WESBANCO INC
Form 10-Q
November 02, 2018
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**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 September 30, 2018**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from ____________ to ____________**

**Commission File Number 000-08467**

**WESBANCO, INC.**

**(Exact name of Registrant as specified in its charter)**

| | |
|---|---|
| **WEST VIRGINIA** | **55-0571723** |
| **(State of incorporation)** | **(IRS Employer Identification No.)** |
| **1 Bank Plaza, Wheeling, WV** | **26003** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

**NOT APPLICABLE**

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | Smaller reporting company |
| | Emerging growth company |

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

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

As of October 22, 2018, there were 54,598,186 shares of WesBanco, Inc. common stock, $2.0833 par value, outstanding.

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# WESBANCO, INC.

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## PART I FINANCIAL INFORMATION



## PART II OTHER INFORMATION

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## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## WESBANCO, INC. CONSOLIDATED BALANCE SHEETS

| *(unaudited, in thousands, except shares)* | September 30, 2018 | December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks, including interest bearing amounts of **$88,854** and $19,826, respectively | **$ 273,680** | $ 117,572 |
| Securities: | | |
| Equity securities, at fair value | **12,784** | 13,457 |
| Available-for-sale debt securities, at fair value | **2,008,232** | 1,261,865 |
| Held-to-maturity debt securities (fair values of **$1,014,361** and $1,023,784, respectively) | **1,025,538** | 1,009,500 |
| Total securities | **3,046,554** | 2,284,822 |
| Loans held for sale | **55,913** | 20,320 |
| Portfolio loans, net of unearned income | **7,726,423** | 6,341,441 |
| Allowance for loan losses | **(48,902)** | (45,284) |
| Net portfolio loans | **7,677,521** | 6,296,157 |
| Premises and equipment, net | **159,284** | 130,722 |
| Accrued interest receivable | **39,465** | 29,728 |
| Goodwill and other intangible assets, net | **928,083** | 589,264 |
| Bank-owned life insurance | **223,995** | 192,589 |
| Other assets | **194,984** | 155,004 |
| **Total Assets** | **$ 12,599,479** | $ 9,816,178 |
| **LIABILITIES** | | |
| Deposits: | | |
| Non-interest bearing demand | **$ 2,411,862** | $ 1,846,748 |
| Interest bearing demand | **2,187,662** | 1,625,015 |
| Money market | **1,178,950** | 1,024,856 |
| Savings deposits | **1,649,684** | 1,269,912 |
| Certificates of deposit | **1,513,600** | 1,277,057 |
| Total deposits | **8,941,758** | 7,043,588 |
| Federal Home Loan Bank borrowings | **1,131,253** | 948,203 |
| Other short-term borrowings | **294,281** | 184,805 |

| | | |
|---|---|---|
| Subordinated debt and junior subordinated debt | **189,745** | 164,327 |
| Total borrowings | **1,615,279** | 1,297,335 |
| Accrued interest payable | **6,623** | 3,178 |
| Other liabilities | **108,550** | 76,756 |
| **Total Liabilities** | **10,672,210** | 8,420,857 |
| **SHAREHOLDERS EQUITY** | | |
| Preferred stock, no par value; 1,000,000 shares authorized; none outstanding | | |
| Common stock, $2.0833 par value; **100,000,000** shares authorized in 2018 and 2017, respectively; **54,604,294** and 44,043,244 shares issued, respectively; **54,603,967** and 44,043,244 shares outstanding, respectively | **113,758** | 91,756 |
| Capital surplus | **1,165,006** | 684,730 |
| Retained earnings | **709,477** | 651,357 |
| Treasury stock (**327** and 0 shares at cost, respectively) | **(15)** | |
| Accumulated other comprehensive loss | **(59,873)** | (31,495) |
| Deferred benefits for directors | **(1,084)** | (1,027) |
| **Total Shareholders Equity** | **1,927,269** | 1,395,321 |
| **Total Liabilities and Shareholders Equity** | **$ 12,599,479** | $ 9,816,178 |

See Notes to Consolidated Financial Statements.

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**WESBANCO, INC. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| *(unaudited, in thousands, except shares and per share amounts)* | For the Three Months Ended September 30, 2018 | For the Three Months Ended September 30, 2017 | For the Nine Months Ended September 30, 2018 | For the Nine Months Ended September 30, 2017 |
|---|---|---|---|---|
| **INTEREST AND DIVIDEND INCOME** | | | | |
| Loans, including fees | **$ 86,605** | $ 70,342 | **$ 234,276** | $ 202,600 |
| Interest and dividends on securities: | | | | |
| Taxable | **14,964** | 9,711 | **40,702** | 28,682 |
| Tax-exempt | **5,326** | 4,862 | **15,216** | 14,617 |
| Total interest and dividends on securities | **20,290** | 14,573 | **55,918** | 43,299 |
| Other interest income | **1,498** | 574 | **3,402** | 1,674 |
| Total interest and dividend income | **108,393** | 85,489 | **293,596** | 247,573 |
| **INTEREST EXPENSE** | | | | |
| Interest bearing demand deposits | **3,501** | 1,814 | **9,174** | 4,413 |
| Money market deposits | **1,360** | 751 | **3,332** | 1,970 |
| Savings deposits | **352** | 189 | **768** | 555 |
| Certificates of deposit | **3,276** | 2,610 | **8,789** | 7,512 |
| Total interest expense on deposits | **8,489** | 5,364 | **22,063** | 14,450 |
| Federal Home Loan Bank borrowings | **6,691** | 3,628 | **17,142** | 9,608 |
| Other short-term borrowings | **965** | 394 | **2,497** | 954 |
| Subordinated debt and junior subordinated debt | **2,315** | 1,849 | **6,425** | 5,449 |
| Total interest expense | **18,460** | 11,235 | **48,127** | 30,461 |
| **NET INTEREST INCOME** | **89,933** | 74,254 | **245,469** | 217,112 |
| Provision for credit losses | **1,035** | 2,516 | **4,911** | 7,610 |
| Net interest income after provision for credit losses | **88,898** | 71,738 | **240,558** | 209,502 |
| **NON-INTEREST INCOME** | | | | |
| Trust fees | **6,265** | 5,358 | **18,520** | 17,073 |
| Service charges on deposits | **6,313** | 5,320 | **16,282** | 15,254 |
| Electronic banking fees | **6,139** | 4,883 | **16,697** | 14,395 |
| Net securities brokerage revenue | **1,836** | 1,721 | **5,315** | 5,164 |
| Bank-owned life insurance | **1,232** | 1,164 | **5,116** | 3,671 |
| Mortgage banking income | **1,521** | 1,103 | **4,297** | 3,511 |
| Net securities gains | **84** | 6 | **403** | 511 |
| Net gain/(loss) on other real estate owned and other assets | **150** | (298) | **641** | 9 |
| Other income | **2,684** | 1,642 | **6,444** | 6,318 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total non-interest income | | **26,224** | | 20,899 | | **73,715** | | 65,906 |
| **NON-INTEREST EXPENSE** | | | | | | | | |
| Salaries and wages | | **30,335** | | 24,957 | | **82,213** | | 71,575 |
| Employee benefits | | **7,905** | | 7,728 | | **22,782** | | 23,670 |
| Net occupancy | | **4,957** | | 4,132 | | **13,715** | | 12,969 |
| Equipment | | **4,488** | | 3,905 | | **12,532** | | 12,043 |
| Marketing | | **1,446** | | 1,599 | | **3,967** | | 4,482 |
| FDIC insurance | | **789** | | 945 | | **2,315** | | 2,677 |
| Amortization of intangible assets | | **1,821** | | 1,223 | | **4,218** | | 3,736 |
| Restructuring and merger-related expense | | **10,811** | | | | **16,468** | | 491 |
| Other operating expenses | | **13,568** | | 11,265 | | **36,024** | | 34,380 |
| Total non-interest expense | | **76,120** | | 55,754 | | **194,234** | | 166,023 |
| Income before provision for income taxes | | **39,002** | | 36,883 | | **120,039** | | 109,385 |
| Provision for income taxes | | **6,516** | | 10,527 | | **20,855** | | 30,801 |
| **NET INCOME** | **$** | **32,486** | $ | 26,356 | **$** | **99,184** | $ | 78,584 |
| **EARNINGS PER COMMON SHARE** | | | | | | | | |
| Basic | **$** | **0.65** | $ | 0.60 | **$** | **2.11** | $ | 1.79 |
| Diluted | **$** | **0.64** | $ | 0.60 | **$** | **2.11** | $ | 1.78 |
| **AVERAGE COMMON SHARES OUTSTANDING** | | | | | | | | |
| Basic | | **50,277,847** | | 44,031,813 | | **46,965,095** | | 43,992,017 |
| Diluted | | **50,432,112** | | 44,086,881 | | **47,107,829** | | 44,059,469 |
| **DIVIDENDS DECLARED PER COMMON SHARE** | **$** | **0.29** | $ | 0.26 | **$** | **0.87** | $ | 0.78 |
| **COMPREHENSIVE INCOME** | **$** | **25,965** | $ | 27,637 | **$** | **71,869** | $ | 84,873 |

See Notes to Consolidated Financial Statements.

