 |  |  |
| $\quad$ Total non-performing assets | $\$ 554$ | 8,069 |  |
|  | 101,761 | $\$$ | 104,372 |
|  |  |  | $2.93 \%$ |
| Non-performing loans/total loans |  | $2.97 \%$ | $1.95 \%$ |
| Non-performing assets/total assets | $1.90 \%$ | $1.17 \%$ |  |
| Non-performing assets/total loans, other real estate and repossessed | $3.13 \%$ | 3.17 |  |
| assets |  |  |  |

## TABLE 10. NON-PERFORMING AND IMPAIRED ASSET ACTIVITY

| (unaudited, in thousands) | Non-accrual Loans |  | Renegotiated Loans |  | Other <br> Impaired Loans |  | Other Real <br> Estate and <br> Repossessed Assets |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Beginning balance, December 31, 2010: | \$ | 48,820 | \$ | 47,483 | \$ | 13,148 | \$ | 8,069 |
| Additions, including transfers from other categories |  | 12,652 |  | 404 |  | 3,078 |  |  |
| Real estate foreclosures or deeds in lieu of foreclosure |  | - |  | - |  | - |  | 539 |
| Repossessions of other collateral |  | - |  | - |  | - |  | 819 |
| Loans returning to accruing or no |  | - |  | $(4,447)$ |  | $(3,781)$ |  |  |
| Net proceeds from loan sales |  | - |  | - |  | - |  |  |
| Other reductions, including transfers to other categories |  |  |  | $(6,473)$ |  | $(2,845)$ |  |  |
| Charge-offs or charge-downs |  | $(1,782)$ |  | - |  | - |  | (230) |
| Other real estate sold |  | - |  | - |  | - |  | $(2,673)$ |
| Repossessed assets sold |  | - |  | - |  | - |  | (918) |
| Principal payments and other changes, net |  | (119) |  | (331) |  | 52 |  | (52) |
| Ending balance, March 31, 2011 | \$ | 59,571 | \$ | 36,636 | \$ | 9,652 | \$ | 5,554 |

Non-performing loans, which consist of non-accrual and renegotiated loans, were in total relatively unchanged from December 31, 2010 to March 31, 2011; however, non-accrual loans increased $\$ 10.8$ million or $22.0 \%$ while renegotiated loans decreased $\$ 10.8$ million or $22.8 \%$. Approximately $\$ 4.9$ million of the increase in non-accrual loans represents the balance of two land development loans after charge downs of $\$ 4.4$
million with the remainder of the increase primarily attributed to the migration of other previously classified CRE and C\&I loans to non-accrual status. The decrease in renegotiated loans was due to one loan being reinstated to its original repayment terms and the reclassification of one of the charged down land development loans to non-accrual.

Other real estate owned and repossessed assets declined from December 31, 2010 to March 31, 2011 primarily from the sale of assets during the quarter combined with a reduction in the amount of new foreclosures and repossessions.

TABLE 11. LOANS PAST DUE AND ACCRUING INTEREST

| (unaudited, dollars in thousands) | $\begin{gathered} \text { March 31, } \\ 2011 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2010 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Loans past due 90 days or more: |  |  |  |  |
| Commercial real estate - land and construction | \$ | 148 | \$ | 277 |
| Commercial real estate - other |  | 570 |  | 692 |
| Commercial and industrial |  | 125 |  | 95 |
| Residential real estate |  | 2,574 |  | 4,535 |
| Home equity |  | 863 |  | 1,126 |
| Consumer |  | 589 |  | 958 |
| Total portfolio loans |  | 4,869 |  | 7,683 |
| Loans held for sale |  | - |  | - |
| Total loans past due 90 days or more | \$ | 4,869 | \$ | 7,683 |
| Loans past due 30 to 89 days: |  |  |  |  |
| Commercial real estate - land and construction | \$ | 2,581 | \$ | 252 |
| Commercial real estate - other |  | 4,324 |  | 4,717 |
| Commercial and industrial |  | 1,566 |  | 4,163 |
| Residential real estate |  | 8,210 |  | 7,367 |
| Home equity |  | 1,349 |  | 2,255 |
| Consumer |  | 4,337 |  | 6,020 |
| Total portfolio loans |  | 22,367 |  | 24,774 |
| Loans held for sale |  | - |  | - |
| Total loans past due 30 to 89 days | \$ | 22,367 | \$ | 24,774 |
| Loans past due 90 days or more and accruing to total loans |  | 0.15\% |  | 0.23\% |
| Loans past due 30-89 days to total loans |  | 0.69\% |  | 0.75\% |

