

S&T BANCORP INC
Form 10-Q
August 02, 2017

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, 2017

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined 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 - 34,979,557 shares as of July 31, 2017

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, 2017 and December 31, 2016 2

Consolidated Statements of Comprehensive Income - Three and Six Months Ended June 30, 2017 and 2016 3

Consolidated Statements of Changes in Shareholders' Equity - Six Months Ended June 30, 2017 and 2016 4

Consolidated Statements of Cash Flows - Six Months Ended June 30, 2017 and 2016 5

Notes to Consolidated Financial Statements 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 39

Item 3. Quantitative and Qualitative Disclosures about Market Risk 56

Item 4. Controls and Procedures 58

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 59

Item 1A. Risk Factors 59

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 59

Item 3. Defaults Upon Senior Securities 59

Item 4. Mine Safety Disclosures 59

Item 5. Other Information 59

Item 6. Exhibits 59

Signatures 60

Table of Contents

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

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
(dollars in thousands, except per share data)		
ASSETS		
Cash and due from banks, including interest-bearing deposits of \$66,764 and \$87,201 at June 30, 2017 and December 31, 2016	\$ 125,863	\$ 139,486
Securities available-for-sale, at fair value	689,388	693,487
Loans held for sale	23,120	3,793
Portfolio loans, net of unearned income	5,757,819	5,611,419
Allowance for loan losses	(55,351)	(52,775)
Portfolio loans, net	5,702,468	5,558,644
Bank owned life insurance	72,449	72,081
Premises and equipment, net	45,019	44,999
Federal Home Loan Bank and other restricted stock, at cost	33,417	31,817
Goodwill	291,670	291,670
Other intangible assets, net	4,191	4,910
Other assets	98,581	102,166
Total Assets	\$7,086,166	\$ 6,943,053
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 1,335,768	\$ 1,263,833
Interest-bearing demand	636,904	638,300
Money market	950,619	936,461
Savings	1,010,348	1,050,131
Certificates of deposit	1,476,223	1,383,652
Total Deposits	5,409,862	5,272,377
Securities sold under repurchase agreements	46,489	50,832
Short-term borrowings	645,000	660,000
Long-term borrowings	13,518	14,713
Junior subordinated debt securities	45,619	45,619
Other liabilities	54,616	57,556
Total Liabilities	6,215,104	6,101,097
SHAREHOLDERS' EQUITY		
Common stock (\$2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at June 30, 2017 and December 31, 2016	90,326	90,326
Outstanding— 34,980,280 shares at June 30, 2017 and 34,913,023 shares at December 31, 2016		
Additional paid-in capital	214,941	213,098
Retained earnings	610,504	585,891
Accumulated other comprehensive (loss) income	(12,858)	(13,784)
Treasury stock (1,150,200 shares at June 30, 2017 and 1,217,457 shares at December 31, 2016, at cost)	(31,851)	(33,575)

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Total Shareholders' Equity	871,062	841,956
Total Liabilities and Shareholders' Equity	\$7,086,166	\$6,943,053
See Notes to Consolidated Financial Statements		

Table of Contents

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

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
(dollars in thousands, except per share data)	2017	2016	2017	2016
INTEREST INCOME				
Loans, including fees	\$60,558	\$52,019	\$117,458	\$103,177
Investment Securities:				
Taxable	2,947	2,580	5,796	5,134
Tax-exempt	928	915	1,848	1,857
Dividends	481	336	963	702
Total Interest Income	64,914	55,850	126,065	110,870
INTEREST EXPENSE				
Deposits	5,976	5,029	11,355	9,284
Borrowings and junior subordinated debt securities	2,368	1,113	4,261	2,240
Total Interest Expense	8,344	6,142	15,616	11,524
NET INTEREST INCOME	56,570	49,708	110,449	99,346
Provision for loan losses	4,869	4,848	10,052	9,863
Net Interest Income After Provision for Loan Losses	51,701	44,860	100,397	89,483
NONINTEREST INCOME				
Securities gains (losses), net	3,617	—	3,987	—
Debit and credit card	3,042	2,869	5,885	5,655
Service charges on deposit accounts	2,997	3,065	6,012	6,064
Wealth management	2,428	2,630	4,831	5,382
Insurance	1,461	1,205	2,924	2,979
Mortgage banking	675	578	1,408	1,107
Gain on sale of credit card portfolio	—	—	—	2,066
Other	2,045	2,101	4,214	5,012
Total Noninterest Income	16,265	12,448	29,261	28,265
NONINTEREST EXPENSE				
Salaries and employee benefits	19,903	17,626	40,444	38,528
Net occupancy	2,751	2,688	5,566	5,638
Data processing	2,135	2,518	4,386	4,630
Furniture and equipment	1,810	1,719	3,857	3,648
FDIC insurance	1,185	994	2,308	1,934
Other taxes	1,083	896	2,060	1,995
Professional services and legal	958	988	2,001	1,728
Marketing	948	1,075	1,702	1,976
Other	5,824	6,249	11,082	13,092
Total Noninterest Expense	36,597	34,753	73,406	73,169
Income Before Taxes	31,369	22,555	56,252	44,579
Provision for income taxes	8,604	5,496	15,299	11,427
Net Income	\$22,765	\$17,059	\$40,953	\$33,152
Earnings per share—basic	\$0.66	\$0.49	\$1.18	\$0.96
Earnings per share—diluted	\$0.65	\$0.49	\$1.17	\$0.95
Dividends declared per share	\$0.20	\$0.19	\$0.40	\$0.38
Comprehensive Income	\$22,503	\$20,427	\$41,879	\$44,861

See Notes to Consolidated Financial Statements

3

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, 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
Balance at January 1, 2017	\$ 90,326	\$ 213,098	\$ 585,891	\$ (13,784)	\$ (33,575)	\$ 841,956
Net income for six months ended June 30, 2017	—	—	40,953	—	—	40,953
Other comprehensive income (loss), net of tax	—	—	—	926	—	926
Cash dividends declared (\$0.40 per share)	—	—	(13,927)	—	—	(13,927)
Treasury stock issued for restricted awards (89,351 shares, net of 22,094 forfeitures)	—	—	(2,413)	—	1,724	(689)
Recognition of restricted stock compensation expense	—	1,843	—	—	—	1,843
Balance at June 30, 2017	\$ 90,326	\$ 214,941	\$ 610,504	\$ (12,858)	\$ (31,851)	\$ 871,062