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**WESBANCO, INC. CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

**For the Nine Months Ended September 30, 2018 and 2017**

| *(unaudited, in thousands, except shares and per share amounts)* | Common Stock Shares Outstanding | Common Stock Amount | Capital Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive (Loss) Income | Deferred Benefits for Directors | Total |
|---|---|---|---|---|---|---|---|---|
| December 31, 2017 | 44,043,244 | $ 91,756 | $ 684,730 | $ 651,357 | $ | $ (31,495) | $ (1,027) | $ 1,395,321 |
| Net income | | | | **99,184** | | | | **99,184** |
| Other comprehensive income | | | | | | **(27,315)** | | **(27,315)** |
| Comprehensive income | | | | | | | | **71,869** |
| Common dividends declared ($0.87 per share) | | | | **(42,127)** | | | | **(42,127)** |
| Adoption of accounting standard ASU 2016-01 | | | | **1,063** | | **(1,063)** | | |
| Shares issued for FTSB acquisition | **2,498,761** | **5,206** | **102,141** | | | | | **107,347** |
| Shares issued for FFKT acquisition | **7,920,387** | **16,487** | **374,464** | | **316** | | | **391,267** |
| Treasury shares acquired | **(15,489)** | | **34** | | **(730)** | | | **(696)** |
| Stock options exercised | **58,763** | **104** | **1,346** | | **399** | | | **1,849** |
| Restricted stock granted | **98,301** | **205** | **(205)** | | | | | |
| Stock compensation expense | | | **2,933** | | | | | **2,933** |
| Deferred benefits for directors-net | | | **(437)** | | | | **(57)** | **(494)** |
| September 30, 2018 | **54,603,967** | **$ 113,758** | **$ 1,165,006** | **$ 709,477** | **$ (15)** | **$ (59,873)** | **$ (1,084)** | **$ 1,927,269** |
| December 31, 2016 | 43,931,715 | $ 91,524 | $ 680,507 | $ 597,071 | $ | $ (27,126) | $ (568) | $ 1,341,408 |
| Net income | | | | 78,584 | | | | 78,584 |
| Other comprehensive income | | | | | | 6,289 | | 6,289 |
| Comprehensive income | | | | | | | | 84,873 |
| Common dividends declared ($0.78 per share) | | | | (34,326) | | | | (34,326) |
| Treasury shares acquired | (12,987) | | | | (488) | | | (488) |
| Stock options exercised | 40,834 | 75 | 858 | | 188 | | | 1,121 |
| Restricted stock granted | 74,023 | 154 | (154) | | | | | |
| Stock compensation expense | | | 1,970 | | | | | 1,970 |
| | | | 167 | | | | (167) | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Deferred benefits for directors-net | | | | | | | | |
| September 30, 2017 | 44,033,585 | $ 91,753 | $ 683,348 | $ 641,329 | $ (300) | $ (20,837) | $ (735) | $ 1,394,558 |

See Notes to Consolidated Financial Statements.

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**WESBANCO, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS**

| *(unaudited, in thousands)* | For the Nine Months Ended September 30, 2018 | 2017 |
|---|---|---|
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | **$ 122,444** | $ 93,506 |
| **INVESTING ACTIVITIES** | | |
| Net decrease (increase) in loans held for investment | **52,411** | (122,332) |
| Debt securities available-for-sale: | | |
| Proceeds from sales | **82,134** | 7,760 |
| Proceeds from maturities, prepayments and calls | **188,020** | 156,944 |
| Purchases of securities | **(688,020)** | (225,404) |
| Debt securities held-to-maturity: | | |
| Proceeds from maturities, prepayments and calls | **51,973** | 90,457 |
| Purchases of securities | **(66,058)** | (53,251) |
| Equity securities: | | |
| Proceeds from sales | **1,511** | |
| Purchases of securities | **(431)** | |
| Proceeds from bank-owned life insurance | **4,772** | 349 |
| Purchases of premises and equipment net | **(2,400)** | (6,223) |
| Net cash received from acquisitions | **278,654** | |
| Sale of portfolio loans net | **12,996** | |
| Net cash used in investing activities | **(84,438)** | (151,700) |
| **FINANCING ACTIVITIES** | | |
| (Decrease) increase in deposits | **(20,443)** | 61,389 |
| Proceeds from Federal Home Loan Bank borrowings | **575,000** | 560,000 |
| Repayment of Federal Home Loan Bank borrowings | **(447,381)** | (513,911) |
| Increase in other short-term borrowings | **90,043** | 20,200 |
| Decrease in federal funds purchased | **(25,000)** | (54,000) |
| Repayment of junior subordinated debt | **(17,519)** | |
| Dividends paid to common shareholders | **(37,751)** | (33,416) |
| Issuance of common stock | **1,578** | 991 |
| Treasury shares purchased net | **(425)** | (358) |
| Net cash provided by financing activities | **118,102** | 40,895 |
| Net increase (decrease) in cash and cash equivalents | **156,108** | (17,299) |
| Cash and cash equivalents at beginning of the period | **117,572** | 128,170 |
| Cash and cash equivalents at end of the period | **$ 273,680** | $ 110,871 |
| **SUPPLEMENTAL DISCLOSURES** | | |
| Interest paid on deposits and other borrowings | **$ 46,524** | $ 29,857 |

| | | |
|---|---|---|
| Income taxes paid | **13,050** | 20,825 |
| Transfers of loans to other real estate owned | **393** | 506 |
| Transfers of loans to held for sale | **12,996** | |
| Non-cash transactions related to FTSB acquisition | **107,347** | |
| Non-cash transactions related to FFKT acquisition | **391,267** | |

See Notes to Consolidated Financial Statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of presentation** The accompanying unaudited interim financial statements of WesBanco, Inc. and its consolidated subsidiaries ( WesBanco ) have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017.

WesBanco s interim financial statements have been prepared following the significant accounting policies disclosed in Note 1 of the Notes to the Consolidated Financial Statements of its 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly WesBanco s financial position and results of operations for each of the interim periods presented. Certain prior period amounts have been reclassified to conform to the current period presentation. Such reclassifications had no impact on WesBanco s net income and stockholders equity. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year.

**Recent accounting pronouncements** In August 2018, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2018-15, Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. This ASU specifically aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal-use software license. The ASU does not affect the accounting for the service element of a hosting arrangement that is a service contract. The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. WesBanco is currently assessing the impact of ASU 2018-15 on WesBanco s Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-14, Compensation Retirement Benefits Defined Benefit Plans General (Topic 715-20): Disclosure Framework Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU modifies ASC 715-20 to improve disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The guidance is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. WesBanco is currently assessing the impact of ASU 2018-14 on WesBanco s Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure objective paragraphs of ASC 820 to eliminate (1) at a minimum from the phrase an entity shall disclose at a minimum and (2) other similar open ended disclosure requirements to promote the appropriate exercise of discretion of entities. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. WesBanco is currently assessing the impact of ASU 2018-13 on WesBanco s Consolidated Financial Statements.

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities. The new guidance will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. WesBanco is currently assessing the impact of ASU 2017-12 on WesBanco s Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-07 that changes how an employer presents the net periodic benefit cost in the income statement for an employer-sponsored defined benefit pension and/or other postretirement benefit plans. Employers will present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line items that includes the service cost outside of any subtotal of operating income, if one is presented. These components will not be eligible for capitalization in assets. For public business entities, the amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. Early adoption is permitted as of the beginning of an annual period (i.e., only in the first interim period). For WesBanco, this update was effective for the fiscal year beginning January 1, 2018. Upon adoption, WesBanco reclassified the service cost component from employee benefits to salaries and wages, which are both components of non-interest expense. The service cost component for the three and nine months ended September 30, 2018 was $0.7 and $2.1 million, respectively.

In January 2017, the FASB issued ASU 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, which for WesBanco was effective for the fiscal year beginning January 1, 2018. The adoption of this pronouncement did not have a material impact on WesBanco s Consolidated Financial Statements.

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

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

In September 2016, the FASB issued ASU 2016-13 that will require entities to use a new forward-looking expected loss model on trade and other receivables, held-to-maturity debt securities, loans and other instruments that generally will result in the earlier recognition of allowances for credit losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. Entities will have to disclose significantly more information, including information they use to track credit quality by year of origination for most financing receivables. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, which for WesBanco will be effective for the fiscal year beginning January 1, 2020. Early adoption is permitted for fiscal years beginning after December 15, 2018. WesBanco has completed an initial data gap assessment, is currently finalizing the loan segmentation procedures and evaluating the various forecasting and modeling assumptions that will be used to estimate the initial current expected credit loss allowance.

In February 2016, the FASB issued ASU 2016-02 that will require entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases were not previously recognized in the balance sheet. Public business entities must apply the new requirements for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. In January 2018, the FASB issued ASU 2018-01, which allows entities the option to apply the provisions of the new lease guidance at the effective date without adjusting the comparative periods presented. In July 2018, the FASB issued ASU 2018-10, which provides narrow-scope improvements to the lease standard. While we are currently assessing the impact of the adoption of this pronouncement, we expect the primary impact to our consolidated financial position upon adoption will be the recognition, on a discounted basis, of our minimum commitments under non-cancellable operating leases on our Consolidated Balance Sheets resulting in the recording of right of use assets and lease obligations, which are expected to total approximately $15 million to $20 million. The estimate could change based on new leases entered into or amended before January 1, 2019.

