

S&T BANCORP INC  
Form 10-Q  
August 03, 2016

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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 0-12508

S&T BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Pennsylvania 25-1434426  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

800 Philadelphia Street, Indiana, PA 15701  
(Address of principal executive offices) (zip code)

800-325-2265  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer  Accelerated filer

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, \$2.50 Par Value - 34,916,358 shares as of July 29, 2016



Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

INDEX

S&T BANCORP, INC. AND SUBSIDIARIES

Page No.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets - June 30, 2016 and December 31, 2015 3

Consolidated Statements of Comprehensive Income - Three and Six Months Ended June 30, 2016 and 2015 4

Consolidated Statements of Changes in Shareholders' Equity - Six Months Ended June 30, 2016 and 2015 5

Consolidated Statements of Cash Flows - Six Months Ended June 30, 2016 and 2015 6

Notes to Consolidated Financial Statements 7

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 44

Item 3. Quantitative and Qualitative Disclosures about Market Risk 61

Item 4. Controls and Procedures 62

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 63

Item 1A. Risk Factors 63

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 63

Item 3. Defaults Upon Senior Securities 63

Item 4. Mine Safety Disclosures 63

Item 5. Other Information 63

Item 6. Exhibits 64

Signatures 65



Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	June 30, 2016	December 31, 2015
	(Unaudited)	(Audited)
(dollars in thousands, except per share data)		
<b>ASSETS</b>		
Cash and due from banks, including interest-bearing deposits of \$40,879 and \$41,639 at June 30, 2016 and December 31, 2015	\$94,991	\$ 99,399
Securities available-for-sale, at fair value	683,479	660,963
Loans held for sale	11,999	35,321
Portfolio loans, net of unearned income	5,388,264	5,027,612
Allowance for loan losses	(52,213)	(48,147)
Portfolio loans, net	5,336,051	4,979,465
Bank owned life insurance	70,991	70,175
Premises and equipment, net	47,025	49,127
Federal Home Loan Bank and other restricted stock, at cost	27,755	23,032
Goodwill	291,670	291,764
Other intangible assets, net	5,657	6,525
Other assets	104,587	102,583
<b>Total Assets</b>	<b>\$6,674,205</b>	<b>\$ 6,318,354</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$1,220,568	\$ 1,227,766
Interest-bearing demand	662,509	616,188
Money market	700,219	605,184
Savings	1,033,077	1,061,265
Certificates of deposit	1,503,945	1,366,208
<b>Total Deposits</b>	<b>5,120,318</b>	<b>4,876,611</b>
Securities sold under repurchase agreements	48,479	62,086
Short-term borrowings	550,000	356,000
Long-term borrowings	15,888	117,043
Junior subordinated debt securities	45,619	45,619
Other liabilities	68,851	68,758
<b>Total Liabilities</b>	<b>5,849,155</b>	<b>5,526,117</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock (\$2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at June 30, 2016 and December 31, 2015	90,326	90,326
Outstanding—34,916,358 shares at June 30, 2016 and 34,810,374 shares at December 31, 2015		
Additional paid-in capital	211,824	210,545
Retained earnings	561,132	544,228
Accumulated other comprehensive (loss) income	(4,748)	(16,457)
Treasury stock (1,214,122 shares at June 30, 2016 and 1,320,106 shares at December 31, 2015, at cost)	(33,484)	(36,405)
<b>Total Shareholders' Equity</b>	<b>825,050</b>	<b>792,237</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$6,674,205</b>	<b>\$ 6,318,354</b>

See Notes to Consolidated Financial Statements

3

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Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

(dollars in thousands, except per share data)	Three Months		Six Months Ended	
	Ended June 30, 2016	2015	June 30, 2016	2015
<b>INTEREST INCOME</b>				
Loans, including fees	\$52,019	\$48,933	\$103,177	\$88,859
Investment Securities:				
Taxable	2,580	2,394	5,134	4,777
Tax-exempt	915	998	1,857	2,018
Dividends	336	286	702	872
Total Interest Income	55,850	52,611	110,870	96,526
<b>INTEREST EXPENSE</b>				
Deposits	5,029	3,051	9,284	6,058
Borrowings and junior subordinated debt securities	1,113	749	2,240	1,398
Total Interest Expense	6,142	3,800	11,524	7,456
NET INTEREST INCOME	49,708	48,811	99,346	89,070
Provision for loan losses	4,848	2,059	9,863	3,266
Net Interest Income After Provision for Loan Losses	44,860	46,752	89,483	85,804
<b>NONINTEREST INCOME</b>				
Securities (losses) gains, net	—	(34)	—	(34)
Service charges on deposit accounts	3,065	2,877	6,064	5,459
Debit and credit card fees	2,869	3,020	5,655	5,736
Wealth management fees	2,630	2,930	5,382	5,853
Insurance fees	1,205	1,391	2,979	3,041
Mortgage banking	578	782	1,107	1,308
Gain on sale of credit card portfolio	—	—	2,066	—
Other	2,101	2,417	5,012	4,104
Total Noninterest Income	12,448	13,383	28,265	25,467
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	17,626	17,455	38,528	34,235
Data processing	2,723	2,555	4,835	4,876
Net occupancy	2,688	2,682	5,638	5,270
Furniture and equipment	1,719	1,582	3,648	2,808
Marketing	1,075	1,193	1,976	2,009
Professional services and legal	1,047	801	1,994	1,324
FDIC insurance	994	808	1,934	1,503
Other taxes	896	1,159	1,995	2,002
Merger related expenses	—	866	—	3,167
Other	5,985	6,348	12,621	11,876
Total Noninterest Expense	34,753	35,449	73,169	69,070
Income Before Taxes	22,555	24,686	44,579	42,201
Provision for income taxes	5,496	6,498	11,427	11,178
Net Income	\$17,059	\$18,188	\$33,152	\$31,023
Earnings per share—basic	\$0.49	\$0.52	\$0.96	\$0.94
Earnings per share—diluted	\$0.49	\$0.52	\$0.95	\$0.94
Dividends declared per share	\$0.19	\$0.18	\$0.38	\$0.36

Comprehensive Income	\$20,427	\$14,695	\$44,861	\$31,335
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See Notes to Consolidated Financial Statements

4

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Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited)