Loans past due 90 days or more decreased $\$ 2.8$ million or $36.6 \%$ from December 31, 2010 to March 31, 2011 in nearly all categories, with residential real estate representing $70 \%$ of the decline due primarily to lower delinquencies on residential real estate loans. 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 $\$ 2.4$ million or $9.7 \%$ from December 31, 2010 to March 31 , 2011 due to improving economic conditions in several of the bank's markets.

## ALLOWANCE FOR CREDIT LOSSES

The allowance for loan losses was relatively unchanged at March 31, 2011 as compared to December 31, 2010 and represented $1.89 \%$ of total loans compared to $1.86 \%$ at December 31, 2010 and $1.91 \%$ at March 31, 2010. The decrease in the allowance from March 31, 2010 to March 31, 2011 resulted primarily from the sale of impaired loans in the third quarter of 2010 which reduced previously provided specific reserves by $\$ 5.4$ million.

The decrease in the allowance for loan commitments from December 31, 2010 to March 31, 2011 represents a transfer of a reserve associated with one loan commitment for tenant improvements to real estate that secures an impaired loan to the allowance for loan losses as the commitment is funded.

Net charge-offs increased $\$ 1.3$ million in the first quarter as compared to the first quarter of 2010, and $\$ 1.7$ million as compared to the fourth quarter of 2010, but remained significantly below average quarterly net charge-offs over the last two years. Net charge-offs for the first quarter include $\$ 4.4$ million attributable to two land development loans. Both of these loans were classified and reserved, and one of these loans was also reported as renegotiated in
previous quarters. Net annualized loan charge-offs to average loans were $1.03 \%$ for the quarter ended March 31, 2011 compared to $0.83 \%$ for same period last year.

The increase in non-accrual loans did not have a material effect on the allowance for credit losses at March 31, 2011 or the provision for credit losses for the first quarter of 2011 because loans that migrated to non-accrual during the quarter were previously classified and in certain instances also reported as renegotiated, and adequately reserved in prior periods. The internal risk grading of loans has more influence on the amount of the allowance than the categorization of loans as non-performing. Total classified and criticized loans at March 31, 2011 decreased $\$ 32.2$ million compared to March 31, 2010 and $\$ 10.6$ million compared to December 31, 2010, which together with a decrease in total loans partially offset the effect of higher historical loss rates.

## TABLE 12. ALLOWANCE FOR CREDIT LOSSES

| (unaudited, in thousands) | For the Three Months Ended March 31, |  |  |
| :---: | :---: | :---: | :---: |
|  | 2011 |  | 2010 |
| Balance at beginning of period: |  |  |  |
| Allowance for loan losses | \$ | 61,051 \$ | 61,160 |
| Allowance for loan commitments |  | 1,404 | 195 |
| Total beginning balance |  | 62,455 | 61,355 |
| Provision for credit losses: |  |  |  |
| Provision for loan losses |  | 8,687 | 11,500 |
| Provision for loan commitments |  | (646) |  |
| Total provision for credit losses |  | 8,041 | 11,500 |
| Charge-offs: |  |  |  |
| Commercial real estate - land and construction |  | 4,352 |  |
| Commercial real estate - other |  | 1,834 | 3,483 |
| Commercial and industrial |  | 894 | 1,529 |
| Residential real estate |  | 997 | 1,023 |
| Home equity |  | 256 | 42 |
| Consumer |  | 1,085 | 1,427 |
| Total loan charge-offs |  | 9,418 | 7,504 |
| Deposit account overdrafts |  | 173 | 236 |
| Total loan and deposit account overdraft charge-offs |  | 9,591 | 7,740 |
| Recoveries: |  |  |  |
| Commercial real estate - land and construction |  | 3 |  |
| Commercial real estate - other |  | 495 | 273 |
| Commercial and industrial |  | 153 | 4 |
| Residential real estate |  | 232 | 6 |
| Home equity |  | 7 | 2 |
| Consumer |  | 307 | 329 |
| Total loan recoveries |  | 1,197 | 614 |
| Deposit account overdrafts |  | 96 | 91 |
| Total loan and deposit account overdraft recoveries |  | 1,293 | 705 |
| Net loan and deposit account overdraft charge-offs |  | 8,298 | 7,035 |
| Balance at end of period: |  |  |  |
| Allowance for loan losses |  | 61,440 | 65,625 |