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

In May 2014, the FASB issued ASU 2014-09 related to the recognition of revenue from contracts with customers. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are, (1) identify the contract with the customer, (2) identify the separate performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the separate performance obligations and (5) recognize revenue when each performance obligation is satisfied. On July 9, 2015, the FASB approved a one-year deferral of the effective date of the update. The update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08, which amends the principle versus agent guidance in the revenue standard. In April 2016, the FASB issued ASU 2016-10, which clarifies when promised goods or services are separately identifiable in the revenue standard. In May 2016, FASB issued ASU 2016-12, which provides narrow-scope improvements and practical expedients to the revenue standard. WesBanco adopted these pronouncements as of January 1, 2018 using the modified retrospective approach. WesBanco noted no material change to the timing of revenue recognition and there was no material impact on WesBanco s Consolidated Financial Statements. See Note 9, Revenue Recognition for further discussion on revenue within the scope of ASC 606.

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## NOTE 2. MERGERS AND ACQUISITIONS

**First Sentry Bancshares, Inc. ( FTSB )**

On April 5, 2018, WesBanco completed its acquisition of FTSB, a bank holding company headquartered in Huntington, WV. On the acquisition date, FTSB had approximately $705.6 million in assets, excluding goodwill, which included approximately $448.1 million in loans and $142.9 million in securities. The FTSB acquisition was valued at $108.3 million, based on WesBanco s closing stock price on April 5, 2018, of $42.96, and resulted in WesBanco issuing 2,498,761 shares of its common stock and $1.0 million in cash in exchange for all of the outstanding shares of FTSB common stock including stock options. The assets and liabilities of FTSB were recorded on WesBanco s Balance Sheet at their preliminary estimated fair values as of April 5, 2018, the acquisition date, and FTSB s results of operations have been included in WesBanco s Consolidated Statements of Income since that date. The fair values for certain assets and liabilities acquired from FTSB on April 5, 2018 represent preliminary estimates. Based on a preliminary purchase price allocation, WesBanco recorded $66.8 million in goodwill and $8.1 million in core deposit intangibles in its Community Banking segment. None of the goodwill is deductible for income tax purposes, as the acquisition is accounted for as a tax-free exchange for tax purposes. As a result of the full integration of the operations of FTSB, it is not practicable to determine revenue or net income included in WesBanco s operating results relating to FTSB since the date of acquisition, as FTSB s results cannot be separately identified.

For the nine months ended September 30, 2018, WesBanco recorded merger-related expenses of $5.5 million associated with the FTSB acquisition.

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

| *(unaudited, in thousands)* | | **April 5, 2018** |
|---|---|---|
| Purchase Price: | | |
| Fair value of WesBanco shares issued | **$** | **107,347** |
| Cash consideration for outstanding FTSB shares | | **975** |
| Total purchase price | **$** | **108,322** |
| Fair value of: | | |
| Tangible assets acquired | **$** | **610,443** |
| Core deposit and other intangible assets acquired | | **8,078** |
| Liabilities assumed | | **(664,172)** |
| Net cash received in the acquisition | | **87,124** |
| Fair value of net assets acquired | | **41,473** |
| Goodwill recognized | **$** | **66,849** |

The following table presents the preliminary allocation of the purchase price of the assets acquired and the liabilities assumed at the date of acquisition, as WesBanco intends to finalize its accounting for the acquisition of FTSB within one year from the date of acquisition:

| *(unaudited, in thousands)* | | **April 5, 2018** |
|---|---|---|
| Assets acquired | | |
| Cash and due from banks | **$** | **87,124** |
| Securities | | **142,903** |
| Loans | | **448,075** |
| Goodwill and other intangible assets | | **74,927** |
| Accrued income and other assets | | **19,465** |
| Total assets acquired | **$** | **772,494** |
| Liabilities assumed | | |
| Deposits | **$** | **590,065** |
| Borrowings | | **70,710** |
| Accrued expenses and other liabilities | | **3,397** |
| Total liabilities assumed | **$** | **664,172** |
| Net assets acquired | **$** | **108,322** |

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The following table presents the changes in the allocation of the purchase price of the assets acquired and the liabilities assumed at the date of the acquisition previously reported as of June 30, 2018:

| *(unaudited, in thousands)* | April 5, 2018 |
|---|---|
| Goodwill recognized as of June 30, 2018 | $ 66,219 |
| Change in fair value of net assets acquired: | |
| Assets | |
| Loans | (264) |
| Other intangible assets | (159) |
| Accrued income and other assets | (6) |
| Liabilities | |
| Deposits | (47) |
| Accrued expenses and other liabilities | (154) |
| Fair value of net assets acquired | $ (630) |
| Increase in goodwill recognized | 630 |
| Goodwill recognized as of September 30, 2018 | $ 66,849 |

The fair value estimates for loans, deferred taxes and other liabilities have continued to fluctuate as the final valuations and/or appraisals are completed. The Company expects to finalize the purchase price accounts of FTSB within one year of the date of acquisition.

**Farmers Capital Bank Corporation ( FFKT )**

On August 20, 2018, WesBanco completed its acquisition of FFKT, a bank holding company headquartered in Frankfort, KY. On the acquisition date, FFKT had approximately $1.6 billion in assets, excluding goodwill, which included approximately $1.0 billion in loans and $239.3 million in securities. The FFKT acquisition was valued at $428.9 million, based on WesBanco s closing stock price on August 20, 2018, of $49.40, and resulted in WesBanco issuing 7,920,387 shares of its common stock and $37.6 million in cash in exchange for all of the outstanding shares of FFKT common stock. The assets and liabilities of FFKT were recorded on WesBanco s Balance Sheet at their preliminary estimated fair values as of August 20, 2018, the acquisition date, and FFKT s results of operations have been included in WesBanco s Consolidated Statements of Income since that date. Due to the timing of the acquisition relative to the end of the reporting period, the fair values for certain assets and liabilities acquired from FFKT on August 20, 2018 represent preliminary estimates. Based on a preliminary purchase price allocation, WesBanco recorded $225.1 million in goodwill and $39.7 million in core deposit intangibles in its community banking segment and $2.9 million in trust customer relationship intangibles in its trust and investment services segment. None of the goodwill is deductible for income tax purposes, as the acquisition is accounted for as a tax-free exchange for tax purposes. As a result of the full integration of the operations of FFKT, it is not practicable to determine revenue or net income included in WesBanco s operating results relating to FFKT since the date of acquisition, as FFKT s results cannot be separately identified.

For the nine months ended September 30, 2018, WesBanco recorded merger-related expenses of $11.0 million associated with the FFKT acquisition.

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

| ***(unaudited, in thousands)*** | | **August 20, 2018** |
|---|---|---|
| Purchase Price: | | |
| Fair value of WesBanco shares issued | **$** | **391,267** |
| Cash consideration for outstanding FFKT shares | | **37,634** |
| Total purchase price | **$** | **428,901** |
| Fair value of: | | |
| Tangible assets acquired | **$** | **1,360,951** |
| Core deposit and other intangible assets acquired | | **42,593** |
| Liabilities assumed | | **(1,429,874)** |
| Net cash received in the acquisition | | **230,139** |
| Fair value of net assets acquired | | **203,809** |
| Goodwill recognized | **$** | **225,092** |

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The following table presents the preliminary allocation of the purchase price of the assets acquired and the liabilities assumed at the date of acquisition, as WesBanco intends to finalize its accounting for the acquisition of FFKT within one year from the date of acquisition:

| *(unaudited, in thousands)* | | **August 20, 2018** |
|---|---|---|
| Assets acquired | | |
| Cash and due from banks | **$** | **230,139** |
| Securities | | **239,321** |
| Loans | | **1,028,120** |
| Goodwill and other intangible assets | | **267,685** |
| Accrued income and other assets | | **93,510** |
| Total assets acquired | **$** | **1,858,775** |
| Liabilities assumed | | |
| Deposits | **$** | **1,330,328** |
| Borrowings | | **71,780** |
| Accrued expenses and other liabilities | | **27,766** |
| Total liabilities assumed | **$** | **1,429,874** |
| Net assets acquired | **$** | **428,901** |

**NOTE 3. EARNINGS PER COMMON SHARE**

Earnings per common share are calculated as follows:

| *(unaudited, in thousands, except shares and per share amounts)* | **For the Three Months Ended September 30,** | | | | **For the Nine Months Ended September 30,** | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2018** | | **2017** | | **2018** | | **2017** |
| Numerator for both basic and diluted earnings per common share: | | | | | | | | |
| Net income | **$** | **32,486** | $ | 26,356 | **$** | **99,184** | $ | 78,584 |
| Denominator: | | | | | | | | |
| Total average basic common shares outstanding | | **50,277,847** | | 44,031,813 | | **46,965,095** | | 43,992,017 |
| Effect of dilutive stock options and other stock compensation | | **154,265** | | 55,068 | | **142,734** | | 67,452 |
| Total diluted average common shares outstanding | | **50,432,112** | | 44,086,881 | | **47,107,829** | | 44,059,469 |
| Earnings per common share basic | **$** | **0.65** | $ | 0.60 | **$** | **2.11** | $ | 1.79 |
| Earnings per common share diluted | **$** | **0.64** | $ | 0.60 | **$** | **2.11** | $ | 1.78 |

All options to purchase shares were included in the computation of net income per diluted share for the three months ended September 30, 2018 while 117,550 shares were not included in the computation of net income per diluted share for the three months ended September 30, 2017 because the exercise price was greater than the average market price of the common shares and, therefore, the effect would be antidilutive. Options to purchase 117,600 shares at September 30, 2018 were not included in the computation of net income per diluted share for the nine months ended September 30, 2018 because the exercise price was greater than the average market price of the common shares, and therefore, the effect would be antidilutive. All stock options were included in the computation of net income per diluted share for the nine months ended September 30, 2017.