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)	2017	2016
OPERATING ACTIVITIES		
Net income	\$40,953	\$33,152
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	10,052	9,863
Provision for unfunded loan commitments	(334)	131
Depreciation, amortization and accretion	850	1,878
Net amortization of discounts and premiums on securities	2,030	1,861
Stock-based compensation expense	1,843	1,279
Securities gains	(3,987)	—
Mortgage loans originated for sale	(38,899)	(45,831)
Proceeds from the sale of mortgage loans	38,041	46,555
Gain on the sale of mortgage loans, net	(719)	(679)
Gain on the sale of credit card portfolio	—	(2,066)
Pension plan curtailment gain	—	(1,017)
Net increase in interest receivable	(666)	(3,485)
Net increase in interest payable	246	1,126
Net decrease (increase) in other assets	4,484	(2,900)
Net (decrease) increase in other liabilities	(1,775)	4,127
Net Cash Provided by Operating Activities	52,119	43,994
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(36,604)	(45,431)
Proceeds from maturities, prepayments and calls of securities available-for-sale	35,256	34,723
Proceeds from sales of securities available-for-sale	7,751	—
Net proceeds from (purchases of) Federal Home Loan Bank stock	1,600	(4,723)
Net increase in loans	(176,768)	(369,089)
Proceeds from sale of loans not originated for resale	3,581	2,427
Purchases of premises and equipment	(3,018)	(1,360)
Proceeds from the sale of premises and equipment	273	3
Proceeds from the sale of credit card portfolio	—	25,019
Net Cash Used in Investing Activities	(167,929)	(358,431)
FINANCING ACTIVITIES		
Net increase in deposits	44,914	105,970
Net increase in certificates of deposit	92,427	138,148
Net decrease in securities sold under repurchase agreements	(4,343)	(13,607)
Net (decrease) increase in short-term borrowings	(15,000)	194,000
Repayments of long-term borrowings	(1,195)	(101,155)
Treasury shares issued-net	(689)	(116)
Cash dividends paid to common shareholders	(13,927)	(13,211)
Net Cash Provided by Financing Activities	102,187	310,029
Net decrease in cash and cash equivalents	(13,623)	(4,408)
Cash and cash equivalents at beginning of period	139,486	99,399
Cash and Cash Equivalents at End of Period	\$125,863	\$94,991

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Supplemental Disclosures

Loans transferred to (from) held for sale	\$17,750	\$(1,540)
Interest paid	\$15,369	\$10,398
Income taxes paid, net of refunds	\$13,399	\$13,474
Transfers of loans to other real estate owned	\$1,407	\$231
See Notes to Consolidated Financial Statements		

5

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 the audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission, or SEC, on February 24, 2017. In the opinion of management, the accompanying interim financial information reflects all adjustments, consisting of 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.

We previously reported in our annual report on Form 10-K, three reportable operating segments: Community Banking, Insurance and Wealth Management. We have reevaluated our segment reporting as of January 1, 2017 and have determined that Insurance and Wealth Management activities are not material to our consolidated financial results, therefore, we are no longer reporting segment information.

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 or Update

Stock Compensation - Improvements to Employee Share-Based Payment Accounting

On March 31, 2016 the Financial Accounting Standards Board, or 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. The adoption of this ASU had no material impact on our results of operations or 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 will 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. The adoption of this ASU had no impact on our results of operations or financial position.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Receivables - Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities
In March 2017, the FASB issued ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities. The amendments in this ASU affect all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date. This ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, which continues to be amortized to maturity. This Update is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. We have early adopted the provisions of this ASU and it had no impact on our results of operations or financial position.

Recently Issued Accounting Standards Updates not yet Adopted

Compensation - Retirement Benefits - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Post Retirement Benefit Costs

In March 2017, the FASB issued ASU No. 2017-07, Compensation Retirement Benefits - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Post retirement Benefit Costs (Topic 715). The main objective of this ASU is to provide financial statement users with clearer and disaggregated information related to the components of net periodic benefit cost and improve transparency of the presentation of net periodic benefit cost in the financial statements. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Effective March 31, 2016, our qualified and nonqualified defined benefit plans were amended to freeze benefit accruals for all persons entitled to benefits under the plan; as such, the provisions of this ASU will have no impact on our results of operations and financial position.

Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets - Clarifying the Scope of Assets Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

In February 2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The main objective in this ASU is intended to provide greater detail on what types of transactions should be accounted for as partial sales of nonfinancial assets. The scope of this ASU, as originally issued in ASU No. 2014-09 (described below), is intended to reduce the complexity of current GAAP requirements by clarifying which accounting guidance applies to various types of contracts that transfer assets or ownership interest to another entity. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017 and at the same time that ASU No. 2014-09 is effective. Early adoption is permitted, but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment (Topic 350). The main objective in this ASU is intended to simplify the current requirements for testing goodwill for impairment by eliminating step two from the goodwill impairment test. The amendments are expected to reduce the complexity and costs associated with performing the goodwill impairment test, which could result in recording impairment charges sooner than under the current guidance. This Update is effective for any interim and annual impairment tests in reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially

impact our results of operations and financial position.

7

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Business Combinations - Clarifying the Definition of a Business

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations - Clarifying the Definition of a Business (Topic 805). The main objective in this ASU is to help financial statement preparers evaluate whether a set of transferred assets and activities (either acquired or disposed of) is a business under Topic 805, Business Combinations by changing the definition of a business. The revised definition will result in fewer acquisitions being accounted for as business combinations than under today's guidance. The definition of a business is significant because it affects the accounting for acquisitions, the identification of reporting units, consolidation evaluations and the accounting for dispositions. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted for transactions not yet reflected in financial statements that have been issued or made available for issuance. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory. The main objective of this ASU is to require companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs. This represents a change from existing guidance, which requires companies to defer the income tax effects of intercompany transfers of assets until the asset has been sold to an outside party or otherwise recognized. The new guidance will require companies to defer the income tax effects only of intercompany transfers of inventory. This Update is effective for annual periods beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period. If an entity chooses to early adopt the amendments in the ASU, it must do so in the first interim period of its annual financial statements. That is, an entity cannot adopt the amendments in the ASU in a later interim period and apply them as if they were in effect as of the beginning of the year. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The main objective of this ASU is to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this Update provide guidance on the following eight specific cash flow issues: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of bank-owned life insurance (BOLI) policies, distributions received from equity method investments, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

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 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.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). 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

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

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. 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.

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 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.

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.

ASU 2014-09, including transition requirements for all amendments, 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. Our revenue is comprised of net interest income, which is excluded from the scope of ASU 2014-09, and non-interest income. We are continuing our overall assessment of revenue streams and reviewing contracts potentially affected by the ASU including trust and asset management fees, deposit related fees, interchange fees and other revenue streams associated with contracts with third parties to determine the potential impact to our results of operations, financial position and disclosures. However, we do not expect that this ASU will materially impact our results of operations and financial position.

