S&T BANCORP INC
Form 10-Q
May 04, 2016

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from To
Commission file number 0-12508

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

Pennsylvania	25-1434426
(State or other jurisdiction of incorporation or organization)	(IRS Employer 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 x 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
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 - 34,901,210 shares as of April 30, 2016

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

(dollars in thousands, except per share data)	March 31, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Cash and due from banks, including interest-bearing deposits of $71,200 and $41,639 at March 31, 2016 and December 31, 2015	$121,669	$99,399
Securities available-for-sale, at fair value	677,221	660,963
Loans held for sale	11,739	35,321
Portfolio loans, net of unearned income	5,176,748	5,027,612
Allowance for loan losses	(50,347)	(48,147)
Portfolio loans, net	5,126,401	4,979,465
Bank owned life insurance	70,684	70,175
Premises and equipment, net	48,395	49,127
Federal Home Loan Bank and other restricted stock, at cost	23,337	23,032
Goodwill	291,670	291,764
Other intangible assets, net	6,067	6,525
Other assets	101,979	102,583
Total Assets	$6,479,162	$6,318,354
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$1,212,231	$1,227,766
Interest-bearing demand	619,617	616,188
Money market	643,795	605,184
Savings	1,047,871	1,061,265
Certificates of deposit	1,494,411	1,366,208
Total Deposits	5,017,925	4,876,611
Securities sold under repurchase agreements	60,025	62,086
Short-term borrowings	355,000	356,000
Long-term borrowings	116,468	117,043
Junior subordinated debt securities	45,619	45,619
Other liabilities	73,324	68,758
Total Liabilities	5,668,361	5,526,117
SHAREHOLDERS’ EQUITY		
Common stock ($2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at March 31, 2016 and December 31, 2015	90,326	90,326
Outstanding—34,901,210 shares at March 31, 2016 and 34,810,374 shares at December 31, 2015		
Additional paid-in capital	211,276	210,545
Retained earnings	551,229	544,228
Accumulated other comprehensive (loss) income	(8,116)	(16,457)
Treasury stock (1,229,270 shares at March 31, 2016 and 1,320,106 shares at December 31, 2015, at cost)	(33,914)	(36,405)
Total Shareholders’ Equity	810,801	792,237
Total Liabilities and Shareholders’ Equity	$6,479,162	$6,318,354

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31,	
(dollars in thousands, except per share data)	2016	2015
INTEREST INCOME		
Loans, including fees	$51,158	$39,927
Investment Securities:		
Taxable	2,553	2,383
Tax-exempt	942	1,020
Dividends	366	586
Total Interest Income	55,019	43,916
INTEREST EXPENSE		
Deposits	4,254	3,007
Borrowings and junior subordinated debt securities	1,128	650
Total Interest Expense	5,382	3,657
NET INTEREST INCOME	49,637	40,259
Provision for loan losses	5,014	1,207
Net Interest Income After Provision for Loan Losses	44,623	39,052
NONINTEREST INCOME		
Securities gains (losses), net	—	—
Service charges on deposit accounts	2,999	2,583
Debit and credit card fees	2,786	2,715
Wealth management fees	2,752	2,923
Gain on sale of credit card portfolio	2,066	—
Insurance fees	1,774	1,651
Mortgage banking	529	525
Other	2,911	1,687
Total Noninterest Income	15,817	12,084
NONINTEREST EXPENSE		
Salaries and employee benefits	20,902	16,780
Net occupancy	2,950	2,588
Data processing	2,111	2,320
Furniture and equipment	1,929	1,226
Other taxes	1,100	842
Professional services and legal	947	523
FDIC insurance	940	695
Marketing	901	816
Merger related expenses	—	2,301
Other	6,636	5,530
Total Noninterest Expense	38,416	33,621
Income Before Taxes	22,024	17,515
Provision for income taxes	5,931	4,680
Net Income	$16,093	$12,835
Earnings per share—basic	$0.46	$0.41
Earnings per share—diluted	$0.46	$0.41