As of September 30, 2018, contingently issuable shares totaling 45,840, were estimated to be awarded under the 2018 and 2017 total shareholder return plans as stock performance targets have been met to date and are included in the diluted calculation. As of September 30, 2018, the shares related to the 2016 total shareholder return plan were not included in the calculation because the effect would be antidilutive. Performance-based restricted stock compensation totaling 17,081 shares were estimated to be awarded as of September 30, 2018 and are included in the diluted calculation for both the three months and nine months ended September 30, 2018. As of September 30, 2017, the shares related to the 2017 and 2016 total shareholder return plan were not included in the calculation because the effect would be antidilutive. Performance-based restricted stock compensation totaling 4,502 shares were estimated to be awarded as of September 30, 2017, and are included in the diluted calculation for both the three months and nine months ended September 30, 2017.

On April 5, 2018, WesBanco issued 2,498,761 shares of common stock to complete its acquisition of FTSB and granted 9,465 shares of restricted stock to certain FTSB employees. These shares are included in average shares outstanding beginning on that date. For additional information relating to the FTSB acquisition, refer to Note 2, Mergers and Acquisitions.

On August 20, 2018, WesBanco issued 7,920,387 shares of common stock, 6,690 of which were treasury stock, to complete its acquisition of FFKT and granted 18,685 shares of restricted stock to certain FFKT employees. These shares are included in average shares outstanding beginning on that date. For additional information relating to the FFKT acquisition, refer to Note 2, Mergers and Acquisitions.

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**NOTE 4. SECURITIES**

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

| *(unaudited, in thousands)* | September 30, 2018 Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value | December 31, 2017 Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|---|---|---|---|
| Available-for-sale debt securities | | | | | | | | |
| U.S. Treasury | **$ 9,952** | **$** | **$ (15)** | **$ 9,937** | $ | $ | $ | $ |
| U.S. Government sponsored entities and agencies | **154,054** | **17** | **(4,122)** | **149,949** | 72,425 | 24 | (606) | 71,843 |
| Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies | **1,500,563** | **44** | **(50,853)** | **1,449,754** | 954,115 | 214 | (19,407) | 934,922 |
| Commerical mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies | **174,331** | **15** | **(5,585)** | **168,761** | 116,448 | 4 | (1,585) | 114,867 |
| Obligations of states and political subdivisions | **187,501** | **1,445** | **(2,295)** | **186,651** | 102,363 | 2,927 | (460) | 104,830 |
| Corporate debt securities | **43,259** | **160** | **(239)** | **43,180** | 35,234 | 228 | (59) | 35,403 |
| Total available-for-sale debt securities | **$ 2,069,660** | **$ 1,681** | **$ (63,109)** | **$ 2,008,232** | $ 1,280,585 | $ 3,397 | $ (22,117) | $ 1,261,865 |
| Held-to-maturity debt securities | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| U.S. Government sponsored entities and agencies | **$ 11,699** | **$** | **$ (615)** | **$ 11,084** | $ 11,465 | $ | $ (325) | $ 11,140 |
| Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies | **154,018** | **103** | **(6,788)** | **147,333** | 170,025 | 544 | (2,609) | 167,960 |
| Obligations of states and political subdivisions | **826,514** | **6,434** | **(9,743)** | **823,205** | 794,655 | 17,364 | (1,609) | 810,410 |
| Corporate debt securities | **33,307** | **5** | **(573)** | **32,739** | 33,355 | 919 | | 34,274 |
| Total held-to-maturity debt securities | **$ 1,025,538** | **$ 6,542** | **$ (17,719)** | **$ 1,014,361** | $ 1,009,500 | $ 18,827 | $ (4,543) | $ 1,023,784 |
| Total debt securities | **$ 3,095,198** | **$ 8,223** | **$ (80,828)** | **$ 3,022,593** | $ 2,290,085 | $ 22,224 | $ (26,660) | $ 2,285,649 |

At September 30, 2018, and December 31, 2017, there were no holdings of any one issuer, other than U.S. government sponsored entities and its agencies, in an amount greater than 10% of WesBanco s shareholders equity.

Equity securities, of which $8.5 million consist of investments in various mutual funds held in grantor trusts formed in connection with the Company s deferred compensation plan, are recorded at fair value and totaled $12.8 million and $13.5 million at September 30, 2018 and December 31, 2017, respectively.

The following table presents the fair value of available-for-sale and held-to-maturity debt securities by contractual maturity at September 30, 2018. In some instances, the issuers may have the right to call or prepay obligations without penalty prior to the contractual maturity date.

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| (unaudited, in thousands) | One Year or less | One to Five Years | Five to Ten Years | After Ten Years | Mortgage-backed securities | Total |
|---|---|---|---|---|---|---|
| | | | September 30, 2018 | | | |
| Available-for-sale debt securities | | | | | | |
| U.S. Treasury | $ 9,937 | $ | $ | $ | $ | $ 9,937 |
| U.S. Government sponsored entities and agencies | 10,479 | 6,260 | 17,881 | 15,298 | 100,031 | 149,949 |
| Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies (1) | | | | | 1,449,754 | 1,449,754 |
| Commercial mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies (1) | | | | | 168,761 | 168,761 |
| Obligations of states and political subdivisions | 9,288 | 48,959 | 76,972 | 51,432 | | 186,651 |
| Corporate debt securities | 8,014 | 33,251 | 1,915 | | | 43,180 |
| Total available-for-sale debt securities | $ 37,718 | $ 88,470 | $ 96,768 | $ 66,730 | $ 1,718,546 | $ 2,008,232 |
| Held-to-maturity debt securities (2) | | | | | | |
| U.S. Government sponsored entities and agencies | $ | $ | $ | $ | $ 11,084 | $ 11,084 |
| Residential mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies (1) | | | | | 147,333 | 147,333 |
| Obligations of states and political subdivisions | 6,149 | 138,709 | 387,775 | 290,572 | | 823,205 |
| Corporate debt securities | | 7,449 | 25,290 | | | 32,739 |
| Total held-to-maturity debt securities | $ 6,149 | $ 146,158 | $ 413,065 | $ 290,572 | $ 158,417 | $ 1,014,361 |
| Total debt securities | $ 43,867 | $ 234,628 | $ 509,833 | $ 357,302 | $ 1,876,963 | $ 3,022,593 |

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

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

Securities with aggregate fair values of $1.9 billion and $1.4 billion at September 30, 2018 and December 31, 2017, 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 $82.1 million and $7.8 million for the nine months ended September 30, 2018 and 2017, respectively. Net unrealized losses on available-for-sale securities included in accumulated other comprehensive income net of tax, as of September 30, 2018 and December 31, 2017 were

$47.3 million and $13.3 million, respectively.

The following table presents the gross realized gains and losses on sales and calls of available-for-sale and held-to-maturity debt securities, as well as gains and losses on equity securities for the three and nine months ended September 30, 2018 and 2017, respectively.

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| ***(unaudited, in thousands)*** | **2018** | **2017** | **2018** | **2017** |
| Debt securities: | | | | |
| Gross realized gains | **$ 88** | $ 29 | **$ 100** | $ 603 |
| Gross realized losses | **(13)** | (23) | **(31)** | (92) |
| Net gains on debt securities | **$ 75** | $ 6 | **$ 69** | $ 511 |
| Equity securities: | | | | |
| Unrealized gains recognized on securities still held | **$ 11** | $ | **$ 330** | $ |
| Net realized (losses) gains recognized on securities sold | **(2)** | | **4** | |
| Net gains on equity securities | **$ 9** | $ | **$ 334** | $ |
| Net securities gains | **$ 84** | $ 6 | **$ 403** | $ 511 |

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The following tables provide information on unrealized losses on debt securities that have been in an unrealized loss position for less than twelve months and twelve months or more as of September 30, 2018 and December 31, 2017:

| | September 30, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Less than 12 months | | | 12 months or more | | | Total | | |
| *unaudited, dollars in thousands)* | Fair Value | Unrealized Losses | # of Securities | Fair Value | Unrealized Losses | # of Securities | Fair Value | Unrealized Losses | # of Securiti |
| J.S. Treasury | $ 9,937 | $ (15) | 1 | $ | $ | | $ 9,937 | $ (15) | 1 |
| J.S. Government sponsored ntities and agencies | 93,881 | (2,264) | 38 | 60,410 | (2,473) | 11 | 154,291 | (4,737) | 49 |
| Residential mortgage-backed ecurities and collateralized nortgage obligations of overnment sponsored entities nd agencies | 759,415 | (13,670) | 188 | 822,774 | (43,971) | 260 | 1,582,189 | (57,641) | 448 |
| Commercial mortgage-backed ecurities and collateralized nortgage obligations of overnment sponsored entities nd agencies | 79,056 | (1,239) | 15 | 86,703 | (4,346) | 11 | 165,759 | (5,585) | 26 |
| Obligations of states and political ubdivisions | 493,252 | (7,866) | 855 | 120,843 | (4,172) | 236 | 614,095 | (12,038) | 1091 |
| Corporate debt securities | 42,816 | (738) | 17 | 1,915 | (74) | 1 | 44,731 | (812) | 18 |
| Total temporarily impaired ecurities | $ 1,478,357 | $ (25,792) | 1,114 | $ 1,092,645 | $ (55,036) | 519 | $ 2,571,002 | $ (80,828) | 1,633 |

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

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

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

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

Securities that do not have readily determinable fair values and for which WesBanco does not exercise significant influence are carried at cost. Cost method investments consist primarily of FHLB of Pittsburgh, Cincinnati and Indianapolis stock totaling $53.8 million and $45.9 million at September 30, 2018 and December 31, 2017, respectively, and are included in other assets in the Consolidated Balance Sheets. Cost method investments are evaluated for impairment whenever events or circumstances suggest that their carrying value may not be recoverable.