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. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

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. 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 in 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. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2017. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 2. EARNINGS PER SHARE

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

(in thousands, except shares and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator for Earnings per Share—Basic:				
Net income	\$22,765	\$ 17,059	\$40,953	\$ 33,152
Less: Income allocated to participating shares	81	60	141	101
Net Income Allocated to Shareholders	\$22,684	\$ 16,999	\$40,812	\$ 33,051
Numerator for Earnings per Share—Diluted:				
Net income	\$22,765	\$ 17,059	\$40,953	\$ 33,152
Net Income Available to Shareholders	\$22,765	\$ 17,059	\$40,953	\$ 33,152
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	34,724,925	34,674,712	34,707,683	34,666,773
Add: Potentially dilutive shares	181,571	89,853	199,693	80,890
Denominator for Treasury Stock Method—Diluted	34,906,496	34,764,565	34,907,376	34,747,663
Weighted Average Shares Outstanding—Basic	34,724,925	34,674,712	34,707,683	34,666,773
Add: Average participating shares outstanding	123,729	122,160	119,585	105,794
Denominator for Two-Class Method—Diluted	34,848,654	34,796,872	34,827,268	34,772,567
Earnings per share—basic	\$0.66	\$ 0.49	\$ 1.18	\$ 0.96
Earnings per share—diluted	\$0.65	\$ 0.49	\$ 1.17	\$ 0.95
Warrants considered anti-dilutive excluded from potentially dilutive shares - exercise price \$31.53 per share, expires January 2019	466,554	517,012	456,749	517,012
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	126,332	144,998	105,187	117,796

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. 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 that 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. Rabbi Trust assets are reported in other assets in the Consolidated Balance Sheets.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. 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. MSR are reported in other assets in the Consolidated Balance Sheets and are amortized into noninterest income in the

Consolidated Statements of Comprehensive Income.

12

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

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.

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 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; restricted stock 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.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

Junior Subordinated Debt Securities

The interest rate on the variable rate junior subordinated debt securities is reset quarterly; therefore, the carrying values approximate their fair values.

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, 2017 and December 31, 2016. 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, 2017			Total
	Level 1	Level 2	Level 3	
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	\$—	\$24,886	\$—	—\$24,886
Obligations of U.S. government corporations and agencies	—	211,434	—	211,434
Collateralized mortgage obligations of U.S. government corporations and agencies	—	120,203	—	120,203
Residential mortgage-backed securities of U.S. government corporations and agencies	—	34,611	—	34,611
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	162,413	—	162,413
Obligations of states and political subdivisions	—	131,106	—	131,106
Marketable equity securities	—	4,735	—	4,735
Total securities available-for-sale	—	689,388	—	689,388
Trading securities held in a Rabbi Trust	4,790	—	—	4,790
Total securities	4,790	689,388	—	694,178
Derivative financial assets:				
Interest rate swap contracts - commercial loans	—	5,442	—	5,442
Interest rate lock commitments - mortgage loans	—	456	—	456
Forward sale contracts - mortgage loans	—	14	—	14
Total Assets	\$4,790	\$695,300	\$—	—\$700,090
LIABILITIES				
Derivative financial liabilities:				
Interest rate swap contracts - commercial loans	\$—	\$5,423	\$—	—\$5,423
Total Liabilities	\$—	\$5,423	\$—	—\$5,423

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

(dollars in thousands)	December 31, 2016			
	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	\$—	\$24,811	\$—	—\$24,811
Obligations of U.S. government corporations and agencies	—	232,179	—	232,179
Collateralized mortgage obligations of U.S. government corporations and agencies	—	129,777	—	129,777
Residential mortgage-backed securities of U.S. government corporations and agencies	—	37,358	—	37,358
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	125,604	—	125,604
Obligations of states and political subdivisions	—	132,509	—	132,509
Marketable equity securities	—	11,249	—	11,249
Total securities available-for-sale	—	693,487	—	693,487
Trading securities held in a Rabbi Trust	4,410	—	—	4,410
Total securities	4,410	693,487	—	697,897
Derivative financial assets:				
Interest rate swap contracts - commercial loans	—	6,960	—	6,960
Interest rate lock commitments - mortgage loans	—	236	—	236
Total Assets	\$4,410	\$700,683	\$—	—\$705,093
LIABILITIES				
Derivative financial liabilities:				
Interest rate swap contracts - commercial loans	\$—	\$6,958	\$—	—\$6,958
Forward sale contracts - mortgage loans	—	27	—	27
Total Liabilities	\$—	\$6,985	\$—	—\$6,985

We may be required to measure certain assets and liabilities at fair value 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, 2017 or December 31, 2016. 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, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS⁽¹⁾								
Loans held for sale	\$—	\$—	\$—	\$—	\$—	\$—	\$1,802	\$1,802
Impaired loans	—	22,551	22,551	—	—	10,329	10,329	—
Other real estate owned	—	391	391	—	—	396	396	—
Mortgage servicing rights	—	508	508	—	—	538	538	—
Total Assets	\$—	\$—	\$23,450	\$23,450	\$—	\$—	\$13,065	\$13,065

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

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

The carrying values and fair values of our financial instruments at June 30, 2017 and December 31, 2016 are presented in the following tables:

(dollars in thousands)	Carrying Value ⁽¹⁾	Fair Value Measurements at June 30, 2017			
		Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	\$125,863	\$125,863	\$125,863	\$	—\$—
Securities available-for-sale	689,388	689,388	—	689,388	—
Loans held for sale	23,120	23,258	—	—	23,258
Portfolio loans, net	5,757,819	5,695,791	—	—	5,695,791
Bank owned life insurance	72,449	72,449	—	72,449	—
FHLB and other restricted stock	33,417	33,417	—	—	33,417
Trading securities held in a Rabbi Trust	4,790	4,790	4,790	—	—
Mortgage servicing rights	3,839	4,195	—	—	4,195
Interest rate swap contracts - commercial loans	5,442	5,442	—	5,442	—
Interest rate lock commitments - mortgage loans	456	456	—	456	—
Forward sale contracts - mortgage loans	14	14	—	14	—
LIABILITIES					
Deposits	\$5,409,862	\$5,414,320	\$—	\$	—\$5,414,320
Securities sold under repurchase agreements	46,489	46,489	—	—	46,489
Short-term borrowings	645,000	645,000	—	—	645,000
Long-term borrowings	13,518	13,979	—	—	13,979
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swap contracts - commercial loans	5,423	5,423	—	5,423	—