(dollars in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Treasury Stock	Total
Balance at January 1, 2015	\$ 77,993	\$ 78,818	\$ 504,060	\$ (13,833 )	\$(38,649)	\$608,389
Net income for six months ended June 30, 2015	—	—	31,023	—	—	31,023
Other comprehensive income (loss), net of tax	—	—	—	312	—	312
Cash dividends declared (\$0.36 per share)	—	—	(11,608 )	—	—	(11,608 )
Common stock issued in acquisition (4,933,115 shares)	12,333	130,136	—	—	—	142,469
Treasury stock issued for restricted awards (87,841 shares, net of 4,630 forfeitures)	—	—	(2,419 )	—	2,308	(111 )
Recognition of restricted stock compensation expense	—	858	—	—	—	858
Tax benefit from stock-based compensation	—	29	—	—	—	29
Issuance costs	—	(132 )	—	—	—	(132 )
Balance at June 30, 2015	\$ 90,326	\$ 209,709	\$ 521,056	\$ (13,521 )	\$(36,341)	\$771,229
Balance at January 1, 2016	\$ 90,326	\$ 210,545	\$ 544,228	\$ (16,457 )	\$(36,405)	\$792,237
Net income for six months ended June 30, 2016	—	—	33,152	—	—	33,152
Other comprehensive income (loss), net of tax	—	—	—	11,709	—	11,709
Cash dividends declared (\$0.38 per share)	—	—	(13,211 )	—	—	(13,211 )
Treasury stock issued for restricted awards (110,643 shares, net of 4,659 forfeitures)	—	—	(3,037 )	—	2,921	(116 )
Recognition of restricted stock compensation expense	—	1,279	—	—	—	1,279
Balance at June 30, 2016	\$ 90,326	\$ 211,824	\$ 561,132	\$ (4,748 )	\$(33,484)	\$825,050
See Notes to Consolidated Financial Statements						

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended June 30,	
(dollars in thousands)	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net income	\$33,152	\$31,023
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	9,863	3,266
Provision for unfunded loan commitments	131	605
Depreciation, amortization and accretion	1,878	388
Net amortization of discounts and premiums on securities	1,861	1,802
Stock-based compensation expense	1,279	769
Securities losses (gains), net	—	34
Tax benefit from stock-based compensation	—	(29)
Mortgage loans originated for sale	(45,831)	(52,075)
Proceeds from the sale of mortgage loans	46,555	42,008
Gain on the sale of mortgage loans, net	(679)	(597)
Gain on the sale of credit card portfolio	(2,066)	—
Pension plan curtailment gain	(1,017)	—
Net increase in interest receivable	(3,485)	(2,542)
Net increase (decrease) in interest payable	1,126	(475)
Net (increase) decrease in other assets	(2,900)	1,854
Net increase (decrease) in other liabilities	4,127	(811)
Net Cash Provided by Operating Activities	43,994	25,220
<b>INVESTING ACTIVITIES</b>		
Purchases of securities available-for-sale	(45,431)	(54,754)
Proceeds from maturities, prepayments and calls of securities available-for-sale	34,723	26,096
Proceeds from sales of securities available-for-sale	—	11,119
Net (purchases of) proceeds from Federal Home Loan Bank stock	(4,723)	(334)
Net increase in loans	(369,089)	(141,911)
Proceeds from sale of loans not originated for resale	2,427	—
Purchases of premises and equipment	(1,360)	(2,465)
Proceeds from the sale of premises and equipment	3	27
Proceeds from the sale of credit card portfolio	25,019	—
Net cash paid in excess of cash acquired from bank merger	—	(16,347)
Net Cash Used in Investing Activities	(358,431)	(178,569)
<b>FINANCING ACTIVITIES</b>		
Net increase in deposits	105,970	297,340
Net increase (decrease) in certificates of deposit	138,148	(68,397)
Net (decrease) increase in securities sold under repurchase agreements	(13,607)	15,630
Net increase (decrease) in short-term borrowings	194,000	(127,686)
Proceeds from long-term borrowings	—	100,000
Repayments of long-term borrowings	(101,155)	(1,214)
Repayment of junior subordinated debt	—	(13,500)
Treasury shares issued-net	(116)	(111)
Common stock issuance costs	—	(132)

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Cash dividends paid to common shareholders	(13,211 )	(11,608 )
Tax benefit from stock-based compensation	—	29
Net Cash Provided by Financing Activities	310,029	190,351
Net (decrease) increase in cash and cash equivalents	(4,408 )	37,002
Cash and cash equivalents at beginning of period	99,399	109,580
Cash and Cash Equivalents at End of Period	\$94,991	\$146,582
Supplemental Disclosures		
Loans transferred from held for sale to portfolio	\$(1,540 )	\$—
Interest paid	\$10,398	\$7,619
Income taxes paid, net of refunds	\$13,474	\$9,275
Net assets acquired from bank merger, excluding cash and cash equivalents	\$—	\$43,433
Transfers of loans to other real estate owned	\$231	\$137
See Notes to Consolidated Financial Statements		

6

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Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Principles of Consolidation

The interim Consolidated Financial Statements include the accounts of S&T Bancorp, Inc., or S&T, and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments of 20 percent to 50 percent of the outstanding common stock of investees are accounted for using the equity method of accounting.

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of S&T have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States for interim financial information and with 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, 2015, filed with the Securities and Exchange Commission, or SEC, on February 23, 2016. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

Reclassification

Amounts in prior period financial statements and footnotes are reclassified whenever necessary to conform to the current period presentation. Reclassifications had no effect on our results of operations or financial condition.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Recently Adopted Accounting Standards Updates, or ASU

Business Combinations - Simplifying the Accounting for Measurement Period Adjustments

In September 2015, the Financial Accounting Standards Board, or FASB, issued ASU No. 2015-16, Business Combinations - Simplifying the Accounting for Measurement Period Adjustments (Topic 805); The amendments in this ASU No. 2015-16 eliminate the requirement to retrospectively adjust the financial statements for measurement-period adjustments as if they were known at the acquisition date, but are recognized in the reporting period in which they are determined. Additional disclosures are required about the impact on current-period income statement line items of adjustments that would have been recognized in prior periods if that information had been revised. The measurement period is a reasonable time period after the acquisition date when the acquirer may adjust the provisional amounts recognized for a business combination if the necessary information is not available by the end of the reporting period in which the acquisition occurs. The measurement periods cannot continue for more than one year from the acquisition date. The standard is effective for annual periods and interim periods beginning after December 15, 2015. The adoption of this ASU had no impact on our results of operations or financial position.

Intangibles - Goodwill and Other - Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU No. 2015-05, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The main provisions of ASU No. 2015-05 provide a basis for evaluating whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, then the arrangement should be accounted for as a service contract.

The standard is effective for annual periods and interim periods beginning after December 15, 2015. The adoption of this ASU had no impact on our results of operations or financial position.