$\begin{array}{lll}\text { Allowance for loan commitments } & 758 & 195\end{array}$ $\begin{array}{lll}\text { Total ending balance } & \$ \quad 62,198 \$ 85,820\end{array}$

Table 13 summarizes the allocation of the allowance for credit losses to each category of the loan portfolio. The allowance for CRE land and construction loans increased due to higher loss rates in this category resulting from the charge down of two land development loans in the first quarter of 2011 and higher specific reserves on other impaired land and residential construction loans, including the amount transferred from the allowance for loan commitments. The allowance for other CRE loans decreased as a result of a modest decrease in historical loss rates and the elimination of certain specific reserves on loans that are no longer impaired. The allowance for C\&I loans increased primarily as a result of a specific reserve on a newly impaired loan. The allowance for residential real estate and home equity loans increased due to higher loss rates in both categories while the allowance for consumer loans decreased due to moderately decreasing loss rates. The allowance for deposit account overdrafts was relatively unchanged.

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

| (unaudited, dollars in thousands) | March 31,$2011$ |  | Percent of Total | December 31, Percent of |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Allowance for loan losses: |  |  |  |  |  |  |
| Commercial real estate - land and construction | \$ | 5,832 | 9.4\% | \$ | 4,701 | 7.5\% |
| Commercial real estate - other |  | 28,637 | 46.1\% |  | 30,836 | 49.4\% |
| Commercial and industrial |  | 11,925 | 19.2\% |  | 10,793 | 17.3\% |
| Residential real estate |  | 6,382 | 10.3\% |  | 5,950 | 9.5\% |
| Home equity |  | 2,205 | 3.5\% |  | 2,073 | 3.3\% |
| Consumer |  | 5,439 | 8.7\% |  | 5,641 | 9.0\% |
| Deposit account overdrafts |  | 1,020 | 1.6\% |  | 1,057 | 1.7\% |
| Total allowance for loan losses | \$ | 61,440 | 98.8\% | \$ | 61,051 | 97.7\% |
| Allowance for loan commitments: |  |  |  |  |  |  |
| Commercial real estate - land and construction | \$ | 661 | 1.1\% | \$ | 1,037 | 1.7\% |
| Commercial real estate - other |  | 25 | 0.0\% |  | 285 | 0.5\% |
| Commercial and industrial |  | 55 | 0.1\% |  | 65 | 0.1\% |
| Residential real estate |  |  | 0.0\% |  | 1 | 0.0\% |
| Home equity |  | 15 | 0.0\% |  | 14 | 0.0\% |
| Consumer |  | 2 | 0.0\% |  | 2 | 0.0\% |
| Total allowance for loan commitments |  | 758 | 1.2\% |  | 1,404 | 2.3\% |
| Total allowance for credit losses | \$ | 62,198 | 100.0\% | \$ | 62,455 | 100.0\% |

The following table 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.

## TABLE 14. RECONCILIATION OF THE ALLOWANCE FOR CREDIT LOSSES BY LOAN CATEGORY



Although the allowance for credit losses is allocated as described in Tables 13 and 14, 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, 2011.