⁽¹⁾ As reported in the Consolidated Balance Sheets

(dollars in thousands)	Carrying Value ⁽¹⁾	Fair Value Measurements at December 31, 2016			
		Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	\$139,486	\$139,486	\$139,486	\$	—\$—
Securities available-for-sale	693,487	693,487	—	693,487	—
Loans held for sale	3,793	3,815	—	—	3,815
Portfolio loans, net of unearned income	5,611,419	5,551,266	—	—	5,551,266
Bank owned life insurance	72,081	72,081	—	72,081	—
FHLB and other restricted stock	31,817	31,817	—	—	31,817
Trading securities held in a Rabbi Trust	4,410	4,410	4,410	—	—
Mortgage servicing rights	3,744	4,098	—	—	4,098
Interest rate swap contracts - commercial loans	6,960	6,960	—	6,960	—
Interest rate lock commitments - mortgage loans	236	236	—	236	—
LIABILITIES					
Deposits	\$5,272,377	\$5,276,499	\$—	\$	—\$5,276,499
Securities sold under repurchase agreements	50,832	50,832	—	—	50,832
Short-term borrowings	660,000	660,000	—	—	660,000
Long-term borrowings	14,713	15,267	—	—	15,267
Junior subordinated debt securities	45,619	45,619	—	—	45,619

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Interest rate swap contracts - commercial loans	6,958	6,958	—	6,958	—
Forward sale contracts - mortgage loans	27	27	—	27	—

(1) As reported in the Consolidated Balance Sheets

16

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE

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

(dollars in thousands)	June 30, 2017				December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	\$24,917	\$ 2	\$ (33)	\$24,886	\$24,891	\$ 47	\$ (127)	\$24,811
Obligations of U.S. government corporations and agencies	210,459	1,328	(353)	211,434	230,989	1,573	(383)	232,179
Collateralized mortgage obligations of U.S. government corporations and agencies	120,272	527	(596)	120,203	130,046	465	(734)	129,777
Residential mortgage-backed securities of U.S. government corporations and agencies	33,850	948	(187)	34,611	36,606	984	(232)	37,358
Commercial mortgage-backed securities of U.S. government corporations and agencies	162,981	646	(1,214)	162,413	127,311	243	(1,950)	125,604
Obligations of states and political subdivisions	125,464	5,642	—	131,106	128,783	3,772	(46)	132,509
Debt Securities	677,943	9,093	(2,383)	684,653	678,626	7,084	(3,472)	682,238
Marketable equity securities	3,815	921	(1)	4,735	7,579	3,670	—	11,249
Total	\$681,758	\$ 10,014	\$ (2,384)	\$689,388	\$686,205	\$ 10,754	\$ (3,472)	\$693,487

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. 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, 2017								
	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	3	\$19,881	\$(33)	—	\$ —	—	3	\$19,881	\$(33)
Obligations of U.S. government corporations and agencies	8	72,242	(353)	—	—	—	8	72,242	(353)
Collateralized mortgage obligations of U.S. government corporations and agencies	8	65,731	(596)	—	—	—	8	65,731	(596)
Residential mortgage-backed securities of U.S. government corporations and agencies	2	9,374	(187)	—	—	—	2	9,374	(187)
Commercial mortgage-backed securities of U.S. government corporations and agencies	7	67,084	(1,214)	—	—	—	7	67,084	(1,214)
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—
Debt Securities	28	234,312	(2,383)	—	—	—	28	234,312	(2,383)
Marketable equity securities	1	70	(1)	—	—	—	1	70	(1)
Total Temporarily Impaired Securities	29	\$234,382	\$(2,384)	—	\$ —	—	29	\$234,382	\$(2,384)

(dollars in thousands)	December 31, 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	1	\$9,811	\$(127)	—	\$ —	—	1	\$9,811	\$(127)
Obligations of U.S. government corporations and	7	62,483	(383)	—	—	—	7	62,483	(383)

agencies									
Collateralized mortgage obligations of U.S. government corporations and agencies	10	83,031	(734)	—	—	—	10	83,031	(734)
Residential mortgage-backed securities of U.S. government corporations and agencies	2	10,022	(232)	—	—	—	2	10,022	(232)
Commercial mortgage-backed securities of U.S. government corporations and agencies	10	96,576	(1,950)	—	—	—	10	96,576	(1,950)
Obligations of states and political subdivisions	1	5,577	(46)	—	—	—	1	5,577	(46)
Debt Securities	31	267,500	(3,472)	—	—	—	31	267,500	(3,472)
Marketable equity securities	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Securities	31	\$267,500	\$(3,472)	—	\$	-\$	—31	\$267,500	\$(3,472)

We do not believe any individual unrealized loss as of June 30, 2017 represents an other than temporary impairment, or OTTI. At June 30, 2017 there were 28 debt securities in an unrealized loss position and at December 31, 2016 there were 31 debt securities in an unrealized loss position. There was one marketable equity security at June 30, 2017 with an unrealized loss and no marketable equity securities at December 31, 2016 with unrealized losses. The unrealized losses on debt securities were primarily attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. 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&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. 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, 2017			December 31, 2016		
	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	\$10,014	\$ (2,384)	\$ 7,630	\$10,754	\$ (3,472)	\$ 7,282
Income tax expense/(benefit)	(3,517)	837	(2,680)	(3,776)	1,219	(2,557)
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	\$6,497	\$ (1,547)	\$ 4,950	\$6,978	\$ (2,253)	\$ 4,725

The amortized cost and fair value of securities available-for-sale at June 30, 2017 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, 2017	
	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	\$61,661	\$61,805
Due after one year through five years	180,806	182,760
Due after five years through ten years	58,782	60,214
Due after ten years	59,591	62,647
	360,840	367,426
Collateralized mortgage obligations of U.S. government corporations and agencies	120,272	120,203
Residential mortgage-backed securities of U.S. government corporations and agencies	33,850	34,611
Commercial mortgage-backed securities of U.S. government corporations and agencies	162,981	162,413
Debt Securities	677,943	684,653
Marketable equity securities	3,815	4,735
Total	\$681,758	\$689,388

At June 30, 2017 and December 31, 2016, securities with carrying values of \$262 million and \$342 million were pledged for various regulatory and legal requirements.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of \$4.5 million and \$5.2 million at June 30, 2017 and December 31, 2016 and net of a discount related to purchase accounting fair value adjustments of \$4.9 million and \$7.1 million at June 30, 2017 and December 31, 2016. The following table indicates the composition of loans as of the dates presented:

(dollars in thousands)	June 30, 2017	December 31, 2016
Commercial		
Commercial real estate	\$2,664,642	\$ 2,498,476
Commercial and industrial	1,401,283	1,401,035
Commercial construction	426,754	455,884
Total Commercial Loans	4,492,679	4,355,395
Consumer		
Residential mortgage	706,143	701,982
Home equity	484,960	482,284
Installment and other consumer	70,068	65,852
Consumer construction	3,969	5,906
Total Consumer Loans	1,265,140	1,256,024
Total Portfolio Loans	5,757,819	5,611,419
Loans held for sale	23,120	3,793
Total Loans	\$5,780,939	\$ 5,615,212

As of June 30, 2017, our acquired loans from the 2015 Integrity Bancshares, Inc. merger, or the Merger, were \$443 million which included \$231 million of Commercial Real Estate, or CRE, \$109 million of Commercial & Industrial, or C&I, \$18.7 million of commercial construction, \$64.4 million of residential mortgage and \$19.9 million of home equity, installment and other consumer construction. As of December 31, 2016 acquired loans were \$543 million and which included \$273 million of CRE, \$141 million of C&I, \$33.0 million of commercial construction, \$74.0 million of residential mortgage and \$22.0 million of home equity, installment and other consumer construction.