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## NOTE 5. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

The recorded investment in loans is presented in the Consolidated Balance Sheets net of deferred loan fees and costs, and discounts on purchased loans. The net deferred loan costs were $2.8 million and $1.6 million at September 30, 2018 and December 31, 2017, respectively. The unamortized discount on purchased portfolio loans from acquisitions was $54.3 million, including $6.7 million related to FTSB and $25.9 million related to FFKT, and $21.9 million at September 30, 2018 and December 31, 2017, respectively.

| *(unaudited, in thousands)* | **September 30, 2018** | **December 31, 2017** |
|---|---|---|
| Commercial real estate: | | |
| Land and construction | **$ 538,922** | $ 392,597 |
| Improved property | **3,367,299** | 2,601,851 |
| Total commercial real estate | **3,906,221** | 2,994,448 |
| Commercial and industrial | **1,292,073** | 1,125,327 |
| Residential real estate | **1,598,477** | 1,353,301 |
| Home equity | **604,106** | 529,196 |
| Consumer | **325,546** | 339,169 |
| Total portfolio loans | **7,726,423** | 6,341,441 |
| Loans held for sale | **55,913** | 20,320 |
| Total loans | **$ 7,782,336** | $ 6,361,761 |

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

**Allowance for Credit Losses By Category**
**For the Nine Months Ended September 30, 2018 and 2017**

| *(unaudited, in thousands)* | **Commercial Real Estate - Land and Construction** | **Commercial Real Estate - Improved Property** | **Commercial & Industrial** | **Residential Real Estate** | **Home Equity** | **Consumer** | **Deposit Overdraft** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2017: | | | | | | | | |
| Allowance for loan losses | **$ 3,117** | **$ 21,166** | **$ 9,414** | **$ 3,206** | **$ 4,497** | **$ 3,063** | **$ 821** | **$ 45,284** |
| Allowance for loan commitments | **119** | **26** | **173** | **7** | **212** | **37** | | **574** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Total beginning allowance for credit losses** | **3,236** | **21,192** | **9,587** | **3,213** | **4,709** | **3,100** | **821** | **45,858** |
| Provision for credit losses: | | | | | | | | |
| Provision for loan losses | **789** | **(721)** | **2,538** | **1,106** | **(292)** | **541** | **840** | **4,801** |
| Provision for loan commitments | **67** | **(3)** | **32** | **2** | **9** | **3** | | **110** |
| Total provision for credit losses | **856** | **(724)** | **2,570** | **1,108** | **(283)** | **544** | **840** | **4,911** |
| Charge-offs | **(137)** | **(719)** | **(871)** | **(873)** | **(745)** | **(2,465)** | **(941)** | **(6,751)** |
| Recoveries | **400** | **1,098** | **970** | **336** | **830** | **1,657** | **277** | **5,568** |
| Net charge-offs | **263** | **379** | **99** | **(537)** | **85** | **(808)** | **(664)** | **(1,183)** |
| Balance at September 30, 2018: | | | | | | | | |
| Allowance for loan losses | **4,169** | **20,824** | **12,051** | **3,775** | **4,290** | **2,796** | **997** | **48,902** |
| Allowance for loan commitments | **186** | **23** | **205** | **9** | **221** | **40** | | **684** |
| Total ending allowance for credit losses | **$ 4,355** | **$ 20,847** | **$ 12,256** | **$ 3,784** | **$ 4,511** | **$ 2,836** | **$ 997** | **$ 49,586** |
| Balance at December 31, 2016: | | | | | | | | |
| Allowance for loan losses | $ 4,348 | $ 18,628 | $ 8,412 | $ 4,106 | $ 3,422 | $ 3,998 | $ 760 | $ 43,674 |
| Allowance for loan commitments | 151 | 17 | 188 | 9 | 162 | 44 | | 571 |
| Total beginning allowance for credit losses | 4,499 | 18,645 | 8,600 | 4,115 | 3,584 | 4,042 | 760 | 44,245 |
| Provision for credit losses: | | | | | | | | |
| Provision for loan losses | 415 | 1,619 | 2,842 | (203) | 1,259 | 922 | 680 | 7,534 |
| Provision for loan commitments | (18) | 4 | 45 | | 49 | (4) | | 76 |
| Total provision for credit losses | 397 | 1,623 | 2,887 | (203) | 1,308 | 918 | 680 | 7,610 |
| Charge-offs | | (1,752) | (2,255) | (797) | (372) | (2,877) | (947) | (9,000) |
| Recoveries | 89 | 492 | 649 | 266 | 180 | 1,336 | 267 | 3,279 |
| Net charge-offs | 89 | (1,260) | (1,606) | (531) | (192) | (1,541) | (680) | (5,721) |
| Balance at September 30, 2017: | | | | | | | | |
| Allowance for loan losses | 4,852 | 18,987 | 9,648 | 3,372 | 4,489 | 3,379 | 760 | 45,487 |
| | 133 | 21 | 233 | 9 | 211 | 40 | | 647 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Allowance for loan commitments | | | | | | | | |
| Total ending allowance for credit losses | $ 4,985 | $ 19,008 | $ 9,881 | $ 3,381 | $ 4,700 | $ 3,419 | $ 760 | $ 46,134 |

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

| | Allowance for Credit Losses and Recorded Investment in Loans | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(unaudited, in thousands)* | Commercial Real Estate- Land and Construction | Commercial Real Estate- Improved Property | Commercial and Industrial | Residential Real Estate | Home Equity | Consumer | Deposit Over- draft | Total |
| **September 30, 2018** | | | | | | | | |
| Allowance for credit losses: | | | | | | | | |
| Allowance for loans individually evaluated for impairment | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Allowance for loans collectively evaluated for impairment | **4,169** | **20,824** | **12,051** | **3,775** | **4,290** | **2,796** | **997** | **48,902** |
| Allowance for loan commitments | **186** | **23** | **205** | **9** | **221** | **40** | | **684** |
| Total allowance for credit losses | **$ 4,355** | **$ 20,847** | **$ 12,256** | **$ 3,784** | **$ 4,511** | **$ 2,836** | **$ 997** | **$ 49,586** |
| Portfolio loans: | | | | | | | | |
| Individually evaluated for impairment [(1)] | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Collectively evaluated for impairment | **537,699** | **3,361,315** | **1,291,296** | **1,595,547** | **604,106** | **325,419** | | **7,715,382** |
| Acquired with deteriorated credit quality | **1,223** | **5,984** | **777** | **2,930** | | **127** | | **11,041** |
| Total portfolio loans | **$ 538,922** | **$ 3,367,299** | **$ 1,292,073** | **$ 1,598,477** | **$ 604,106** | **$ 325,546** | **$** | **$ 7,726,423** |
| **December 31, 2017** | | | | | | | | |
| Allowance for credit losses: | | | | | | | | |
| Allowance for loans individually evaluated for impairment | $ | $ 388 | $ | $ | $ | $ | $ | $ 388 |
| Allowance for loans collectively evaluated for impairment | 3,117 | 20,778 | 9,414 | 3,206 | 4,497 | 3,063 | 821 | 44,896 |
| Allowance for loan commitments | 119 | 26 | 173 | 7 | 212 | 37 | | 574 |

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

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

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

Commercial real estate land and construction consists of loans to finance investments in vacant land, land development, construction of residential housing, and construction of commercial buildings. Commercial real estate improved property consists of loans for the purchase or refinance of all types of improved owner-occupied and investment properties. Factors that are considered in assigning the risk grade vary depending on the type of property financed. The risk grade assigned to construction and development loans is based on the overall viability of the project, the experience and financial capacity of the developer or builder to successfully complete the project, project specific and market absorption rates and comparable property values, and the amount of pre-sales for residential housing construction or pre-leases for commercial investment property. The risk grade assigned to commercial investment property loans is based primarily on the adequacy of net rental income generated by the property to service the debt, the type, quality, industry and mix of tenants, and the terms of leases, but also considers the overall financial capacity of the investors and their experience in owning and managing investment property. The risk grade assigned to owner-occupied commercial real estate and commercial and industrial loans is based primarily on historical and projected earnings, the adequacy of operating cash flow to service all of the business debt, and the capital resources, liquidity and leverage of the business, but also considers the industry in which the business operates, the business specific competitive advantages or disadvantages, the quality and experience of management, and external influences on the business such as economic conditions.