Dividends declared per share	$0.19	$0.18
Comprehensive Income	$24,434	$16,640

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

(dollars in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Treasury Stock	Total
Balance at January 1, 2015	$77,993	$78,818	$504,060	$(13,833)	$(38,649)	$608,389
Net income for three months ended March 31, 2015	—	—	12,835	—	—	12,835
Other comprehensive income (loss), net of tax	—	—	—	3,805	—	3,805
Cash dividends declared ($0.18 per share)	—	—	(5,357)	—	—	(5,357)
Common stock issued in acquisition (4,933,115 shares)	12,333	130,136	—	—	—	142,469
Treasury stock issued for restricted awards (71,699 shares, net of 3,685 forfeitures)	—	—	(1,963)	—	1,884	(79)
Recognition of restricted stock compensation expense	—	319	—	—	—	319
Issuance costs	—	(123)	—	—	—	(123)
Balance at March 31, 2015	$90,326	$209,150	$509,575	$(10,028)	$(36,765)	$762,258
Balance at January 1, 2016	$90,326	$210,545	$544,228	$(16,457)	$(36,405)	$792,237
Net income for three months ended March 31, 2016	—	—	16,093	—	—	16,093
Other comprehensive income (loss), net of tax	—	—	—	8,341	—	8,341
Cash dividends declared ($0.19 per share)	—	—	(6,601)	—	—	(6,601)
Treasury stock issued for restricted awards (90,836 shares, net of 0 forfeitures)	—	—	(2,491)	—	2,491	—
Recognition of restricted stock compensation expense	—	731	—	—	—	731
Balance at March 31, 2016	$90,326	$211,276	$551,229	$(8,116)	$(33,914)	$810,801

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

	Three Months Ended March 31,	
(dollars in thousands)	2016	2015
OPERATING ACTIVITIES		
Net income	$16,093	$12,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,014	1,207
Provision for unfunded loan commitments	125	198
Depreciation, amortization and accretion	906	1,460
Net amortization of discounts and premiums on securities	915	913
Stock-based compensation expense	731	240
Mortgage loans originated for sale	(18,478)	(21,481)
Proceeds from the sale of mortgage loans	19,014	21,777
Gain on the sale of mortgage loans, net	(231)	(203)
Gain on the sale of credit card portfolio	(2,066)	—
Pension plan curtailment gain	(1,017)	—
Net increase in interest receivable	(2,768)	(2,288)
Net increase (decrease) in interest payable	875	(374)
Net (increase) decrease in other assets	(714)	2,945
Net increase in other liabilities	7,267	2,061
Net Cash Provided by Operating Activities	25,666	19,290
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(25,168)	(6,373)
Proceeds from maturities, prepayments and calls of securities available-for-sale	17,028	6,389
Net (purchases of) proceeds from Federal Home Loan Bank stock	(305)	4,024
Net increase in loans	(151,841)	(30,588)
Purchases of premises and equipment	(468)	(849)
Proceeds from the sale of premises and equipment	3	7
Proceeds from the sale of credit card portfolio	25,019	—
Net cash paid in excess of cash acquired from bank merger	—	(16,347)
Net Cash Used in Investing Activities	(135,732)	(43,737)
FINANCING ACTIVITIES		
Net increase in core deposits	13,688	240,719
Net increase (decrease) in certificates of deposit	128,885	(43,417)
Net (decrease) increase in securities sold under repurchase agreements	(2,061)	16,116
Net decrease in short-term borrowings	(1,000)	(159,150)
Repayments of long-term borrowings	(575)	(605)
Repayment of junior subordinated debt	—	(8,500)
Treasury shares issued-net	—	(79)
Common stock issuance costs	—	(123)
Cash dividends paid to common shareholders	(6,601)	(5,357)
Net Cash Provided by Financing Activities	132,336	39,604
Net increase in cash and cash equivalents	22,270	15,157
Cash and cash equivalents at beginning of period	99,399	109,580
Cash and Cash Equivalents at End of Period	$121,669	$124,737

Supplemental Disclosures		
Interest paid	$4,508	$3,781
Income taxes paid, net of refunds	$1,794	$1,500
Net assets acquired from bank merger, excluding cash and cash equivalents	$—	$44,019
Transfers of loans to other real estate owned	$49	$—