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 78 percent of total portfolio loans at June 30, 2017 and December 31, 2016. Within our commercial portfolio, the CRE and Commercial Construction portfolios combined comprised \$3.1 billion or 69 percent of total commercial loans and 54 percent of total portfolio loans at June 30, 2017 and comprised of \$3.0 billion or 68 percent of total commercial loans and 53 percent of total portfolio loans at December 31, 2016. Further segmentation of the CRE and Commercial Construction portfolios by collateral type reveals no concentration in excess of seven percent of total loans at June 30, 2017 and December 31, 2016.

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 regional 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 2.8 percent of total loans at June 30, 2017 and 5.2 percent of the combined portfolio and 2.7 percent of total loans at December 31, 2016.

The increase in loans held for sale of \$19.3 million relates to three commercial participation loans totaling \$18.0 million that were held for sale at June 30, 2017.

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 troubled debt restructurings, or 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 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

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE - continued

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, 2017			December 31, 2016		
	Performing	Nonperforming	Total	Performing	Nonperforming	Total
	TDRs	TDRs	TDRs	TDRs	TDRs	TDRs
Commercial real estate	\$2,672	\$ 704	\$3,376	\$2,994	\$ 646	\$3,640
Commercial and industrial	3,324	3,944	7,268	1,387	4,493	5,880
Commercial construction	2,953	423	3,376	2,966	430	3,396
Residential mortgage	2,235	4,111	6,346	2,375	5,068	7,443
Home equity	3,866	918	4,784	3,683	954	4,637
Installment and other consumer	30	5	35	18	7	25
Total	\$15,080	\$ 10,105	\$25,185	\$13,423	\$ 11,598	\$25,021

There was one TDR that returned to accruing status totaling \$2.0 million during the three and six months ended June 30, 2017 and no TDRs returned to accruing status during the three and six months ended June 30, 2016.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE - continued

The following tables present the restructured loans categorized by type of concession during the periods presented:

(dollars in thousands)	Three Months Ended June 30, 2017				Three months ended June 30, 2016			
	Pre-Modification	Post-Modification	Total	Difference	Pre-Modification	Post-Modification	Total	Difference
	Number of Loans Recorded	Outstanding Recorded Investment ⁽¹⁾	Outstanding Recorded Investment		Number of Loans Recorded	Outstanding Recorded Investment ⁽¹⁾	Outstanding Recorded Investment	
Commercial real estate								
Principal deferral	1	100	100	—	1	4,721	2,270	(2,451)
Commercial and industrial								
Principal deferral	1	429	429	—	5	985	985	—
Maturity date extension and interest rate reduction	2	1,800	1,800	—	—	—	—	—
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 ⁽²⁾	1	33	33	—	1	65	64	(1)
Home equity								
Chapter 7 bankruptcy ⁽²⁾	3	40	38	(2)	4	73	69	(4)
Maturity date extension	1	231	231	—	3	120	120	—
Installment and other consumer								
Chapter 7 bankruptcy ⁽²⁾	2	37	34	(3)	2	16	13	(3)
Total by Concession Type								
Principal deferral	2	\$ 529	\$ 529	\$ —	7	\$ 8,979	\$ 6,528	\$ (2,451)
Chapter 7 bankruptcy ⁽²⁾	6	110	105	(5)	7	154	146	(8)
Maturity date extension and interest rate reduction	2	1,800	1,800	—	—	—	—	—
Maturity date extension	1	231	231	—	8	1,574	1,519	(55)
Total	11	\$ 2,670	\$ 2,665	\$ (5)	22	\$ 10,707	\$ 8,193	\$ (2,514)

⁽¹⁾ 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.

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

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE - continued

(dollars in thousands)	Six Months Ended June 30, 2017				Six Months Ended June 30, 2016			
	Number of Loans	Pre-Modification Outstanding Recorded Investment ⁽¹⁾	Post-Modification Outstanding Recorded Investment ⁽¹⁾	Total Difference in Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment ⁽¹⁾	Post-Modification Outstanding Recorded Investment ⁽¹⁾	Total Difference in Recorded Investment
Commercial real estate								
Principal deferral	1	\$ 100	\$ 100	\$ —	1	\$ 4,721	\$ 2,270	\$ (2,451)
Chapter 7 bankruptcy ⁽²⁾	—	—	—	—	1	709	681	(28)
Commercial and industrial								
Principal deferral	1	429	429	—	5	985	985	—
Maturity Date extension and interest rate reduction	2	1,800	1,800	—	—	—	—	—
Maturity date extension	—	—	—	—	3	755	728	(27)
Commercial Construction								
Maturity date extension	—	—	—	—	5	1,357	1,303	(54)
Residential mortgage								
Principal deferral	—	—	—	—	1	3,273	3,273	—
Chapter 7 bankruptcy ⁽²⁾	1	33	33	—	4	285	280	(5)
Maturity date extension	—	—	—	—	1	483	483	—
Home equity								
Principal deferral	—	—	—	—	1	47	46	(1)
Chapter 7 bankruptcy ⁽²⁾	9	309	304	(5)	9	318	309	(9)
Maturity date extension and interest rate reduction	1	173	172	(1)	1	130	128	(2)
Maturity date extension	1	231	231	—	4	274	272	(2)
Installment and other consumer								
Chapter 7 bankruptcy ⁽²⁾	2	37	34	(3)	2	16	13	(3)
Total by Concession Type								
Principal deferral	2	529	529	—	8	9,026	6,574	(2,452)
Chapter 7 bankruptcy ⁽²⁾	12	379	371	(8)	16	1,328	1,283	(45)
Maturity date extension and interest rate reduction	3	1,973	1,972	(1)	1	130	128	(2)
Maturity date extension	1	231	231	—	13	2,869	2,786	(83)
Total	18	\$ 3,112	\$ 3,103	\$ (9)	38	\$ 13,353	\$ 10,771	\$ (2,582)

⁽¹⁾ 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.