Commercial and industrial loans consist of revolving lines of credit to finance accounts receivable, inventory and other general business purposes; term loans to finance fixed assets other than real estate, and letters of credit to support trade, insurance or governmental requirements for a variety of businesses. Most C&I borrowers are privately-held companies with annual sales up to $100 million. Factors that are considered for commercial and industrial loans include the type, quality and marketability of non-real estate collateral and whether the structure of the loan increases or reduces its risk. The type, age, condition, location and any environmental risks associated with a property are also considered for all types of commercial real estate. The overall financial condition and repayment capacity of any guarantors is also evaluated to determine the extent to which they mitigate other risks of the loan. The following paragraphs provide descriptions of risk grades that are applicable to commercial real estate and commercial and industrial loans.

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

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

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

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

| | **Commercial Loans by Internally Assigned Risk Grade** | | | |
|---|---|---|---|---|
| ***(unaudited, in thousands)*** | **Commercial Real Estate-Land and Construction** | **Commercial Real Estate-Improved Property** | **Commercial & Industrial** | **Total Commercial Loans** |
| **As of September 30, 2018** | | | | |
| Pass | **$ 533,982** | **$ 3,314,324** | **$ 1,272,181** | **$ 5,120,487** |
| Criticized compromised | **2,909** | **31,399** | **12,062** | **46,370** |
| Classified substandard | **2,031** | **21,576** | **7,830** | **31,437** |
| Classified doubtful | | | | |
| Total | **$ 538,922** | **$ 3,367,299** | **$ 1,292,073** | **$ 5,198,294** |
| **As of December 31, 2017** | | | | |
| Pass | $ 386,753 | $ 2,548,805 | $ 1,110,267 | $ 4,045,825 |
| Criticized compromised | 2,984 | 25,673 | 7,435 | 36,092 |
| Classified substandard | 2,860 | 27,373 | 7,625 | 37,858 |
| Classified doubtful | | | | |
| Total | $ 392,597 | $ 2,601,851 | $ 1,125,327 | $ 4,119,775 |

Residential real estate, home equity and consumer loans are not assigned internal risk grades other than as required by regulatory guidelines that are based primarily on the age of past due loans. WesBanco primarily evaluates the credit quality of residential real estate, home equity and consumer loans based on repayment performance and historical loss rates. The aggregate amount of residential real estate, home equity and consumer loans classified as substandard in accordance with regulatory guidelines was $20.6 million at September 30, 2018 and $22.8 million at December 31, 2017, of which $2.2 million and $2.5 million were accruing, for each period, respectively. The aggregate amount of residential real estate, home equity and consumer loans classified as substandard are not included in the tables above.

**Acquired FFKT Loans** In conjunction with the FFKT acquisition, WesBanco acquired loans with a book value of $1,064.8 million as of August 20, 2018. These loans were recorded at the preliminary fair value of $1,028.1 million, with $1,016.9 million categorized as ASC 310-20 loans. The fair market value adjustment on these loans of $26.4 million at the acquisition date is expected to be recognized into interest income on a level yield basis over the remaining expected life of the loans.

Loans acquired with deteriorated credit quality with a book value of $2.7 million were recorded at the preliminary fair value of $2.4 million, of which all were accounted for under the cost recovery method in accordance with ASC 310-30 as cash flows cannot be reasonably estimated, and categorized as non-accrual.

The carrying amount of loans acquired with deteriorated credit quality at September 30, 2018 was $2.1 million, while the outstanding customer balance was $2.4 million. At September 30, 2018 no allowance for loan losses has been recognized related to the acquired impaired loans.

Certain acquired underperforming loans with a book value of $45.2 million were transferred to loans held for sale prior to September 30, 2018 at the preliminary fair value of $35.2 million.

**Acquired FTSB Loans** In conjunction with the FTSB acquisition, WesBanco acquired loans with a book value of $465.9 million as of April 5, 2018. These loans were recorded at the preliminary fair value of $448.1 million, with $440.1 million categorized as ASC 310-20 loans. The fair market value adjustment on these loans of $9.7 million at acquisition date is expected to be recognized into interest income on a level yield basis over the remaining expected life of the loans.

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Loans acquired with deteriorated credit quality with a book value of $4.1 million were recorded at the preliminary fair value of $2.0 million, of which $0.7 million were accounted for under the cost recovery method in accordance with ASC 310-30 as cash flows cannot be reasonably estimated, and categorized as non-accrual.

The carrying amount of loans acquired with deteriorated credit quality at September 30, 2018 was $1.7 million, while the outstanding customer balance was $3.8 million. At September 30, 2018, no allowance for loan losses has been recognized related to the acquired impaired loans.

Certain acquired underperforming loans with a book value of $4.0 million were transferred to loans held for sale prior to September 30, 2018 at the preliminary fair value of $2.8 million.

Certain acquired underperforming loans with a book value of $17.7 million were sold in the second quarter of 2018 for $12.9 million. The acquisition date fair value of the acquired loans was adjusted to the sale price resulting in no gain or loss.

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

| | For the Nine Months Ended | |
|---|---|---|
| ***(unaudited, in thousands)*** | **September 30, 2018** | **September 30, 2017** |
| Balance at beginning of period | **$ 1,724** | $ 1,717 |
| Acquisitions | **695** | |
| Reduction due to change in projected cash flows | **(86)** | |
| Reclass from non-accretable difference | **6,287** | 1,490 |
| Transfers out | | (216) |
| Accretion | **(902)** | (1,384) |
| Balance at end of period | **$ 7,718** | $ 1,607 |

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

| | Age Analysis of Loans | | | | | | |
|---|---|---|---|---|---|---|---|
| *(unaudited, in thousands)* | Current | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total Past Due | Total Loans | 90 Days or More Past Due and Accruing (1) |
| **As of September 30, 2018** | | | | | | | |
| Commercial real estate: | | | | | | | |
| Land and construction | **$ 538,181** | **$ 643** | **$ 98** | **$** | **$ 741** | **$ 538,922** | **$** |
| Improved property | **3,357,883** | **1,657** | **352** | **7,407** | **9,416** | **3,367,299** | **88** |
| Total commercial real estate | **3,896,064** | **2,300** | **450** | **7,407** | **10,157** | **3,906,221** | **88** |
| Commercial and industrial | **1,287,693** | **776** | **462** | **3,142** | **4,380** | **1,292,073** | **114** |
| Residential real estate | **1,579,164** | **8,100** | **2,708** | **8,505** | **19,313** | **1,598,477** | **1,225** |
| Home equity | **596,477** | **2,871** | **1,002** | **3,756** | **7,629** | **604,106** | **646** |
| Consumer | **322,093** | **2,291** | **605** | **557** | **3,453** | **325,546** | **378** |
| Total portfolio loans | **7,681,491** | **16,338** | **5,227** | **23,367** | **44,932** | **7,726,423** | **2,451** |
| Loans held for sale | **55,913** | | | | | **55,913** | |
| Total loans | **$ 7,737,404** | **$ 16,338** | **$ 5,227** | **$ 23,367** | **$ 44,932** | **$ 7,782,336** | **$ 2,451** |
| Impaired loans included above are as follows: | | | | | | | |
| Non-accrual loans | **$ 7,480** | **$ 1,653** | **$ 1,225** | **$ 20,916** | **$ 23,794** | **$ 31,274** | |
| TDRs accruing interest (1) | **5,667** | **314** | **357** | | **671** | **6,338** | |
| Total impaired | **$ 13,147** | **$ 1,967** | **$ 1,582** | **$ 20,916** | **$ 24,465** | **$ 37,612** | |
| **As of December 31, 2017** | | | | | | | |
| Commercial real estate: | | | | | | | |
| Land and construction | $ 392,189 | $ | $ 172 | $ 236 | $ 408 | $ 392,597 | $ |
| Improved property | 2,589,704 | 374 | 1,200 | 10,573 | 12,147 | 2,601,851 | 243 |
| Total commercial real estate | 2,981,893 | 374 | 1,372 | 10,809 | 12,555 | 2,994,448 | 243 |
| Commercial and industrial | 1,121,957 | 572 | 196 | 2,602 | 3,370 | 1,125,327 | 20 |
| Residential real estate | 1,338,240 | 4,487 | 2,376 | 8,198 | 15,061 | 1,353,301 | 1,113 |
| Home equity | 522,584 | 2,135 | 683 | 3,794 | 6,612 | 529,196 | 742 |
| Consumer | 334,723 | 2,466 | 842 | 1,138 | 4,446 | 339,169 | 608 |
| Total portfolio loans | 6,299,397 | 10,034 | 5,469 | 26,541 | 42,044 | 6,341,441 | 2,726 |
| Loans held for sale | 20,320 | | | | | 20,320 | |
| Total loans | $ 6,319,717 | $ 10,034 | $ 5,469 | $ 26,541 | $ 42,044 | $ 6,361,761 | $ 2,726 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Impaired loans included above are as follows: | | | | | | |
| Non-accrual loans | $ 9,195 | $ 1,782 | $ 2,033 | $ 23,815 | $ 27,630 | $ 36,825 |
| TDRs accruing interest [1] | 6,055 | 348 | 168 | | 516 | 6,571 |
| Total impaired | $ 15,250 | $ 2,130 | $ 2,201 | $ 23,815 | $ 28,146 | $ 43,396 |