7

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Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2015. In September 2015, the FASB issued ASU No. 2015-15, Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU No. 2015-15 amends the SEC Content in Subtopic 835-30 by adding SEC paragraph 835-30-S35-1, Interest-Imputation of Interest Subsequent Measurement and paragraph 830-30-S45-1, Other Presentation Matters. These paragraphs were added because ASU No. 2015-03 issued in April 2015 does not address presentation or subsequent measurement of debt issuance costs related to "line-of-credit arrangements." The adoption of this ASU had no material impact on our results of operations or financial position.

Consolidation: Amendments to the Consolidation Analysis

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in this ASU affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: 1. modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities, or VIEs, or voting interest entities; 2. eliminate the presumption that a general partner should consolidate a limited partnership; 3. affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and 4. provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2A-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this ASU are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this ASU had no impact on our results of operations or financial position.

Income Statement - Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary. The amendments in this ASU No. 2015-01 eliminate from GAAP the concept of extraordinary items and eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2015. The adoption of this ASU had no impact on our results of operations or financial position.

Recently Issued Accounting Standards Updates not yet Adopted

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments of this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The collective changes to the recognition and measurement accounting standards for financial instruments and their anticipated impact on the allowance for credit

losses modeling have been universally referred to as the CECL, or current expected credit loss, model. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the provisions of this ASU to determine the potential impact on our results of operations and financial position.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Revenue from Contracts with Customers

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This ASU defers the effective date of ASU No. 2014-09 for all entities by one year. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are: 1. identify the contract with the customer; 2. identify the separate performance obligations in the contract; 3. determine the transaction price; 4. allocate the transaction price to the separate performance obligations; and 5. recognize revenue when each performance obligation is satisfied. The Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the original effective date for interim and annual reporting periods in fiscal years beginning after December 15, 2016.

In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), as an amendment to ASU No. 2014-09 to improve Topic 606, Revenue from Contracts with Customers by reducing: 1. The potential for diversity in practice arising from inconsistent and application of the principal versus agent guidance, and 2. The cost and complexity of applying Topic 606 both at transition and on an ongoing basis. The effective date and transition requirements for the amendments in both of these Updates are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14.

In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing, as an amendment to ASU No. 2014-09 to improve Topic 606, Revenue from Contracts with Customers, by reducing: 1. The potential for diversity in practice at initial application, and 2. The cost and complexity of applying Topic 606 both at transition and on an ongoing basis.

In May 2016, the FASB issued ASU No. 2016-12, Narrow-scope Improvements and Practical Expedients. The amendments in this ASU do not change the core principles of Topic 606, Revenue from Contracts with Customers. These amendments affect only the narrow aspects of Topic 606: 1. Collectibility Criterion, 2. Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, 3. Noncash Consideration, 4. Contract Modifications at Transition, and 5. Completed Contracts at Transition. We are evaluating the provisions of these ASUs to determine the potential impact to our results of operations and financial position.

Stock Compensation - Improvements to Employee Share-Based Payment Accounting

On March 31, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including; 1. accounting for income taxes; 2. classification of excess tax benefits on the statement of cash flows; 3. forfeitures; 4. minimum statutory tax withholding requirements; 5. classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; 6. practical expedient -- expected term (nonpublic only); and 7. intrinsic value (nonpublic only). This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those years for public business entities. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. We do not expect that this ASU will have a material impact on our results of operations and financial position.

Equity Method and Joint Ventures - Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in



ownership interest (or degree of influence) in an investee triggers equity method accounting. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. We do not expect that this ASU will have a material impact on our results of operations and financial position.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Leases - Section A-Amendments to the FASB Accounting Standards Codification, Section B-Conforming Amendments Related to Leases and Section C-Background Information and Basis for Conclusions

In February 2016, the FASB issued ASU No. 2016-02, Leases, which, requires lessees to recognize a right-to-use asset and a lease obligation for all leases on the balance sheet. Lessor accounting remains substantially similar to current GAAP. ASU 2016-02 supersedes Topic 840, Leases. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. Early adoption of this ASU is permitted. We anticipate that this ASU will impact our financial statements as it relates to the recognition of right-to-use assets and lease obligations on our Consolidated Balance Sheet. However, we do not expect that this ASU will have a material impact on our Consolidated Statement of Comprehensive Income.

Accounting for Financial Instruments - Overall: Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement (Subtopic 825-10). The amendments in this ASU No. 2016-01 address the following: 1. require equity investments to be measured at fair value with changes in fair value recognized in net income; 2. simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment; 3. eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4. require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5. require separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6. require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and 7. clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.

We anticipate that this ASU will have a significant impact on our financial statements and disclosures primarily as it relates to recognizing the fair value changes for equity securities in net income rather than an adjustment to equity through other comprehensive income.

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 2. BUSINESS COMBINATIONS

On March 4, 2015, we completed the acquisition of 100 percent of the voting shares of Integrity Bancshares, Inc., or Integrity, located in Camp Hill, Pennsylvania, in a tax-free reorganization transaction structured as a merger of Integrity with and into S&T, with S&T being the surviving entity. As a result of the Integrity merger, or the Merger, Integrity Bank, the wholly owned subsidiary bank of Integrity, became a separate wholly owned subsidiary bank of S&T. The merger of Integrity Bank into S&T Bank, with S&T Bank surviving the merger, and the related system conversion occurred on May 8, 2015.

Integrity shareholders were entitled to elect to receive for each share of Integrity common stock either \$52.50 in cash or 2.0627 shares of S&T common stock subject to allocation and proration procedures in the merger agreement. The total purchase price was approximately \$172.0 million which included \$29.5 million of cash and 4,933,115 S&T common shares at a fair value of \$28.88 per share. The fair value of \$28.88 per share of S&T common stock was based on the March 4, 2015 closing price.

The Merger was accounted for under the acquisition method of accounting and our Consolidated Financial Statements include all Integrity Bank transactions from March 4, 2015, until it was merged into S&T Bank on May 8, 2015. The assets acquired and liabilities assumed were recorded at their respective fair values and represent management's estimates based on available information. Purchase accounting guidance allows for a reasonable period of time following an acquisition for the acquirer to obtain the information necessary to complete the accounting for a business combination. This period is known as the measurement period. At the end of the measurement period, \$1.1 million in purchase accounting adjustments were recognized that increased goodwill. The measurement period adjustments primarily related to changes to provisional amounts, a \$0.8 million reduction in the fair value of land and \$0.3 million in deferred taxes.

Goodwill of \$115.9 million was calculated as the excess of the consideration exchanged over the fair value of the identifiable net assets acquired. The goodwill arising from the Merger consists largely of the synergies and economies of scale expected from combining the operations of S&T and Integrity. All of the goodwill was assigned to our Community Banking segment. The goodwill recognized will not be deductible for tax purposes.