## DEPOSITS

## TABLE 15. DEPOSITS

| (unaudited, dollars in thousands) | $\begin{gathered} \text { March 31, } \\ 2011 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2010 \end{gathered}$ |  | \$ Change |  | \% Change |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Non-interest bearing demand | \$ | 611,496 | \$ | 591,052 | \$ | 20,444 | 3.5\% |
| Interest bearing demand |  | 511,168 |  | 481,129 |  | 30,039 | 6.2\% |
| Money market |  | 887,803 |  | 854,836 |  | 32,967 | 3.9\% |
| Savings deposits |  | 558,800 |  | 530,701 |  | 28,099 | 5.3\% |
| Certificates of deposit |  | 1,642,942 |  | 1,714,705 |  | $(71,763)$ | (4.2\%) |
| Total deposits | \$ | 4,212,209 | \$ | 4,172,423 | \$ | 39,786 | 1.0\% |

Deposits, which represent WesBanco's primary source of funds, are offered in various account forms at various rates through WesBanco's 112 branches in West Virginia, Ohio and Western Pennsylvania. Total deposits increased by $\$ 39.8$ million or $1.0 \%$ during the quarter ended March 31, 2011.

Savings deposits, demand deposits and money market deposits increased by $5.3 \%, 4.7 \%$ and $3.9 \%$, respectively, in the first three months of 2011 due to continued efforts to obtain more account relationships.

The $4.2 \%$ decline in certificates of deposit is due to the effects of an overall corporate strategy designed to re-mix retail deposit relationships with a focus on overall products that can be offered at a lower cost to the bank. The decline in certificates of deposit is also impacted by customer preferences in the current low interest rate environment and other alternatives in the marketplace. WesBanco does not typically solicit brokered or other deposits out-of-market or over the internet, but does participate in the Certificate of Deposit Account Registry Service (CDARS®) program, which had $\$ 209.1$ million in total outstanding balances at March 31, 2011 of which $\$ 59.7$ million represented one way buys, as compared to $\$ 246.3$ million in total outstanding balances at December 31, 2010. Certificates of deposit of $\$ 250,000$ or more were approximately $\$ 180.4$ million at March 31, 2011 as compared to $\$ 186.5$ million at December 31, 2010. Certificates of deposit of $\$ 100,000$ or more were approximately $\$ 746.7$ million at March 31, 2011 as compared to $\$ 791.7$ million at December 31, 2010, while certificates of deposit totaling approximately $\$ 810.3$ million at March 31, 2011 with a cost of $1.29 \%$ are scheduled to mature within the next year. Current market rates for certificates of deposit may result in a lower total certificate of deposit cost from these maturities assuming rates stay the same and matured certificates of deposit roll into similar products. WesBanco will continue to focus on its core deposit strategies and improving its overall mix of transaction accounts to total deposits as well as offering special promotions on certain certificates of deposit maturities and savings products based on competition, sales strategies, liquidity needs and wholesale borrowing costs.

## BORROWINGS

TABLE 16. BORROWINGS
March 31, December 31,

| (unaudited, dollars in thousands) | 2011 | 2010 | \$ Change | $\%$ <br> Change |  |  |
| :--- | ---: | :--- | :--- | :--- | :--- | ---: |
| Federal Home Loan Bank borrowings | $\$$ | 232,247 | $\$$ | $253,606 \$$ | $(21,359)$ | $(8.4 \%)$ |
| Other short-term borrowings |  | 168,014 | 187,385 | $(19,371)$ | $(10.3 \%)$ |  |
| Junior subordinated debt owed to unconsolidated |  | 106,042 | 106,034 | 8 | $0.0 \%$ |  |
| subsidiary trusts | $\$$ | 506,303 | $\$$ | $547,025 \$$ | $(40,722)$ | $(7.4 \%)$ |
| Total borrowings |  |  |  |  |  |  |

Borrowings are a less significant source of funding for WesBanco and in the current yield curve environment, certain borrowings may be more expensive than other available funding sources including deposits. During the first quarter of 2011, 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 are scheduled for the remainder of the year, which should permit a further lowering of the cost of wholesale borrowings as current borrowing rates are lower, or management will use available cash to pay off these borrowings.