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

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The following tables summarize impaired loans:

| | Impaired Loans | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2018 | | | December 31, 2017 | | |
| *(unaudited, in thousands)* | Unpaid Principal Balance (1) | Recorded Investment | Related Allowance | Unpaid Principal Balance (1) | Recorded Investment | Related Allowance |
| **With no related specific allowance recorded:** | | | | | | |
| Commercial real estate: | | | | | | |
| Land and construction | **$** | **$** | **$** | $ 412 | $ 239 | $ |
| Improved property | **14,639** | **9,928** | | 18,229 | 12,863 | |
| Commercial and industrial | **3,886** | **3,327** | | 3,745 | 3,086 | |
| Residential real estate | **21,226** | **18,944** | | 20,821 | 18,982 | |
| Home equity | **5,550** | **4,728** | | 5,833 | 5,169 | |
| Consumer | **857** | **685** | | 1,084 | 952 | |
| Total impaired loans without a specific allowance | **46,158** | **37,612** | | 50,124 | 41,291 | |
| **With a specific allowance recorded:** | | | | | | |
| Commercial real estate: | | | | | | |
| Land and construction | | | | | | |
| Improved property | | | | 2,105 | 2,105 | 388 |
| Commercial and industrial | | | | | | |
| Total impaired loans with a specific allowance | | | | 2,105 | 2,105 | 388 |
| Total impaired loans | **$ 46,158** | **$ 37,612** | **$** | $ 52,229 | $ 43,396 | $ 388 |

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

| | Impaired Loans | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | For the Three Months Ended | | | | For the Nine Months Ended | | | |
| | September 30, 2018 | | September 30, 2017 | | September 30, 2018 | | September 30, 2017 | |
| *(unaudited, in thousands)* | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| **With no related specific allowance recorded:** | | | | | | | | |
| Commercial real estate: | | | | | | | | |
| Land and construction | **$** | **$** | $ 444 | $ | **$ 260** | **$** | $ 516 | $ |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Improved Property | **10,409** | **15** | 10,923 | 31 | **11,000** | **383** | 10,271 | 400 |
| Commercial and industrial | **3,181** | **5** | 3,588 | 2 | **2,985** | **9** | 3,700 | 6 |
| Residential real estate | **18,336** | **68** | 17,039 | 57 | **18,207** | **195** | 17,743 | 192 |
| Home equity | **4,924** | **8** | 4,727 | 4 | **4,997** | **19** | 4,456 | 14 |
| Consumer | **692** | **3** | 731 | 2 | **776** | **8** | 746 | 5 |
| Total impaired loans without a specific allowance | **37,542** | **99** | 37,452 | 96 | **38,225** | **614** | 37,432 | 617 |
| **With a specific allowance recorded:** | | | | | | | | |
| Commercial real estate: | | | | | | | | |
| Land and construction | | | | | | | | |
| Improved Property | | | 5,137 | | **1,052** | | 5,032 | |
| Commercial and industrial | | | | | | | 318 | |
| Total impaired loans with a specific allowance | | | 5,137 | | **1,052** | | 5,350 | |
| Total impaired loans | **$ 37,542** | **$ 99** | $ 42,589 | $ 96 | **$ 39,277** | **$ 614** | $ 42,782 | $ 617 |

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

| *(unaudited, in thousands)* | Non-accrual Loans (1) September 30, 2018 | December 31, 2017 |
|---|---|---|
| Commercial real estate: | | |
| Land and construction | **$** | $ 239 |
| Improved property | **8,757** | 13,318 |
| Total commercial real estate | **8,757** | 13,557 |
| Commercial and industrial | **3,165** | 2,958 |
| Residential real estate | **14,475** | 14,661 |
| Home equity | **4,283** | 4,762 |
| Consumer | **594** | 887 |
| Total | **$ 31,274** | $ 36,825 |

(1) At September 30, 2018, there was one borrower with a loan greater than $1.0 million totaling $3.4 million, as compared to three borrowers with loans greater than $1.0 million totaling $6.8 million at December 31, 2017. Total non-accrual loans include loans that are also restructured. Such loans are also set forth in the following table as non-accrual TDRs.

| | TDRs | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2018 | | | December 31, 2017 | | |
| *(unaudited, in thousands)* | Accruing | Non-Accrual | Total | Accruing | Non-Accrual | Total |
| Commercial real estate: | | | | | | |
| Land and construction | **$** | **$** | **$** | $ | $ 3 | $ 3 |
| Improved property | **1,171** | **640** | **1,811** | 1,650 | 428 | 2,078 |
| Total commercial real estate | **1,171** | **640** | **1,811** | 1,650 | 431 | 2,081 |
| Commercial and industrial | **162** | | **162** | 128 | 97 | 225 |
| Residential real estate | **4,469** | **1,182** | **5,651** | 4,321 | 1,880 | 6,201 |
| Home equity | **445** | **167** | **612** | 407 | 337 | 744 |
| Consumer | **91** | **47** | **138** | 65 | 120 | 185 |
| Total | **$ 6,338** | **$ 2,036** | **$ 8,374** | $ 6,571 | $ 2,865 | $ 9,436 |

As of September 30, 2018 and December 31, 2017, there were no TDRs greater than $1.0 million. The concessions granted in the majority of loans reported as accruing and non-accrual TDRs are extensions of the maturity date or the amortization period, reductions in the interest rate below the prevailing market rate for loans with comparable characteristics, and/or permitting interest-only payments for longer than three months. WesBanco had unfunded commitments to debtors whose loans were classified as impaired of $0.2 million and $0.1 million as of September 30, 2018 and December 31, 2017, respectively.

The following tables present details related to loans identified as TDRs during the three and nine months ended September 30, 2018 and 2017, respectively:

| | New TDRs (1) For the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2018 | | | September 30, 2017 | | |
| *(unaudited, dollars in thousands)* | **Number of Modifications** | **Pre-Modification Outstanding Recorded Investment** | **Post-Modification Outstanding Recorded Investment** | **Number of Modifications** | **Pre-Modification Outstanding Recorded Investment** | **Post-Modification Outstanding Recorded Investment** |
| Commercial real estate: | | | | | | |
| Land and construction | | $ | $ | | $ | $ |
| Improved Property | | | | 1 | 190 | 185 |
| Total commercial real estate | | | | 1 | 190 | 185 |
| Commercial and industrial | | | | | | |
| Residential real estate | | | | | | |
| Home equity | | | | 2 | 94 | 88 |
| Consumer | **1** | **19** | **18** | 1 | 7 | 6 |
| Total | **1** | **$ 19** | **$ 18** | 4 | $ 291 | $ 279 |

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

| (unaudited, dollars in thousands) | New TDRs (1) For the Nine Months Ended September 30, 2018 Number of Modifications | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment | September 30, 2017 Number of Modifications | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|---|---|---|
| Commercial real estate: | | | | | | |
| Land and construction | | $ | $ | | $ | $ |
| Improved Property | | | | 1 | 190 | 185 |
| Total commercial real estate | | | | 1 | 190 | 185 |
| Commercial and industrial | **1** | **10** | **8** | 1 | 64 | 59 |
| Residential real estate | **5** | **203** | **176** | 2 | 22 | 17 |
| Home equity | **1** | **20** | **19** | 3 | 141 | 132 |
| Consumer | **4** | **65** | **52** | 4 | 42 | 33 |
| Total | **11** | **$ 298** | **$ 255** | 11 | $ 459 | $ 426 |

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

The following table summarizes TDRs which defaulted (defined as past due 90 days) during the nine months ended September 30, 2018 and 2017, respectively, that were restructured within the last twelve months prior to September, 2018 and 2017, respectively:

| (unaudited, dollars in thousands) | Defaulted TDRs (1) For the Nine Months Ended September 30, 2018 Number of Defaults | Recorded Investment | September 30, 2017 Number of Defaults | Recorded Investment |
|---|---|---|---|---|
| Commercial real estate: | | | | |
| Land and construction | | $ | | $ |
| Improved property | | | | |
| Total commercial real estate | | | | |
| Commercial and industrial | | | | |
| Residential real estate | **2** | **172** | 1 | 7 |
| Home equity | **1** | **6** | | |
| Consumer | | | 1 | 7 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | **3** | **$** | **178** | 2 | $ | 14 |

(1) Excludes loans that were either charged-off or cured by period end. The recorded investment is as of September 30, 2018 and 2017, respectively.

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

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

| *(unaudited, in thousands)* | **September 30, 2018** | **December 31, 2017** |
|---|---|---|
| Other real estate owned | **$ 6,836** | $ 5,195 |
| Repossessed assets | **41** | 102 |
| Total other real estate owned and repossessed assets | **$ 6,877** | $ 5,297 |

Residential real estate included in other real estate owned at September 30, 2018 and December 31, 2017 was $0.7 million and $1.5 million, respectively. At September 30, 2018 and December 31, 2017, formal foreclosure proceedings were in process on residential real estate loans totaling $6.0 million and $3.5 million, respectively.

## NOTE 6. DERIVATIVES AND HEDGING ACTIVITIES

### Risk Management Objective of Using Derivatives

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

### Loan Swaps

WesBanco executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously economically hedged by offsetting interest rate swaps that WesBanco executes with a third party, such that WesBanco minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements of ASC 815, changes in the fair value of both the customer swaps and the offsetting third-party swaps are recognized directly in earnings. As of September 30, 2018 and December 31, 2017, WesBanco had 42 and 39, respectively, interest rate swaps with an aggregate notional amount of $234.4 million and $298.2 million, respectively, related to this program. During the nine months ended September 30, 2018 and 2017, WesBanco recognized net losses of $0.1 million and $0.3 million, respectively, related to the changes in fair value of these swaps. Additionally, WesBanco recognized $1.4 million and $1.2 million of income for the related swap fees for the nine months ended September 30, 2018 and 2017, respectively.