⁽²⁾ 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, 2017, we modified two C&I loans totaling \$3.9 million that were not considered to be TDRs. For the six months ended June 30, 2017, we modified 12 loans totaling \$11.8 million of which nine were C&I loans totaling \$10.4 million and three CRE loans totaling \$1.4 million. The modifications primarily related to maturity date extensions that were deemed to be an insignificant time period. As of June 30, 2017, we have \$0.6

million of commitments to lend additional funds on TDRs.

23

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. 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. There were no TDRs that defaulted during the three months ended June 30, 2017 and June 30, 2016. There were no TDRs that defaulted during the six months ended June 30, 2017 and one commercial construction loan for \$0.6 million that defaulted for the six months ended June 30, 2016.

The following table is a summary of nonperforming assets as of the dates presented:

(dollars in thousands)	Nonperforming Assets	
	June 30, 2017	December 31, 2016
Nonperforming Assets		
Nonaccrual loans	\$26,564	\$ 31,037
Nonaccrual TDRs	10,105	11,598
Total nonaccrual loans	36,669	42,635
OREO	1,620	679
Total Nonperforming Assets	\$38,289	\$ 43,314

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

We maintain an allowance for loan losses, or ALL, at a level determined to be adequate to absorb estimated probable credit losses inherent in the loan portfolio as of the balance sheet date. We develop and document a systematic ALL methodology based on the following portfolio segments: 1. CRE, 2. C&I, 3. Commercial Construction, 4. Consumer Real Estate and 5. Other Consumer.

The following are key risks within each portfolio segment:

CRE—Loans secured by commercial purpose real estate, including both owner occupied properties and investment properties, for various purposes such as hotels, strip malls and apartments. Operations of the individual projects as well as global cash flows of the debtors are the primary sources of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the collateral type as well as the business prospects of the lessee, if the project is not owner occupied.

C&I—Loans made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Cash flow from the operations of the company is the primary source of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the industry of the company. Collateral for these types of loans often does not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt.

Commercial Construction—Loans made to finance construction of buildings or other structures, as well as to finance the acquisition and development of raw land for various purposes. While the risk of these loans is generally confined to the construction period, if there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the type of project and the experience and resources of the developer.

Consumer Real Estate—Loans secured by first and second liens such as home equity loans, home equity lines of credit and 1-4 family residential mortgages, including purchase money mortgages. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The state of the local housing market can also have a significant impact on this segment because low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Other Consumer—Loans made to individuals that may be secured by assets other than 1-4 family residences, as well as unsecured loans. This segment includes auto loans, unsecured loans and lines and credit cards. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

We further assess risk within each portfolio segment by pooling loans with similar risk characteristics. For the commercial loan classes, the most important indicator of risk is the internally assigned risk rating, including pass, special mention and substandard. Consumer loans are pooled by type of collateral, lien position and loan to value, or LTV, for Consumer Real Estate loans. Historical loss rates are applied to these loan pools to determine the reserve for loans collectively evaluated for impairment.

The ALL methodology for groups of loans collectively evaluated for impairment is comprised of both a quantitative and qualitative analysis. A key assumption in the quantitative component of the reserve is the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from the point at which a loss is incurred on a loan to the point at which the loss is confirmed. Another key assumption is the look-back period, or LBP, which represents the historical data period utilized to calculate loss rates.

Management monitors various credit quality indicators for both the commercial and consumer loan portfolios, including delinquency, nonperforming status and changes in risk ratings on a monthly basis.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following tables present the age analysis of past due loans segregated by class of loans as of the dates presented:

June 30, 2017						
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	\$2,653,680	\$ 2,846	\$ 917	\$ 7,199	\$ 10,962	\$2,664,642
Commercial and industrial	1,381,657	1,454	754	17,418	19,626	1,401,283
Commercial construction	424,254	187	—	2,313	2,500	426,754
Residential mortgage	694,800	3,506	781	7,056	11,343	706,143
Home equity	479,190	2,620	508	2,642	5,770	484,960
Installment and other consumer	69,756	211	60	41	312	70,068
Consumer construction	3,969	—	—	—	—	3,969
Loans held for sale	23,120	—	—	—	—	23,120
Total	\$5,730,426	\$ 10,824	\$ 3,020	\$ 36,669	\$ 50,513	\$5,780,939
December 31, 2016						
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	\$2,479,513	\$ 2,032	\$ 759	\$ 16,172	\$ 18,963	\$2,498,476
Commercial and industrial	1,391,475	1,061	428	8,071	9,560	1,401,035
Commercial construction	450,410	547	—	4,927	5,474	455,884
Residential mortgage	689,635	1,312	1,117	9,918	12,347	701,982
Home equity	476,866	1,470	509	3,439	5,418	482,284
Installment and other consumer	65,525	176	43	108	327	65,852
Consumer construction	5,906	—	—	—	—	5,906
Loans held for sale	3,793	—	—	—	—	3,793
Total	\$5,563,123	\$ 6,598	\$ 2,856	\$ 42,635	\$ 52,089	\$5,615,212

We continually monitor the commercial loan portfolio through an internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and are reviewed on an ongoing basis according to our internal policies. Loans within the pass rating generally have a lower risk of loss than loans risk rated as special mention or substandard.

Our risk ratings are consistent with regulatory guidance and are as follows:

Pass—The loan is currently performing and is of high quality.

Special Mention—A special mention loan has potential weaknesses that warrant management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the strength of our credit position at some future date. Economic and market conditions, beyond the borrower's control, may in the future necessitate this classification.

Substandard—A substandard loan is not adequately protected by the net worth and/or paying capacity of the borrower or by the collateral pledged, if any. Substandard loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following tables present the recorded investment in commercial loan classes by internally assigned risk ratings as of the dates presented:

(dollars in thousands)	June 30, 2017							
	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	\$2,574,835	96.6 %	\$ 1,290,204	92.1 %	\$ 402,199	94.2 %	\$4,267,238	95.0 %
Special mention	57,197	2.2 %	62,033	4.4 %	16,468	3.9 %	135,698	3.0 %
Substandard	32,610	1.2 %	49,046	3.5 %	8,087	1.9 %	89,743	2.0 %
Total	\$2,664,642	100.0 %	\$ 1,401,283	100.0 %	\$ 426,754	100.0 %	\$4,492,679	100.0 %

(dollars in thousands)	December 31, 2016							
	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	\$2,423,742	97.0 %	\$ 1,315,507	93.9 %	\$ 430,472	94.4 %	\$4,169,721	95.7 %
Special mention	33,098	1.3 %	40,409	2.9 %	14,691	3.2 %	88,198	2.0 %
Substandard	41,636	1.7 %	45,119	3.2 %	10,721	2.4 %	97,476	2.3 %
Total	\$2,498,476	100.0 %	\$ 1,401,035	100.0 %	\$ 455,884	100.0 %	\$4,355,395	100.0 %

We monitor the delinquent status of the consumer portfolio on a monthly basis. Loans are considered nonperforming when interest and principal are 90 days or more past due or management has determined that a material deterioration in the borrower's financial condition exists. The risk of loss is generally highest for nonperforming loans.