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

NOTE 1. BASIS OF PRESENTATION

Principles of Consolidation

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

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of S&T have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission, or SEC, on February 23, 2016. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

Reclassification

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

Use of Estimates

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

Recently Adopted Accounting Standards Updates, or ASU

Business Combinations - Simplifying the Accounting for Measurement Period Adjustments

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

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

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

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

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

NOTE 1. BASIS OF PRESENTATION - continued

Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs
In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2015. In September 2015, the FASB issued ASU No. 2015-15, Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. ASU No. 2015-15 amends the Securities and Exchange Commission (SEC) Content in Subtopic 835-30 by adding SEC paragraph 835-30-S35-1, Interest-Imputation of Interest Subsequent Measurement and paragraph 830-30-S45-1, Other Presentation Matters. These paragraphs were added because ASU No. 2015-03 issued in April 2015 does not address presentation or subsequent measurement of debt issuance costs related to "line-of-credit arrangements." The adoption of this ASU had no material impact on our results of operations or financial position.
Consolidation: Amendments to the Consolidation Analysis
In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in this ASU affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: 1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities, or VIEs, or voting interest entities; 2) eliminate the presumption that a general partner should consolidate a limited partnership; 3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and 4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2A-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this ASU are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this ASU had no impact on our results of operations or financial position.
Income Statement - Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary
In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary. The amendments in this ASU No. 2015-01 eliminate from GAAP the concept of extraordinary items and eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2015. The adoption of this ASU had no impact on our results of operations or financial position.
Recently Issued Accounting Standards Updates not yet Adopted
Stock Compensation - Improvements to Employee Share-Based Payment Accounting
On March 31, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including; (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; (6) practical expedient -- expected term (nonpublic only); and (7) intrinsic value (nonpublic only). This ASU is effective for fiscal

years beginning after December 15, 2016 and interim periods within those years for public business entities. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. We do not expect that this ASU would have a material impact on our results of operations and financial position.

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

NOTE 1. BASIS OF PRESENTATION - continued

Equity Method and Joint Ventures - Simplifying the Transition to the Equity Method of Accounting
In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. We do not expect that this ASU would have a material impact on our results of operations and financial position.
Derivatives and Hedging - Contingent Put and Call Options in Debt Instruments
In March 2016, the FASB issued ASU No. 2016-06, Contingent Put and Call Options in Debt Instruments, which clarifies that determining whether the economic characteristics of a put or call are "clearly and closely related" to its debt host requires only an assessment of the four-step decision sequence outlined in FASB ASC paragraph 815-15-25-24. Additionally, entities are not required to separately assess whether the contingency itself is clearly and closely related. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016. Early adoption of this ASU is permitted. We do not expect that this ASU would have a material impact on 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 would have a significant impact on our financial statements as it relates to the recognition of right-to-use assets and lease obligations on our Consolidated Balance Sheet. However, we do not expect that this ASU would have a material impact on our Consolidated Statement of Comprehensive Income.
Accounting for Financial Instruments - Overall: Classification and Measurement
In January 2016, the FASB issued ASU No. 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement (Subtopic 825-10). Amendments within ASU No. 2016-01 that relate to non-public entities have been excluded from this presentation. The amendments in this ASU No. 2016-01 address the following: 1) require equity investments to be measured at fair value with changes in fair value recognized in net income; 2) simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment; 3) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4) require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5) require separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and 7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets.
We anticipate that this ASU would have a significant impact on our financial statements and disclosures primarily as it relates to recognizing the fair value changes for equity securities in net income rather than an adjustment to equity

through other comprehensive income.

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

NOTE 1. BASIS OF PRESENTATION - continued

Revenue from Contracts with Customers
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 March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), as an amendment to ASU No. 2014-09 to improve Topic 606, Revenue from Contracts with Customers by reducing: 1. The potential for diversity in practice arising from inconsistent and application of the principal versus agent guidance, and 2. The cost and complexity of applying Topic 606 both at transition and on an ongoing basis.
The effective date and transition requirements for the amendments in both of these Updates are the same as the effective date and transition requirements in Topic 606 (and any other Topic amended by Update 2014-09). ASU 2015-14.
In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This ASU defers the effective date of ASU No. 2014-09 for all entities by one year. The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are: (1) identify the contract with the customer; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the separate performance obligations; and (5) recognize revenue when each performance obligation is satisfied. The Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the original effective date for interim and annual reporting periods in fiscal years beginning after December 15, 2016. We do not expect that this ASU would have a material impact on our results of operations and financial position.