### Mortgage Loans Held for Sale and Loan Commitments

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

### Fair Values of Derivative Instruments on the Balance Sheet

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

The table below presents the fair value of WesBanco s derivative financial instruments as well as their classification on the Balance Sheet as of September 30, 2018 and December 31, 2017:

| (unaudited, in thousands) | September 30, 2018 Notional or Contractual Amount | September 30, 2018 Asset Derivatives | September 30, 2018 Liability Derivatives | December 31, 2017 Notional or Contractual Amount | December 31, 2017 Asset Derivatives | December 31, 2017 Liability Derivatives |
|---|---|---|---|---|---|---|
| **Derivatives** | | | | | | |
| Loan Swaps: | | | | | | |
| Interest rate swaps | **$ 234,363** | **$ 6,451** | **$ 6,527** | $ 298,223 | $ 7,351 | $ 7,345 |
| Other contracts: | | | | | | |
| Interest rate loan commitments | **27,795** | **32** | | 20,319 | 49 | |
| Forward TBA contracts | **32,000** | **148** | | 31,750 | | 23 |
| Total derivatives | | **$ 6,631** | **$ 6,527** | | $ 7,400 | $ 7,368 |

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

The table below presents the change in the fair value of the Company s derivative financial instruments reflected within the other non-interest income line item of the consolidated income statement for the three and nine months ended September 30, 2018 and 2017, respectively.

| | | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| *(unaudited, in thousands)* | **Location of Gain/(Loss)** | **2018** | **2017** | **2018** | **2017** |
| Interest rate swaps | Other income | **$ (293)** | $ (32) | **$ (82)** | $ (335) |
| Interest rate loan commitments | Mortgage banking income | **(111)** | | **32** | 123 |
| Forward TBA contracts | Mortgage banking income | **131** | | **530** | |
| Total | | **$ (273)** | $ (32) | **$ 480** | $ (212) |

**Credit-risk-related Contingent Features**

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

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

WesBanco has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral with a market value of $3.7 million as of September 30, 2018. If WesBanco had breached any of these provisions at September 30, 2018, it could have been required to settle its obligations under the agreements at the termination value and would have been required to pay any additional amounts due in excess of amounts previously posted as collateral with the respective counterparty.

**NOTE 7. PENSION PLAN**

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(unaudited, in thousands)* | **2018** | **2017** | **2018** | **2017** |
| Service cost benefits earned during year | **$ 715** | $ 650 | **$ 2,121** | $ 1,929 |
| Interest cost on projected benefit obligation | **1,242** | 1,107 | **3,684** | 3,287 |
| Expected return on plan assets | **(2,416)** | (1,928) | **(7,169)** | (5,721) |

| | | | | |
|---|---|---|---|---|
| Amortization of prior service cost | **6** | 7 | **19** | 19 |
| Amortization of net loss | **766** | 812 | **2,274** | 2,409 |
| Net periodic pension cost | **$ 313** | $ 648 | **$ 929** | $ 1,923 |

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

A minimum required contribution of $5.1 million is due for 2018, which could be all or partially offset by the Plan s $56.9 million available credit balance. WesBanco made a voluntary contribution of $2.5 million to the Plan in June 2018.

WesBanco assumed YCB s obligation for a predecessor bank s participation in a defined benefit plan. The net periodic pension income for this plan for the three and nine months ended September 30, 2018 was $0.1 million and $0.2 million, respectively, which was comprised of a $0.2 million and a $0.5 million expected return on plan assets and net actuarial gain, partially offset by a $0.1 million and a $0.3 million interest cost on projected benefit obligation for the three and nine months ended September 30, 2018, respectively.

No minimum contribution is due for this plan for fiscal year 2018; however, WesBanco made a voluntary contribution of $0.2 million to this plan in June 2018.

WesBanco assumed FFKT s postretirement medical benefit plan, which had a liability totaling $15.0 million at the acquisition date. The plan covers FFKT employees who were hired before January 1, 2016 and meet certain age and length of full-time service requirements. The plan was modified in August 2018, which reduced the number of eligible employees. The modification resulted in a $5.5 million unrealized gain, which was recorded in Accumulated Other Comprehensive Income net of tax and will be recognized over the life of the plan participants estimated to be approximately 17 years. The modification reduced the plan liability to $9.5 million as of September 30, 2018.

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## NOTE 8. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

WesBanco determines the fair value for derivatives using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. WesBanco incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the respective counterparty s non-performance risk in the fair value measurements.

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

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

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

*Loans held for sale:* Loans held for sale are carried, in aggregate, at fair value as WesBanco has elected the fair value option as of October 1, 2017. The use of a valuation model using quoted prices of similar instruments are significant inputs in arriving at the fair value and therefore loans held for sale are classified within level 2 of the fair value hierarchy.

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Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the table below are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position. The following tables set forth WesBanco s financial assets and liabilities that were accounted for at fair value on a recurring and nonrecurring basis by level within the fair value hierarchy as of September 30, 2018 and December 31, 2017:

| | | September 30, 2018 Fair Value Measurements Using: | | | |
|---|---|---|---|---|---|
| *(unaudited, in thousands)* | **September 30, 2018** | **Quoted Prices in Active Markets for Identical Assets (level 1)** | **Significant Other Observable Inputs (level 2)** | **Significant Unobservable Inputs (level 3)** | **Investments Measured at Net Asset Value** |
| **Recurring fair value measurements** | | | | | |
| Equity securities | **$ 12,784** | **$ 12,784** | **$** | **$** | **$** |
| Debt securities available-for-sale | | | | | |
| U.S. Treasury | **9,937** | | **9,937** | | |
| U.S. Government sponsored entities and agencies | **149,949** | | **149,949** | | |
| Residential mortgage-backed securities and collateralized mortgage obligations of government agencies | **1,449,754** | | **1,449,754** | | |
| Commercial mortgage-backed securities and collateralized mortgage obligations of government sponsored entities and agencies | **168,761** | | **168,761** | | |
| Obligations of state and political subdivisions | **186,651** | | **185,125** | **1,526** | |
| Corporate debt securities | **43,180** | | **43,180** | | |
| Total debt securities available-for-sale | **$ 2,008,232** | **$** | **$ 2,006,706** | **$ 1,526** | **$** |
| Loans held for sale | **55,913** | | **55,913** | | |
| Other assets interest rate derivatives agreements | **6,451** | | **6,451** | | |
| Total assets recurring fair value measurements | **$ 2,083,380** | **$ 12,784** | **$ 2,069,070** | **$ 1,526** | **$** |
| Other liabilities interest rate derivatives agreements | **$ 6,527** | **$** | **$ 6,527** | **$** | **$** |
| Total liabilities recurring fair value measurements | **$ 6,527** | **$** | **$ 6,527** | **$** | **$** |
| **Nonrecurring fair value measurements** | | | | | |
| Impaired loans | **$** | **$** | **$** | **$** | **$** |
| Other real estate owned and repossessed assets | **6,877** | | | **6,877** | |
| Total nonrecurring fair value measurements | **$ 6,877** | **$** | **$** | **$ 6,877** | **$** |

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

WesBanco s policy is to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer. There were no significant transfers between level 1, 2 or 3 for the three and nine months ended September 30, 2018 or for the year ended December 31, 2017.

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

| | | Quantitative Information about Level 3 Fair Value Measurements | | |
|---|---|---|---|---|
| *(unaudited, in thousands)* | **Fair Value Estimate** | **Valuation Techniques** | **Unobservable Input** | **Range (Weighted Average)** |
| **September 30, 2018** | | | | |
| Impaired loans | **$** | Appraisal of collateral [1] | Appraisal adjustments [2] | |
| | | | Liquidation expenses [2] | |
| Other real estate owned and repossessed assets | **6,877** | Appraisal of collateral [1], [3] | | |
| **December 31, 2017:** | | | | |
| Impaired loans | $ 1,717 | Appraisal of collateral [1] | Appraisal adjustments [2] | (4.8%) / (4.8%) |
| | | | Liquidation expenses [2] | (7.6%) / (7.6%) |
| Other real estate owned and repossessed assets | 5,297 | Appraisal of collateral [1], [3] | | |

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

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

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

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

| *(unaudited, in thousands)* | Carrying Amount | Fair Value Estimate | Fair Value Measurements at September 30, 2018 Quoted Prices in Active Markets for Identical Assets (level 1) | Significant Other Observable Inputs (level 2) | Significant Unobservable Inputs (level 3) | Investments Measured at Net Asset Value |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Cash and due from banks | $ 273,680 | $ 273,680 | $ 273,680 | $ | $ | $ |
| Equity securities | 12,784 | 12,784 | 12,784 | | | |
| Debt securities available-for-sale | 2,008,232 | 2,008,232 | | 2,006,706 | 1,526 | |
| Debt securities held-to-maturity | 1,025,538 | 1,014,361 | | 1,013,788 | 573 | |
| Net loans | 7,677,521 | 7,517,958 | | | 7,517,958 | |
| Loans held for sale | 55,913 | 55,913 | | 55,913 | | |
| Other assets interest rate derivatives | 6,451 | 6,451 | | 6,451 | | |
| Accrued interest receivable | 39,465 | 39,465 | 39,465 | | | |
| **Financial Liabilities** | | | | | | |