The following tables present the recorded investment in consumer loan classes by performing and nonperforming status as of the dates presented:

(dollars in thousands)	June 30, 2017									
	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	\$699,087	99.0 %	\$482,318	99.5 %	\$ 70,027	99.9 %	\$ 3,969	100.0 %	\$1,255,401	99.2 %
Nonperforming	7,056	1.0 %	2,642	0.5 %	41	0.1 %	—	— %	9,739	0.8 %
Total	\$706,143	100.0 %	\$484,960	100.0 %	\$ 70,068	100.0 %	\$ 3,969	100.0 %	\$1,265,140	100.0 %

(dollars in thousands)	December 31, 2016									
	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	\$692,064	98.6 %	\$478,845	99.3 %	\$ 65,744	99.8 %	\$ 5,906	100.0 %	\$1,242,559	98.9 %
Nonperforming	9,918	1.4 %	3,439	0.7 %	108	0.2 %	—	— %	13,465	1.1 %
Total	\$701,982	100.0 %	\$482,284	100.0 %	\$ 65,852	100.0 %	\$ 5,906	100.0 %	\$1,256,024	100.0 %

We individually evaluate all substandard and nonaccrual commercial loans greater than \$0.5 million for impairment. Loans are considered to be impaired when based upon current information and events it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. All TDRs will be reported as an impaired loan 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 expected that the remaining principal and interest will be fully collected according to the restructured agreement. For all TDRs, regardless of size, as well as all other impaired

loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate.

27

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following table summarizes investments in loans considered to be impaired and related information on those impaired loans as of the dates presented:

(dollars in thousands)	June 30, 2017			December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With a related allowance recorded:						
Commercial real estate	\$—	\$—	\$ —	\$—	\$—	\$ —
Commercial and industrial	2,443	2,443	340	964	2,433	771
Commercial construction	—	—	—	—	—	—
Consumer real estate	24	24	24	26	26	26
Other consumer	25	25	25	1	1	1
Total with a Related Allowance Recorded	2,492	2,492	389	991	2,460	798
Without a related allowance recorded:						
Commercial real estate	6,472	7,472	—	16,352	17,654	—
Commercial and industrial	16,125	18,097	—	5,902	7,699	—
Commercial construction	4,257	6,295	—	6,613	10,306	—
Consumer real estate	11,106	12,024	—	12,053	12,849	—
Other consumer	10	13	—	24	31	—
Total without a Related Allowance Recorded	37,970	43,901	—	40,944	48,539	—
Total:						
Commercial real estate	6,472	7,472	—	16,352	17,654	—
Commercial and industrial	18,568	20,540	340	6,866	10,132	771
Commercial construction	4,257	6,295	—	6,613	10,306	—
Consumer real estate	11,130	12,048	24	12,079	12,875	26
Other consumer	35	38	25	25	32	1
Total	\$40,462	\$46,393	\$ 389	\$41,935	\$50,999	\$ 798

As of June 30, 2017, we had \$40.5 million of impaired loans, which included \$4.3 million of acquired loans from the Merger that experienced credit deterioration since the acquisition date. This compares to \$41.9 million of impaired loans at December 31, 2016, which included \$18.4 million of acquired loans from the Merger.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following table summarizes average recorded investment in and interest income recognized on loans considered to be impaired for the periods presented:

(dollars in thousands)	Three Months Ended			
	June 30, 2017		June 30, 2016	
	Average Interest Recorded Investment	Average Interest Recognized	Average Interest Recorded Investment	Average Interest Recognized
With a related allowance recorded:				
Commercial real estate	\$—	\$ —	\$—	\$ —
Commercial and industrial	813	6	4,617	31
Commercial construction	—	—	1,232	6
Consumer real estate	24	1	29	1
Other consumer	26	—	1	—
Total with a Related Allowance Recorded	863	7	5,879	38
Without a related allowance recorded:				
Commercial real estate	6,934	35	14,619	64
Commercial and industrial	17,625	95	10,959	98
Commercial construction	4,262	42	10,625	48
Consumer real estate	11,280	125	11,028	107
Other consumer	11	1	38	—
Total without a Related Allowance Recorded	40,112	298	47,269	317
Total:				
Commercial real estate	6,934	35	14,619	64
Commercial and industrial	18,438	101	15,576	129
Commercial construction	4,262	42	11,857	54
Consumer real estate	11,304	126	11,057	108
Other consumer	37	1	39	—
Total	\$40,975	\$ 305	\$53,148	\$ 355

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

(dollars in thousands)	Six Months Ended			
	June 30, 2017		June 30, 2016	
	Average	Interest	Average	Interest
	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
With a related allowance recorded:				
Commercial real estate	\$—	\$ —	\$—	\$ —
Commercial and industrial	628	11	4,999	63
Commercial construction	—	—	1,244	12
Consumer real estate	25	1	30	1
Other consumer	27	1	2	—
Total with a Related Allowance Recorded	680	13	6,275	76
Without a related allowance recorded:				
Commercial real estate	7,028	70	14,798	132
Commercial and industrial	16,382	124	11,253	189
Commercial construction	4,267	79	10,669	108
Consumer real estate	11,514	255	11,089	243
Other consumer	12	—	40	1
Total without a Related Allowance Recorded	39,203	528	47,849	673
Total:				
Commercial real estate	7,028	70	14,798	132
Commercial and industrial	17,010	135	16,252	252
Commercial construction	4,267	79	11,913	120
Consumer real estate	11,539	256	11,119	244
Other consumer	39	1	42	1
Total	\$39,883	\$ 541	\$54,124	\$ 749

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following tables detail activity in the ALL for the periods presented:

(dollars in thousands)	Three Months Ended June 30, 2017					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$20,570	\$ 13,244	\$ 14,102	\$ 5,956	\$ 1,944	\$55,816
Charge-offs	(1,673)	(2,682)	—	(1,097)	(370)	(5,822)
Recoveries	155	69	113	76	75	488
Net (Charge-offs)/ Recoveries	(1,518)	(2,613)	113	(1,021)	(295)	(5,334)
Provision for loan losses	5,306	(1,375)	(271)	868	341	4,869
Balance at End of Period	\$24,358	\$ 9,256	\$ 13,944	\$ 5,803	\$ 1,990	\$55,351

(dollars in thousands)	Three Months Ended June 30, 2016					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$15,266	\$ 14,740	\$ 10,825	\$ 8,261	\$ 1,255	\$50,347
Charge-offs	(1,662)	(136)	(945)	(290)	(463)	(3,496)
Recoveries	38	217	2	134	123	514
Net (Charge-offs)/ Recoveries	(1,624)	81	(943)	(156)	(340)	(2,982)
Provision for loan losses	2,336	(50)	1,819	313	430	4,848
Balance at End of Period	\$15,978	\$ 14,771	\$ 11,701	\$ 8,418	\$ 1,345	\$52,213