The following table summarizes total consideration, assets acquired and liabilities assumed from the Merger:

(dollars in thousands)

Consideration Paid	
Cash	\$29,510
Common stock	142,469
Fair Value of Total Consideration	\$171,979
Fair Value of Assets Acquired	
Cash and cash equivalents	\$13,163
Securities and other investments	11,502
Loans	788,687
Bank owned life insurance	15,974
Premises and equipment	10,855
Core deposit intangible	5,713
Other assets	19,088
Total Assets Acquired	864,982
Fair Value of Liabilities Assumed	
Deposits	722,308

Borrowings	82,286
Other liabilities	4,259
Total Liabilities Assumed	808,853
Total Fair Value of Identifiable Net Assets	56,129
Goodwill	\$115,850

Loans acquired in the Merger were recorded at fair value with no carryover of the related Allowance for Loan Losses, or ALL. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. The fair value of the loans acquired was \$788.7 million net of a \$14.8 million discount. The discount is accreted to interest income over the remaining contractual life of the loans. At March 4, 2015, acquired loans included \$331.6 million of Commercial Real Estate, or CRE,

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 2. BUSINESS COMBINATIONS - continued

\$184.2 million of Commercial and Industrial, or C&I, \$92.4 million of commercial construction, \$116.9 million of residential mortgage, \$25.6 million of home equity, \$36.1 million of installment and other consumer and \$1.9 million of consumer construction.

Direct costs related to the Merger were expensed as incurred. No merger related expenses were recognized during the three months and six months ended June 30, 2016. For the three months ended June 30, 2015, we recognized \$0.9 million of merger related expenses, including \$0.4 million for data processing contract termination and conversion costs, \$0.1 million in severance payments, \$0.1 million in legal and professional expenses and \$0.3 million in other expenses. During the six months ended June 30, 2015, we recognized \$3.2 million of merger related expenses, including \$1.3 million for data processing contract termination and system conversion costs, \$1.2 million in legal and professional expenses, \$0.4 million in severance payments and \$0.3 million in other expenses.

## NOTE 3. EARNINGS PER SHARE

The following table reconciles the numerators and denominators of basic and diluted earnings per share for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(in thousands, except shares and per share data)				
Numerator for Earnings per Share—Basic:				
Net income	\$ 17,059	\$ 18,188	\$ 33,152	\$ 31,023
Less: Income allocated to participating shares	60	79	101	123
Net Income Allocated to Shareholders	\$ 16,999	\$ 18,109	\$ 33,051	\$ 30,900
Numerator for Earnings per Share—Diluted:				
Net income	\$ 17,059	\$ 18,188	\$ 33,152	\$ 31,023
Net Income Available to Shareholders	\$ 17,059	\$ 18,188	\$ 33,152	\$ 31,023
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	34,674,713	34,652,895	34,666,773	32,951,936
Add: Potentially dilutive shares	89,853	28,283	80,890	36,359
Denominator for Treasury Stock Method—Diluted	34,764,566	34,681,178	34,747,663	32,988,295
Weighted Average Shares Outstanding—Basic	34,674,713	34,652,895	34,666,773	32,951,936
Add: Average participating shares outstanding	122,160	151,134	105,794	131,563
Denominator for Two-Class Method—Diluted	34,796,873	34,804,029	34,772,567	33,083,499
Earnings per share—basic	\$ 0.49	\$ 0.52	\$ 0.96	\$ 0.94
Earnings per share—diluted	\$ 0.49	\$ 0.52	\$ 0.95	\$ 0.94
Warrants considered anti-dilutive excluded from potentially dilutive shares - exercise price \$31.53 per share, expires January 2019	517,012	517,012	517,012	517,012
Stock options considered anti-dilutive excluded from potentially dilutive shares - expired in December 2015	—	155,500	—	155,500
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	144,998	122,851	117,796	95,204



Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. FAIR VALUE MEASUREMENT

We use fair value measurements when recording and disclosing certain financial assets and liabilities. Securities available-for-sale, trading assets and derivative financial instruments are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, impaired loans, other real estate owned, or OREO, and other repossessed assets, mortgage servicing rights, or MSRs, and certain other assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction. In determining fair value, we use various valuation approaches, including market, income and cost approaches. The fair value standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, which is developed, based on market data we have obtained from independent sources. Unobservable inputs reflect our estimates of assumptions that market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The fair value hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1: valuation is based upon unadjusted quoted market prices for identical instruments traded in active markets.

Level 2: valuation is based upon quoted market prices for similar instruments traded in active markets, quoted market prices for identical or similar instruments traded in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by market data.

Level 3: valuation is derived from other valuation methodologies, including discounted cash flow models and similar techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in determining fair value.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our policy is to recognize transfers between any of the fair value hierarchy levels at the end of the reporting period in which the transfer occurred.

The following are descriptions of the valuation methodologies that we use for financial instruments recorded at fair value on either a recurring or nonrecurring basis.

**Recurring Basis**

**Securities Available-for-Sale**

Securities available-for-sale include both debt and equity securities. We obtain fair values for debt securities from a third-party pricing service which utilizes several sources for valuing fixed-income securities. We validate prices received from our pricing service through comparison to a secondary pricing service and broker quotes. We review the methodologies of the pricing service which provides us with a sufficient understanding of the valuation models, assumptions, inputs and pricing to reasonably measure the fair value of our debt securities. The market evaluation sources for debt securities include observable inputs rather than significant unobservable inputs and are classified as Level 2. The service provider utilizes pricing models that vary by asset class and include available trade, bid and other market information. Generally, the methodologies include broker quotes, proprietary models and vast descriptive terms and conditions databases, as well as extensive quality control programs.

Marketable equity securities that have an active, quotable market are classified as Level 1. Marketable equity securities that are quotable, but are thinly traded or inactive, are classified as Level 2. Marketable equity securities that

are not readily traded and do not have a quotable market are classified as Level 3.

Trading Assets

We use quoted market prices to determine the fair value of our trading assets. Our trading assets are held in a Rabbi Trust under a deferred compensation plan and are invested in readily quoted mutual funds. Accordingly, these assets are classified as Level 1.



Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. FAIR VALUE MEASUREMENTS – continued

Derivative Financial Instruments

We use derivative instruments, including interest rate swaps for commercial loans with our customers, interest rate lock commitments and the sale of mortgage loans in the secondary market. We calculate the fair value for derivatives using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. Each valuation considers the contractual terms of the derivative, including the period to maturity, and uses observable market based inputs, such as interest rate curves and implied volatilities. Accordingly, derivatives are classified as Level 2. We incorporate credit valuation adjustments into the valuation models to appropriately reflect both our own nonperformance risk and the respective counterparties' nonperformance risk in calculating fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements and collateral postings.