Other short-term borrowings, which consist of federal funds purchased, securities sold under agreements to repurchase and treasury tax and loan notes were $\$ 168.0$ million at March 31, 2011 as compared to $\$ 187.4$ million at December 31, 2010. The decrease in these borrowings have occurred primarily as a result of a $\$ 19.9$ million decrease in securities sold under agreements to repurchase which was partially offset by a $\$ 0.5$ million increase in treasury tax and loan notes. 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 aggregated 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, 2011 or December 31, 2010.

## 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 and affordable housing plan guarantees. Since many of these commitments expire unused or partially used, these commitments may not reflect future cash requirements. Please refer to Note 9 ,

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"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 $\$ 612.0$ million at March 31, 2011 compared to $\$ 606.9$ million at December 31, 2010. Total equity increased due to net income during the current three month period of $\$ 10.2$ million. The increase was partially offset by the declaration of common shareholder dividends totaling $\$ 4.0$ million and a $\$ 1.2$ million other comprehensive income loss.

WesBanco did not purchase any shares during the current three month period under an existing one million share repurchase plan. At March 31, 2011, remaining WesBanco common stock authorized to be purchased as part of the current one million share repurchase plan totaled 584,325 shares.

WesBanco is subject to regulatory promulgated leverage and risk-based capital guidelines that measure capital relative to risk-weighted assets and off-balance sheet instruments. WesBanco Bank (the "Bank"), as well as WesBanco maintain Tier 1, Total Capital and Leverage ratios well above minimum regulatory levels. 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, 2011, under FDIC regulations, WesBanco could receive, without prior regulatory approval, a dividend of up to $\$ 12.1$ million from the Bank. WesBanco seeks to continue improving its capital ratios as short-term debt matures and is paid down from investment and loan cash flows to further reduce total assets.

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

| (unaudited, dollars in thousands) | Minimum Value (1) | Well Capitalized (2) | March 31, 2011 |  | December 31, 2010 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Amount | Ratio | Amount | Ratio |
| WesBanco, Inc. |  |  |  |  |  |  |
| Tier 1 Leverage | 4.00\%(3) | N/A | \$ 434,765 | 8.53\% \$ | 428,001 | 8.35\% |
| Tier 1 Capital to Risk-Weighted | 4.00\% | 6.00\% | 434,765 | 12.23\% | 428,001 | 11.94\% |
| Assets |  |  |  |  |  |  |
| Total Capital to Risk-Weighted | 8.00\% | 10.00\% | 479,432 | 13.48\% | 473,020 | 13.20\% |
| Assets |  |  |  |  |  |  |
| WesBanco Bank, Inc. |  |  |  |  |  |  |
| Tier 1 Leverage | 4.00\% | 5.00\% | \$ 405,531 | 7.99\% \$ | 398,171 | 7.80\% |
| Tier 1 Capital to Risk-Weighted | 4.00\% | 6.00\% | 405,531 | 11.47\% | 398,171 | 11.15\% |
| Assets |  |  |  |  |  |  |
| Total Capital to Risk-Weighted | 8.00\% | 10.00\% | 449,938 | 12.73\% | 443,013 | 12.41\% |

Assets
(1) Minimum requirements to remain adequately capitalized.
(2) Well capitalized under prompt corrective action regulations.
(3) Minimum requirement is $3 \%$ for certain highly-rated bank holding companies.

## DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which contains numerous and wide-ranging reforms to the structure of the U.S. financial system. Portions of the Dodd-Frank Act are effective at different times, and many of the provisions are general statements directing regulators to draft more detailed rules. Although the full scope of the Dodd-Frank Act's impact remains somewhat unclear, management expects that it will, over time, reduce revenue and increase expenses.