(dollars in thousands)	Six Months Ended June 30, 2017					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$19,976	\$ 10,810	\$ 13,999	\$ 6,095	\$ 1,895	\$52,775
Charge-offs	(2,063)	(3,396)	(644)	(1,856)	(804)	(8,763)
Recoveries	233	255	369	179	251	1,287
Net (Charge-offs)/Recoveries	(1,830)	(3,141)	(275)	(1,677)	(553)	(7,476)
Provision for loan losses	6,212	1,587	220	1,385	648	10,052
Balance at End of Period	\$24,358	\$ 9,256	\$ 13,944	\$ 5,803	\$ 1,990	\$55,351

(dollars in thousands)	Six Months Ended June 30, 2016					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$15,043	\$ 10,853	\$ 12,625	\$ 8,400	\$ 1,226	\$48,147
Charge-offs	(1,715)	(2,830)	(945)	(522)	(1,111)	(7,123)
Recoveries	398	420	3	298	207	1,326

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Net (Charge-offs)/Recoveries	(1,317)	(2,410)	(942)	(224)	(904)	(5,797)
Provision for loan losses	2,252	6,328	18	242	1,023	9,863
Balance at End of Period	\$15,978	\$ 14,771	\$ 11,701	\$ 8,418	\$ 1,345	\$52,213

31

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following tables present the ALL and recorded investments in loans by category as of the periods presented:

(dollars in thousands)	June 30, 2017					
	Allowance for Loan Losses			Portfolio Loans		
	Individually		Total	Individually		Total
	Evaluated for	Impairment		Evaluated for	Impairment	
Commercial real estate	\$—	\$ 24,358	\$24,358	\$6,472	\$ 2,658,170	\$2,664,642
Commercial and industrial	340	8,916	9,256	18,568	1,382,715	1,401,283
Commercial construction	—	13,944	13,944	4,257	422,497	426,754
Consumer real estate	24	5,779	5,803	11,130	1,183,942	1,195,072
Other consumer	25	1,965	1,990	35	70,033	70,068
Total	\$389	\$ 54,962	\$55,351	\$40,462	\$ 5,717,357	\$5,757,819

(dollars in thousands)	December 31, 2016					
	Allowance for Loan Losses			Portfolio Loans		
	Individually		Total	Individually		Total
	Evaluated for	Impairment		Evaluated for	Impairment	
Commercial real estate	\$—	\$ 19,976	\$19,976	\$16,352	\$ 2,482,124	\$2,498,476
Commercial and industrial	771	10,039	10,810	6,866	1,394,169	1,401,035
Commercial construction	—	13,999	13,999	6,613	449,271	455,884
Consumer real estate	26	6,069	6,095	12,079	1,178,093	1,190,172
Other consumer	1	1,894	1,895	25	65,827	65,852
Total	\$798	\$ 51,977	\$52,775	\$41,935	\$ 5,569,484	\$5,611,419

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Swaps

In accordance with applicable accounting guidance for derivatives and hedging, all derivatives are recognized as either assets or liabilities on the balance sheet at fair value. Interest rate swaps are contracts in which a series of interest rate flows (fixed and variable) are exchanged over a prescribed period. The notional amounts on which the interest payments are based are not exchanged. These derivative positions relate to transactions in which we enter into an interest rate swap with a commercial customer while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each transaction, we agree to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed rate. At the same time, we agree to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our customer to effectively convert a variable rate loan to a fixed rate loan with us receiving a variable rate. These agreements could have floors or caps on the contracted interest rates.

Pursuant to our agreements with various financial institutions, we may receive collateral or may be required to post collateral based upon mark-to-market positions. Beyond unsecured threshold levels, collateral in the form of cash or securities may be made available to counterparties of interest rate swap transactions. Based upon our current positions and related future collateral requirements relating to them, we believe any effect on our cash flow or liquidity position to be immaterial.

Derivatives contain an element of credit risk, the possibility that we will incur a loss because a counterparty, which may be a financial institution or a customer, fails to meet its contractual obligations. All derivative contracts with financial institutions may be executed only with counterparties approved by our Asset and Liability Committee, or ALCO, and derivatives with customers may only be executed with customers within credit exposure limits approved by our Senior Loan Committee. Interest rate swaps are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives are recorded in current earnings and included in other noninterest income in the Consolidated Statements of Comprehensive Income.

Interest Rate Lock Commitments and Forward Sale Contracts

In the normal course of business, we sell originated mortgage loans into the secondary mortgage loan market. We also offer interest rate lock commitments to potential borrowers. The commitments are generally for a period of 60 days and guarantee a specified interest rate for a loan if underwriting standards are met, but the commitment does not obligate the potential borrower to close on the loan. Accordingly, some commitments expire prior to becoming loans. We may encounter pricing risks if interest rates increase significantly before the loan can be closed and sold. We may utilize forward sale contracts in order to mitigate this pricing risk. Whenever a customer desires these products, a mortgage originator quotes a secondary market rate guaranteed for that day by the investor. The rate lock is executed between the mortgagee and us and in turn a forward sale contract may be executed between us and the investor. Both the rate lock commitment and the corresponding forward sale contract for each customer are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives during the commitment period are recorded in current earnings and included in mortgage banking in the Consolidated Statements of Comprehensive Income.

The following table indicates the amounts representing the value of derivative assets and derivative liabilities as of the dates presented:

(dollars in thousands)	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016

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Derivatives not Designated as Hedging Instruments:

Interest Rate Swap Contracts- Commercial Loans

Fair value	\$ 5,442	\$ 6,960	\$ 5,423	\$ 6,958
Notional amount	228,298	232,396	228,298	232,396
Collateral posted	—	—	—	14,340

Interest Rate Lock Commitments- Mortgage Loans

Fair value	456	236	—	—
Notional amount	14,585	8,490	—	—

Forward Sale Contracts- Mortgage Loans

Fair value	14	—	—	27
Notional amount	\$ 13,911	\$ —	\$ —	\$ 8,216

33

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – continued

Presenting offsetting derivatives that are subject to legally enforceable netting arrangements with the same party is permitted. For example, we may have a derivative asset as well as a derivative liability with the same counterparty to a swap transaction and are permitted to offset the asset position and the liability position resulting in a net presentation.

The following table indicates the gross amounts of commercial loan swap derivative assets and derivative liabilities, the amounts offset and the carrying values in the Consolidated Balance Sheets as of the dates presented:

Derivatives
(included
in Other
Assets)