Nonrecurring Basis

Loans Held for Sale

Loans held for sale consist of 1-4 family residential loans originated for sale in the secondary market and, from time to time, certain loans transferred from the loan portfolio to loans held for sale, all of which are carried at the lower of cost or fair value. The fair value of 1-4 family residential loans is based on the principal or most advantageous market currently offered for similar loans using observable market data. The fair value of the loans transferred from the loan portfolio is based on the amounts offered for these loans in currently pending sales transactions. Loans held for sale carried at fair value are classified as Level 3.

Impaired Loans

Impaired loans are carried at the lower of carrying value or fair value. Fair value is determined as the recorded investment balance less any specific reserve. We establish specific reserves based on the following three impairment methods: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral less estimated selling costs when the loan is collateral dependent and we expect to liquidate the collateral. However, if repayment is expected to come from the operation of the collateral, rather than liquidation, then we do not consider estimated selling costs in determining the fair value of the collateral. Collateral values are generally based upon appraisals by approved, independent state certified appraisers. Appraisals may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or our knowledge of the borrower and the borrower's business. Impaired loans carried at fair value are classified as Level 3.

OREO and Other Repossessed Assets

OREO and other repossessed assets obtained in partial or total satisfaction of a loan are recorded at the lower of recorded investment in the loan or fair value less cost to sell. Subsequent to foreclosure, these assets are carried at the lower of the amount recorded at acquisition date or fair value less cost to sell. Accordingly, it may be necessary to record nonrecurring fair value adjustments. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Like impaired loans, appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets carried at fair value are classified as Level 3.

Mortgage Servicing Rights

The fair value of MSR is determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor driving the value of MSR. MSR are considered impaired if the carrying value exceeds fair value. The valuation model includes significant unobservable inputs; therefore, MSR are classified as Level 3.

Other Assets

We measure certain other assets at fair value on a nonrecurring basis. Fair value is based on the application of lower of cost or fair value accounting, or write-downs of individual assets. Valuation methodologies used to measure fair value are consistent with overall principles of fair value accounting and consistent with those described above.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. FAIR VALUE MEASUREMENTS – continued

Financial Instruments

In addition to financial instruments recorded at fair value in our financial statements, fair value accounting guidance requires disclosure of the fair value of all of an entity's assets and liabilities that are considered financial instruments. The majority of our assets and liabilities are considered financial instruments. Many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaged in an exchange transaction. Also, it is our general practice and intent to hold our financial instruments to maturity and to not engage in trading or sales activities with respect to such financial instruments. For fair value disclosure purposes, we substantially utilize the fair value measurement criteria as required and explained above. In cases where quoted fair values are not available, we use present value methods to determine the fair value of our financial instruments.

Cash and Cash Equivalents

The carrying amounts reported in the Consolidated Balance Sheets for cash and due from banks, including interest-bearing deposits, approximate fair value.

Loans

The fair value of variable rate performing loans that may reprice frequently at short-term market rates is based on carrying values adjusted for credit risk. The fair value of variable rate performing loans that reprice at intervals of one year or longer, such as adjustable rate mortgage products, is estimated using discounted cash flow analyses that utilize interest rates currently being offered for similar loans and adjusted for credit risk. The fair value of fixed rate performing loans is estimated using a discounted cash flow analysis that utilizes interest rates currently being offered for similar loans and adjusted for credit risk. The fair value of nonperforming loans is the carrying value less any specific reserve on the loan if it is impaired. The carrying amount of accrued interest approximates fair value.

Bank Owned Life Insurance

Fair value approximates net cash surrender value of bank owned life insurance.

Federal Home Loan Bank, or FHLB, and Other Restricted Stock

It is not practical to determine the fair value of our FHLB and other restricted stock due to the restrictions placed on the transferability of these stocks; it is presented at carrying value.

Deposits

The fair values disclosed for deposits without defined maturities (e.g., noninterest and interest-bearing demand, money market and savings accounts) are by definition equal to the amounts payable on demand. The carrying amounts for variable rate, fixed-term time deposits approximate their fair values. Estimated fair values for fixed rate and other time deposits are based on discounted cash flow analysis using interest rates currently offered for time deposits with similar terms. The carrying amount of accrued interest approximates fair value.

Short-Term Borrowings

The carrying amounts of securities sold under repurchase agreements, or REPOs, and other short-term borrowings approximate their fair values.

Long-Term Borrowings

The fair values disclosed for fixed rate long-term borrowings are determined by discounting their contractual cash flows using current interest rates for long-term borrowings of similar remaining maturities. The carrying amounts of variable rate long-term borrowings approximate their fair values.

Junior Subordinated Debt Securities

The variable rate junior subordinated debt securities reprice quarterly; therefore, the carrying values approximate their fair values.

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 4. FAIR VALUE MEASUREMENTS – continued

## Loan Commitments and Standby Letters of Credit

Off-balance sheet financial instruments consist of commitments to extend credit and letters of credit. Except for interest rate lock commitments, estimates of the fair value of these off-balance sheet items are not made because of the short-term nature of these arrangements and the credit standing of the counterparties.

## Other

Estimates of fair value are not made for items that are not defined as financial instruments, including such items as our core deposit intangibles and the value of our trust operations.

## Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at June 30, 2016 and December 31, 2015. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

(dollars in thousands)	June 30, 2016			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Securities available-for-sale:				
U.S. Treasury securities	\$—	\$15,103	\$	-\$15,103
Obligations of U.S. government corporations and agencies	—	262,265	—	262,265
Collateralized mortgage obligations of U.S. government corporations and agencies	—	143,262	—	143,262
Residential mortgage-backed securities of U.S. government corporations and agencies	—	38,014	—	38,014
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	81,668	—	81,668
Obligations of states and political subdivisions	—	134,250	—	134,250
Marketable equity securities	—	8,917	—	8,917
Total securities available-for-sale	—	683,479	—	683,479
Trading securities held in a Rabbi Trust	4,196	—	—	4,196
Total securities	4,196	683,479	—	687,675
Derivative financial assets:				
Interest rate swap contracts - commercial loans	—	16,926	—	16,926
Interest rate lock commitments - mortgage loans	—	643	—	643
Total Assets	\$4,196	\$701,048	\$	-\$705,244
<b>LIABILITIES</b>				
Derivative financial liabilities:				
Interest rate swap contracts - commercial loans	\$—	\$16,786	\$	-\$16,786
Forward sale contracts - mortgage loans	—	204	—	204
Total Liabilities	\$—	\$16,990	\$	-\$16,990

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 4. FAIR VALUE MEASUREMENTS – continued