As a bank holding company, WesBanco will be subjected to increased capital requirements (further discussed in WesBanco's Form 10-K for the year ended December 31, 2010 filed with the SEC under "Item 1. Business-Capital Requirements"). A provision known as the Volcker Rule will limit WesBanco's ability to engage in proprietary trading, as well as its ability to sponsor or invest in hedge funds or private equity funds. A provision known as the Lincoln Rule will prevent WesBanco Bank from engaging in certain swap transactions unless they are carried out through a separately capitalized affiliate. Increased restrictions also will apply to transactions with and among WesBanco subsidiaries, and the Federal Reserve Board will have increased authority to examine and take enforcement action against WesBanco and its subsidiaries that are not banks.

The Dodd-Frank Act makes several changes affecting the securitization markets, which may affect WesBanco's ability or desire to use those markets to meet funding or liquidity needs. One of these changes calls for federal regulators to adopt regulations requiring the sponsor of a securitization to retain at least 5 percent of the credit risk, with exceptions for "qualified residential mortgages."

As a publicly traded company, WesBanco is required to give shareholders an advisory vote on executive compensation, and, in some cases, golden parachute arrangements. The Dodd-Frank Act also calls for regulators to issue new rules relating to compensation committee independence, incentive-based compensation arrangements deemed excessive, and proxy access by shareholders.

WesBanco Bank and other insured depository institutions will have increased authority to open new branches across state lines. A provision authorizing insured depository institutions to pay interest on checking accounts will likely increase WesBanco's interest expenses. A new government agency, the Bureau of Consumer Financial Protection ("Consumer Bureau"), will have the authority to write rules implementing numerous consumer protection laws applicable to all banks.

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## BASEL III CAPITAL STANDARDS

The federal regulatory authorities' risk-based capital guidelines are based upon agreements reached by the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel Committee is a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply. In December 2010, the Basel Committee issued a strengthened set of international capital and liquidity standards for banks and bank holding companies, known as "Basel III." The Basel III reforms are supported by the U.S. federal banking agencies and will increase both the quantity and quality of capital banks and bank holding companies are required to hold. Regulators in each participating country will be expected to implement Basel III beginning January 1, 2013.

When Basel III is fully phased-in on January 1, 2019, banks and bank holding companies will be required to maintain: (i) a minimum Tier 1 common equity ratio of at least 4.5 percent, (ii) a minimum Tier 1 capital ratio of at least 6 percent, (iii) a minimum total capital ratio (Tier 1 and Tier 2 capital) of at least 8 percent; and (iv) a non-risk-based minimum leverage ratio (Tier 1 capital to average consolidated assets) of 3 percent. Although not presented as a minimum requirement, banks and bank holding companies will not be able to pay dividends unless they have an additional "capital conservation buffer" equal to a Tier 1 common equity ratio of 2.5 percent. Adding the capital conservation buffer on top of the minimums, banks and bank holding companies will generally need a Tier 1 common equity ratio of 7 percent, a Tier 1 capital ratio of 8.5 percent, and a total capital ratio of 10.5 percent. Under Basel III, regulators would also be able to impose a "countercyclical capital buffer" during periods of excessive credit growth. The countercyclical capital buffer would be an additional Tier 1 common equity ratio of up to 2.5 percent. Under Basel III, regulatory adjustments to common equity will generally be eliminated by January 1, 2018, although an exception will permit a portion of mortgage servicing rights to continue being treated as common equity.

WesBanco cannot predict the precise timing or final form of forthcoming capital regulations that could be applicable to WesBanco or their impact on WesBanco. Capital requirements that may arise from regulations issued under the Dodd-Frank Act, Basel III, or some other initiative could increase the minimum capital requirements applicable to WesBanco and its subsidiaries.

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## 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 onand 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. Federal funds sold and U.S. Treasury and government agency securities maturing within three months are classified as secondary reserve assets. These secondary reserve assets, combined with the cash flow from the loan portfolio and the remaining sectors of the investment portfolio, and other sources, adequately meet the liquidity requirements of WesBanco.

Securities are the principal source of short-term liquidity for WesBanco. Securities totaled $\$ 1.5$ billion at March 31, 2011, of which $\$ 935.6$ million were classified as available-for-sale, including net unrealized pretax gains of $\$ 6.1$ million. The remaining securities were classified as held-to-maturity. At March 31, 2011, WesBanco has approximately $\$ 22.9$ million in securities scheduled to mature within one year; however, additional cash flows may be anticipated from approximately $\$ 399.7$ million in callable bonds which have call dates within the next year, from projected prepayments on mortgage-backed securities and collateralized mortgage obligations of approximately $\$ 155.2$ million based on current prepayment speeds, from loans held for sale totaling $\$ 4.1$ million, from accruing loans scheduled to mature within the next year of $\$ 480.9$ million and from normal loan repayments anticipated to be $\$ 762.0$ million within the next year. At March 31, 2011, WesBanco had $\$ 97.1$ million of cash and cash equivalents, which serves as operating cash for the branches and an additional source of liquidity. Sources of liquidity within the next year listed above approximate $\$ 1,921.9$ million at March 31, 2011.

Deposit flows are another principal factor affecting overall WesBanco liquidity. Deposits totaled $\$ 4.2$ billion at March 31, 2011. 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 $\$ 810.3$ million at March 31, 2011 which includes jumbo regular certificates of deposit and jumbo CDARS© deposits totaling $\$ 216.3$ million with a weighted-average cost of $1.33 \%$ and $\$ 91.4$ million with a cost of $1.15 \%$, respectively. In addition to the historically relatively stable core deposit base, WesBanco maintains a line of credit with the FHLB as an additional funding source. Available lines of credit with the FHLB at March 31, 2011 approximated $\$ 962.6$ million in excess of current outstandings, which has decreased slightly from the $\$ 1.0$ billion available at December 31, 2010, due to changes in certain loan balances and FHLB changes in collateral discounts. At March 31, 2011, the Bank had unpledged available-for-sale securities with an amortized cost of \$465.6 million, a portion of which is an available liquidity source, or could be pledged to secure additional FHLB borrowings. In addition, 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, 2011, WesBanco had a BIC line of credit totaling $\$ 140.4$ 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 at March 31, 2011
along with seeking other lines of credit, borrowings under repurchase agreement lines, increasing deposit rates to attract additional funds, accessing brokered deposits, or selling securities available-for-sale or certain types of loans.

Other short-term borrowings of $\$ 168.0$ million at March 31, 2011 primarily include callable repurchase agreements of $\$ 165.2$ million and several 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 2011. The repurchase agreements require securities to be pledged equal to or greater than the instrument's purchase price and may be called within the next year. The overnight sweep checking accounts require securities to be pledged equal to or greater than the deposit balance.

In July 2009, the FHLB began requiring 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. To increase its remaining capacity, WesBanco can at any time decide to pledge a portion of its unpledged securities to the FHLB.

The principal sources of parent company liquidity are dividends from the Bank, $\$ 16.4$ 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, 2011. 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, 2011, under FDIC and state of West Virginia regulations, WesBanco could receive, without prior regulatory approval, dividends totaling $\$ 12.1$ million from the Bank.

At March 31, 2011, WesBanco had outstanding commitments to extend credit in the ordinary course of business approximating $\$ 697.5$ million, compared to $\$ 648.8$ million at December 31, 2010. 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.

Federal financial regulatory agencies recently issued guidance 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, 2011 and that WesBanco's current liquidity risk management policies and procedures adequately address the recently issued guidance.

## 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

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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 beginning 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 noninterest 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 as 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, 2011 and December 31, 2010

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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)
+300
+200
+100
-100
-200

| Percentage Change in |  |  |
| :---: | :---: | :---: |
| Net Interest Income from Base over One Year | ALCO |  |
| March 31, 2011 | December 31, 2010 | Guidelines |
| $0.4 \%$ | $0.8 \%$ | $-25.0 \%$ |
| $1.3 \%$ | $1.7 \%$ | $-12.5 \%$ |
| $1.9 \%$ | $2.4 \%$ | $-5.0 \%$ |
| $(2.7 \%)$ | $(2.9 \%)$ | $-5.0 \%$ |
| N/A | N/A | $-12.5 \%$ |

As per the table above, the earnings simulation model at March 31, 2011 currently projects that net interest income for the next twelve month period would decrease by $2.7 \%$ if interest rates were to fall immediately by 100 basis points, compared to a decrease of $2.9 \%$ for the same scenario as of December 31, 2010.