(dollars in thousands)	December 31, 2015			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Securities available-for-sale:				
U.S. Treasury securities	\$—	\$14,941	\$—	-\$14,941
Obligations of U.S. government corporations and agencies	—	263,303	—	263,303
Collateralized mortgage obligations of U.S. government corporations and agencies	—	128,835	—	128,835
Residential mortgage-backed securities of U.S. government corporations and agencies	—	40,125	—	40,125
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	69,204	—	69,204
Obligations of states and political subdivisions	—	134,886	—	134,886
Marketable equity securities	—	9,669	—	9,669
Total securities available-for-sale	—	660,963	—	660,963
Trading securities held in a Rabbi Trust	4,021	—	—	4,021
Total securities	4,021	660,963	—	664,984
Derivative financial assets:				
Interest rate swap contracts - commercial loans	—	11,295	—	11,295
Interest rate lock commitments - mortgage loans	—	261	—	261
Total Assets	\$4,021	\$672,519	\$—	-\$676,540
<b>LIABILITIES</b>				
Derivative financial liabilities:				
Interest rate swap contracts - commercial loans	\$—	\$11,276	\$—	-\$11,276
Forward sale contracts - mortgage loans	—	5	—	5
Total Liabilities	\$—	\$11,281	\$—	-\$11,281

We may be required to measure certain assets and liabilities on a nonrecurring basis. Nonrecurring assets are recorded at the lower of cost or fair value in our financial statements. There were no liabilities measured at fair value on a nonrecurring basis at either June 30, 2016 or December 31, 2015. The following table presents our assets that are measured at fair value on a nonrecurring basis by the fair value hierarchy level as of the dates presented:

(dollars in thousands)	June 30, 2016			December 31, 2015				
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>ASSETS<sup>(1)</sup></b>								
Impaired loans	—	14,343	14,343	14,343	—	9,373	9,373	9,373
Other real estate owned	—	149	149	149	—	158	158	158
Mortgage servicing rights	—	3,094	3,094	3,094	—	3,396	3,396	3,396
Total Assets	\$—	-\$17,586	\$17,586	\$17,586	\$—	-\$12,927	\$12,927	\$12,927

<sup>(1)</sup>This table presents only the nonrecurring items that are recorded at fair value in our financial statements.

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 4. FAIR VALUE MEASUREMENTS – continued

The carrying values and fair values of our financial instruments at June 30, 2016 and December 31, 2015 are presented in the following tables:

(dollars in thousands)	Carrying Value <sup>(1)</sup>	Fair Value Measurements at June 30, 2016			
		Total	Level 1	Level 2	Level 3
<b>ASSETS</b>					
Cash and due from banks, including interest-bearing deposits	\$94,991	\$94,991	\$94,991	\$—	—
Securities available-for-sale	683,479	683,479	—	683,479	—
Loans held for sale	11,999	12,485	—	—	12,485
Portfolio loans, net of unearned income	5,388,264	5,380,012	—	—	5,380,012
Bank owned life insurance	70,991	70,991	—	70,991	—
FHLB and other restricted stock	27,755	27,755	—	—	27,755
Trading securities held in a Rabbi Trust	4,196	4,196	4,196	—	—
Mortgage servicing rights	3,094	3,094	—	—	3,094
Interest rate swap contracts - commercial loans	16,926	16,926	—	16,926	—
Interest rate lock commitments - mortgage loans	643	643	—	643	—
<b>LIABILITIES</b>					
Deposits	\$5,120,318	\$5,127,474	\$—	\$—	-\$5,127,474
Securities sold under repurchase agreements	48,479	48,479	—	—	48,479
Short-term borrowings	550,000	550,000	—	—	550,000
Long-term borrowings	15,888	16,843	—	—	16,843
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swap contracts - commercial loans	16,786	16,786	—	16,786	—
Forward sale contracts - mortgage loans	204	204	—	204	—
<sup>(1)</sup> As reported in the Consolidated Balance Sheets					
(dollars in thousands)	Carrying Value <sup>(1)</sup>	Fair Value Measurements at December 31, 2015			
		Total	Level 1	Level 2	Level 3
<b>ASSETS</b>					
Cash and due from banks, including interest-bearing deposits	\$99,399	\$99,399	\$99,399	\$—	—
Securities available-for-sale	660,963	660,963	—	660,963	—
Loans held for sale	35,321	35,500	—	—	35,500
Portfolio loans, net of unearned income	5,027,612	5,001,004	—	—	5,001,004
Bank owned life insurance	70,175	70,175	—	70,175	—
FHLB and other restricted stock	23,032	23,032	—	—	23,032
Trading securities held in a Rabbi Trust	4,021	4,021	4,021	—	—
Mortgage servicing rights	3,237	3,396	—	—	3,396
Interest rate swap contracts - commercial loans	11,295	11,295	—	11,295	—
Interest rate lock commitments - mortgage loans	261	261	—	261	—
<b>LIABILITIES</b>					
Deposits	\$4,876,611	\$4,881,718	\$—	\$—	-\$4,881,718
Securities sold under repurchase agreements	62,086	62,086	—	—	62,086
Short-term borrowings	356,000	356,000	—	—	356,000
Long-term borrowings	117,043	117,859	—	—	117,859

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Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swap contracts - commercial loans	11,276	11,276	—	11,276	—
Forward sale contracts - mortgage loans	5	5	—	5	—

(1) As reported in the Consolidated Balance Sheets

18

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Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 5. SECURITIES AVAILABLE-FOR-SALE

The following tables present the amortized cost and fair value of available-for-sale securities as of the dates presented:

(dollars in thousands)	June 30, 2016				December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	\$ 14,934	\$ 169	\$ —	\$ 15,103	\$ 14,914	\$ 27	\$ —	\$ 14,941
Obligations of U.S. government corporations and agencies	256,526	5,739	—	262,265	262,045	1,825	(567)	263,303
Collateralized mortgage obligations of U.S. government corporations and agencies	139,532	3,730	—	143,262	128,458	693	(316)	128,835
Residential mortgage-backed securities of U.S. government corporations and agencies	36,396	1,618	—	38,014	39,185	1,091	(151)	40,125
Commercial mortgage-backed securities of U.S. government corporations and agencies	79,517	2,151	—	81,668	69,697	183	(676)	69,204
Obligations of states and political subdivisions	125,145	9,105	—	134,250	128,904	5,988	(6)	134,886
Debt Securities	652,050	22,512	—	674,562	643,203	9,807	(1,716)	651,294
Marketable equity securities	7,579	1,339	(1)	8,917	7,579	2,090	—	9,669
Total	\$ 659,629	\$ 23,851	\$ (1)	\$ 683,479	\$ 650,782	\$ 11,897	\$ (1,716)	\$ 660,963



Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 5. SECURITIES AVAILABLE-FOR-SALE – continued

The following tables present the fair value and the age of gross unrealized losses by investment category as of the dates presented:

(dollars in thousands)	June 30, 2016								
	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	—	\$ —	\$ —	—	\$ —	\$ —	—	\$ —	\$ —
Obligations of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Collateralized mortgage obligations of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—
Debt Securities	—	—	—	—	—	—	—	—	—
Marketable equity securities	1	70	(1 )	—	—	—	1	70	(1 )
Total Temporarily Impaired Securities	1	\$ 70	\$ (1 )	—	\$ —	\$ —	1	\$ 70	\$ (1 )

(dollars in thousands)	December 31, 2015								
	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	—	\$ —	\$ —	—	\$ —	\$ —	—	\$ —	\$ —
Obligations of U.S. government corporations and agencies	10	88,584	(379 )	2	14,542	(188 )	12	103,126	(567 )
Collateralized mortgage obligations of U.S. government corporations and agencies	6	61,211	(316 )	—	—	—	6	61,211	(316 )
Residential mortgage-backed securities of U.S. government	1	7,993	(151 )	—	—	—	1	7,993	(151 )

corporations and agencies									
Commercial mortgage-backed securities of U.S. government corporations and agencies	5	50,839	(450 )	1	9,472	(226 )	6	60,311	(676 )
Obligations of states and political subdivisions	1	5,370	(6 )	—	—	—	1	5,370	(6 )
Debt Securities	23	213,997	(1,302 )	3	24,014	(414 )	26	238,011	(1,716 )
Marketable equity securities	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Securities	23	\$ 213,997	\$ (1,302 )	3	\$ 24,014	\$ (414 )	26	\$ 238,011	\$ (1,716 )

As of June 30, 2016, there were no unrealized losses on debt securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. There was one marketable equity security with an unrealized loss at June 30, 2016, and there were no marketable equity unrealized losses at December 31, 2015. We do not intend to sell and it is not more likely than not that we will be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost.

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 5. SECURITIES AVAILABLE-FOR-SALE – continued

The following table displays net unrealized gains and losses, net of tax on securities available for sale included in accumulated other comprehensive (loss)/income, for the periods presented:

(dollars in thousands)	June 30, 2016			December 31, 2015		
	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/ (Losses)	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/ (Losses)
Total unrealized gains/(losses) on securities available-for-sale	\$23,851	\$ (1)	)\$ 23,850	\$11,897	\$ (1,716)	)\$ 10,181
Income tax expense/(benefit)	8,347	—	8,347	4,164	(601)	)3,563
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	\$15,504	\$ (1)	)\$ 15,503	\$7,733	\$ (1,115)	)\$ 6,618

The amortized cost and fair value of securities available-for-sale at June 30, 2016 by contractual maturity are included in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	June 30, 2016	
	Amortized Cost	Fair Value
Obligations of the U.S. Treasury, U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	\$46,370	\$46,509
Due after one year through five years	211,742	217,558
Due after five years through ten years	66,087	69,318
Due after ten years	72,406	78,233
	396,605	411,618
Collateralized mortgage obligations of U.S. government corporations and agencies	139,532	143,262
Residential mortgage-backed securities of U.S. government corporations and agencies	36,396	38,014
Commercial mortgage-backed securities of U.S. government corporations and agencies	79,517	81,668
Debt Securities	652,050	674,562
Marketable equity securities	7,579	8,917
Total	\$659,629	\$683,479

At June 30, 2016 and December 31, 2015, securities with carrying values of \$252.5 million and \$278.4 million were pledged for various regulatory and legal requirements.

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 6. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of \$4.5 million and \$3.2 million at June 30, 2016 and December 31, 2015 and net of a discount related to purchase accounting fair value adjustments of \$9.0 million and \$10.9 million at June 30, 2016 and December 31, 2015. The following table indicates the composition of the acquired and originated loans as of the dates presented:

(dollars in thousands)	June 30, 2016	December 31, 2015
Commercial		
Commercial real estate	\$2,388,786	\$ 2,166,603
Commercial and industrial	1,385,746	1,256,830
Commercial construction	398,122	413,444
Total Commercial Loans	4,172,654	3,836,877
Consumer		
Residential mortgage	671,665	639,372
Home equity	480,204	470,845
Installment and other consumer	58,139	73,939
Consumer construction	5,602	6,579
Total Consumer Loans	1,215,610	1,190,735
Total Portfolio Loans	5,388,264	5,027,612
Loans held for sale	11,999	35,321
Total Loans	\$5,400,263	\$ 5,062,933

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, geography, collateral and industry and actively managing concentrations. When concentrations exist in certain segments, we monitor this risk by reviewing the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 77 percent of total portfolio loans at June 30, 2016 and 76 percent of total portfolio loans at December 31, 2015. Within our commercial portfolio, the CRE and Commercial Construction portfolios combined comprised \$2.8 billion or 67 percent of total commercial loans and 52 percent of total portfolio loans at June 30, 2016 and 67 percent of total commercial loans and 51 percent of total portfolio loans at December 31, 2015. Further segmentation of the CRE and Commercial Construction portfolios by collateral type reveal no concentration in excess of seven percent of total loans at June 30, 2016 and December 31, 2015.

Our market area includes Pennsylvania and the contiguous states of Ohio, West Virginia, New York and Maryland. The majority of our commercial and consumer loans are made to businesses and individuals in this market area, resulting in a geographic concentration. We believe our knowledge and familiarity with customers and conditions locally outweighs this geographic concentration risk. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Our CRE and Commercial Construction portfolios have out-of-market exposure of 5.3 percent of the combined portfolio and 2.7 percent of total loans at June 30, 2016 and 5.8 percent of the combined portfolio and 3.0 percent of total loans at December 31, 2015.

The decrease in loans held for sale of \$23.3 million primarily related to the sale of our credit card portfolio of \$22.9 million and resulted in a \$2.1 million gain for the six months ended June 30, 2016.

Troubled debt restructurings, or TDRs, are loans where we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower. We strive to identify borrowers with financial difficulty early and work with them to come to a mutual resolution to modify the terms of their loan before the loan goes nonaccrual. These modified terms generally include extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics, reductions in contractual interest rates or principal

deferment. While unusual, there may be instances of principal forgiveness. These modifications are generally for longer term periods that would not be considered insignificant. Additionally, we classify loans where the debt obligation has been discharged through a Chapter 7 Bankruptcy and not reaffirmed as TDRs.

We individually evaluate all substandard commercial loans that have experienced a forbearance or change in terms agreement, as well as all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan to determine if they should be designated as TDRs. All TDRs are considered to be impaired loans and will be reported as impaired loans for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal and interest will be collected according to the restructured agreement. Further, all

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

The following table summarizes the restructured loans as of the dates presented:

(dollars in thousands)	June 30, 2016			December 31, 2015		
	Performing TDRs	Nonperforming TDRs	Total TDRs	Performing TDRs	Nonperforming TDRs	Total TDRs
Commercial real estate	\$4,263	\$ 4,369	\$8,632	\$6,822	\$ 3,548	\$10,370
Commercial and industrial	6,241	2,535	8,776	6,321	1,570	7,891
Commercial construction	4,351	2,820	7,171	5,013	1,265	6,278
Residential mortgage	2,493	4,411	6,904	2,590	665	3,255
Home equity	3,225	882	4,107	3,184	523	3,707
Installment and other consumer	25	11	36	25	88	113
Total	\$20,598	\$ 15,028	\$35,626	\$23,955	\$ 7,659	\$31,614

There were no TDRs returned to accruing status during the three and six months ended June 30, 2016 and there were six TDRs that returned to accruing status totaling \$0.3 million during the three and six months ended June 30, 2015.

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

The following tables present the restructured loans during the periods presented:

(dollars in thousands)	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Pre-Modification Outstanding Recorded Investment <sup>(1)</sup>	Post-Modification Outstanding Recorded Investment <sup>(1)</sup>	Total Difference in Recorded Investment	Pre-Modification Outstanding Recorded Investment <sup>(1)</sup>	Post-Modification Outstanding Recorded Investment <sup>(1)</sup>	Total Difference in Recorded Investment
Commercial real estate						
Principal deferral	1 \$ 4,721	\$ 2,270	\$ (2,451 )	\$ —	\$ —	\$ —
Commercial and industrial						
Principal deferral	5 985	985	—	—	—	—
Principal forgiveness	—	—	—	1400	400	—
Maturity date extension	1 130	130	—	—	—	—
Commercial Construction						
Maturity date extension	4 1,324	1,269	(55 )	—	—	—
Residential mortgage						
Principal deferral	1 3,273	3,273	—	—	—	—
Chapter 7 bankruptcy <sup>(2)</sup>	1 65	64	(1 )	—	—	—
Maturity date extension and interest rate reduction	—	—	—	2225	225	—
Home equity						
Chapter 7 bankruptcy <sup>(2)</sup>	4 73	69	(4 )	4171	171	—
Maturity date extension	3 120	120	—	—	—	—
Installment and other consumer						
Chapter 7 bankruptcy <sup>(2)</sup>	2 16	13	(3 )	—	—	—
Total by Concession Type						
Principal forgiveness	— \$ —	\$ —	\$ —	1 \$ 400	\$ 400	\$ —
Principal deferral	7 8,979	6,528	(2,451 )	—	—	—
Chapter 7 bankruptcy <sup>(2)</sup>	7 154	146	(8 )	4171	171	—
Interest rate reduction	—	—	—	—	—	—
Maturity date extension and interest rate reduction	—	—	—	2225	225	—
Maturity date extension	8 1,574	1,519	(55 )	—	—	—
Total	22 \$ 10,707	\$ 8,193	\$ (2,514 )	7 \$ 796	\$ 796	\$ —

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

<sup>(2)</sup> Chapter 7 bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not reaffirmed.

Table of Contents

## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

(dollars in thousands)	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Pre-Modification Outstanding Loans Recorded Investment <sup>(1)</sup>	Post-Modification Outstanding Loans Recorded Investment <sup>(1)</sup>	Total Difference in Recorded Investment	Pre-Modification Outstanding Loans Recorded Investment <sup>(1)</sup>	Post-Modification Outstanding Loans Recorded Investment <sup>(1)</sup>	Total Difference in Recorded Investment
Commercial real estate						
Principal deferral	1 \$ 4,721	\$ 2,270	\$ (2,451 )	2 \$ 2,851	\$ 2,851	\$ —
Chapter 7 bankruptcy <sup>(2)</sup>	1 709	681	(28 )	—	—	—
Commercial and industrial						
Principal forgiveness	—	—	—	1 400	400	—
Principal deferral	5 985	985	—	6 661	661	—
Chapter 7 bankruptcy <sup>(2)</sup>	—	—	—	1 3	1	(2 )
Maturity date extension	3 755	728	(27 )	1 780	765	(15 )
Commercial Construction						
Principal deferral	—	—	—	1 104	103	(1 )
Maturity date extension	5 1,357	1,303	(54 )	—	—	—
Residential mortgage						
Principal deferral	1 3,273	3,273	—	—	—	—
Chapter 7 bankruptcy <sup>(2)</sup>	4 285	280	(5 )	—	—	—
Maturity date extension	1 483	483	—	—	—	—
Maturity date extension and interest rate reduction	—	—	—	2 225	225	—
Home equity						
Principal deferral	1 47	46	(1 )	—	—	—
Chapter 7 bankruptcy <sup>(2)</sup>	9 318	309	(9 )	12 313	304	(9 )
Maturity date extension and interest rate reduction	1 130	128	(2 )	—	—	—
Maturity date extension	4 274	272	(2 )	1 71	71	—
Installment and other consumer						
Chapter 7 bankruptcy <sup>(2)</sup>	2 16	13	\$(3 )	—	—	\$ —
Total by Concession Type						
Principal forgiveness	— \$ —	\$ —	\$ —	1 \$ 400	\$ 400	\$ —
Principal deferral	8 9,026	6,574	(2,452 )	9 3,616	3,615	(1 )
Chapter 7 bankruptcy <sup>(2)</sup>	161,328	1,283	(45 )	13 316	305	(11 )
Interest rate reduction	—	—	—	—	—	—
Maturity date extension and interest rate reduction	1 130	128	(2 )	2 225	225	—
Maturity date extension	132,869	2,786	(83 )	2 851	836	(15 )
Total	38 \$ 13,353	\$ 10,771	\$(2,582 )	27 \$ 5,408	\$ 5,381	\$ (27 )

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

<sup>(2)</sup> Chapter 7 bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not



reaffirmed.

For the three months ended June 30, 2016, we modified one C&I loan totaling \$6.5 million and one CRE loan totaling \$0.5 million that were not considered to be TDRs. For the six months ended June 30, 2016, we modified three C&I loans totaling \$8.7 million and one CRE loan totaling \$0.5 million. The modifications were administrative extensions of maturity dates that were determined not to be a concession. As of June 30, 2016, we have \$0.7 million of commitments to lend additional funds on TDRs.

25

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Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

Defaulted TDRs are defined as loans having a payment default of 90 days or more after the restructuring takes place. The following tables present a summary of TDRs which defaulted during the periods presented that had been restructured within the last 12 months prior to defaulting:

Defaulted TDRs

Three Months Ended June 30, 2016	Six Months Ended June 30,
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