For rising rate scenarios, net interest income would increase by $1.9 \%, 1.3 \%$ and $0.4 \%$ if rates increased by 100,200 and 300 basis points, respectively, as of March 31, 2011 as compared to increases of $2.4 \%, 1.7 \%$ and $0.8 \%$ in a 100 , 200 and 300 basis point increasing rate environment as of December 31, 2010. The balance sheet is slightly less asset sensitive in the first quarter of 2011 due to changes in deposit mix and a slight duration extension in the investment portfolio. Should rates rise more rapidly and by a higher amount, the asset sensitivity is 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 $\$ 850$ million at March 31, 2011, which represented approximately $40 \%$ of commercial loans with an average floor of $5.24 \%$. In the current flat interest rate environment, WesBanco expects that the net interest margin may be slightly negatively impacted throughout the rest of 2011, as short term interest rates are not anticipated to increase until 2012, and loan runoff and investment security maturities are reinvested at lower rates.

The Bank has significant additional borrowing capacity with the FHLB of Pittsburgh, the Federal Reserve Bank of Cleveland, and various correspondent banks, and will continue to 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. Various derivative strategies may also be employed to enhance asset sensitivity in a rising rate environment, including loan level interest rate swaps for certain of our commercial loan customers, although such strategies would most likely result in a decrease to net interest income in the short term in order to improve net interest income in a longer term rising rate environment.

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, 2011, using the 200 basis point increasing rate ramp analysis, projects that net interest income would increase $2.0 \%$ over the next twelve months, compared to a $2.3 \%$ increase at December 31, 2010.

WesBanco also periodically measures the economic value of equity, which is defined as the market value of equity in various increasing and decreasing rate scenarios. At March 31, 2011, the market value of equity as a percent of base in a 200 basis point rising rate environment indicates a decrease of $3.2 \%$ as compared to an increase of $4.4 \%$ at December 31, 2010. In a 100 basis point falling rate environment, the model indicates an increase of $0.8 \%$, as compared to a decrease of $4.1 \%$ as of December 31, 2010. 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 I capital leverage ratio is not forecasted to decrease below $5.0 \%$ as a result of the change.

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## 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 Securities and Exchange Commission 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, 2011 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.

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## PART II - OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

WesBanco is involved in lawsuits, claims, investigations and proceedings which arise in the ordinary course of business. There are no such matters pending that WesBanco expects to be material in relation to its business, financial condition or results of operations.

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

As of March 31, 2011, 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 general open market repurchases during the first three months of 2011, other than those for KSOP and dividend reinvestment plans.

The following table presents the monthly share purchase activity during the quarter ended March 31, 2011:

|  | Total Number <br> of Shares <br> Purchased | Average <br> Price Paid <br> per Share | Total Number of <br> Shares Purchased <br> as Part of Publicly <br> Announced Plans | Maximum Number <br> of Shares that May <br> Yet Be Purchased <br> Under the Plans |
| :--- | :---: | :---: | ---: | ---: | ---: |
| Period |  |  |  |  |
| Balance at December 31, 2010 |  |  |  |  |

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

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## ITEM 6. EXHIBITS

31.1 Chief Executive Officer's Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 Chief Financial Officer's Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 Chief Executive Officer's and Chief Financial Officer's Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## 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 27, 2011
/s/ Paul M. Limbert
Paul M. Limbert
President and Chief Executive Officer
(Principal Executive Officer)

Date: April 27, 2011
/s/ Robert H. Young
Robert H. Young
Executive Vice President and Chief
Financial Officer
(Principal Financial and Accounting
Officer)

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