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S&T BANCORP, INC. AND SUBSIDIARIES
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NOTE 2. BUSINESS COMBINATIONS

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

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

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

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

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

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

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

Loans acquired in the Merger were recorded at fair value with no carryover of the related Allowance for Loan Losses, or ALL. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. The fair value of the loans acquired was $788.7 million net of a $14.8 million discount. The discount may be accreted to interest income over the remaining contractual life of the loans. Acquired loans included $331.6 million of Commercial Real Estate, or CRE, $184.2

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

NOTE 2. BUSINESS COMBINATIONS - continued

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

Direct costs related to the Merger were expensed as incurred. During 2015, we recognized $3.2 million of merger related expenses, including $1.3 million for data processing contract termination and system conversion costs, $1.2 million in legal and professional expenses, $0.4 million in severance payments and $0.3 million in other expenses.

NOTE 3. EARNINGS PER SHARE

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

	Three Months Ended March 31,	
(in thousands, except shares and per share data)	2016	2015
Numerator for Earnings per Share—Basic:		
Net income	$16,093	$ 12,835
Less: Income allocated to participating shares	41	46
Net Income Allocated to Shareholders	$16,052	$ 12,789
Numerator for Earnings per Share—Diluted:		
Net income	16,093	12,835
Net Income Available to Shareholders	$16,093	$ 12,835
Denominators for Earnings per Share:		
Weighted Average Shares Outstanding—Basic	34,661,016	31,232,075
Add: Potentially dilutive shares	78,498	28,873
Denominator for Treasury Stock Method—Diluted	34,739,514	31,260,948
Weighted Average Shares Outstanding—Basic	34,661,016	31,232,075
Add: Average participating shares outstanding	88,265	111,774
Denominator for Two-Class Method—Diluted	34,749,281	31,343,849
Earnings per share—basic	$0.46	$ 0.41
Earnings per share—diluted	$0.46	$ 0.41
Warrants considered anti-dilutive excluded from potentially dilutive shares - exercise price $31.53 per share, expires January 2019	517,012	517,012
Stock options considered anti-dilutive excluded from potentially dilutive shares	—	155,500
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	81,840	82,901

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

NOTE 4. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

Recurring Basis

Securities Available-for-Sale

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

Marketable equity securities that have an active, quotable market are classified as Level 1. Marketable equity securities that are quotable, but are thinly traded or inactive, are classified as Level 2. Marketable equity securities that are not readily traded and do not have a quotable market are classified as Level 3.

Trading Assets

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

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

NOTE 4. FAIR VALUE MEASUREMENTS – continued

Derivative Financial Instruments
We use derivative instruments, including interest rate swaps for commercial loans with our customers, interest rate lock commitments and the sale of mortgage loans in the secondary market. We calculate the fair value for derivatives using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. Each valuation considers the contractual terms of the derivative, including the period to maturity, and uses observable market based inputs, such as interest rate curves and implied volatilities. Accordingly, derivatives are classified as Level 2. We incorporate credit valuation adjustments into the valuation models to appropriately reflect both our own nonperformance risk and the respective counterparties' nonperformance risk in calculating fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements and collateral postings.
Nonrecurring Basis
Loans Held for Sale
Loans held for sale consist of 1-4 family residential loans originated for sale in the secondary market and, from time to time, certain loans transferred from the loan portfolio to loans held for sale, all of which are carried at the lower of cost or fair value. The fair value of 1-4 family residential loans is based on the principal or most advantageous market currently offered for similar loans using observable market data. The fair value of the loans transferred from the loan portfolio is based on the amounts offered for these loans in currently pending sales transactions. Loans held for sale carried at fair value are classified as Level 3.
Impaired Loans
Impaired loans are carried at the lower of carrying value or fair value. Fair value is determined as the recorded investment balance less any specific reserve. We establish a 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 MSRs 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 MSRs. MSRs are considered impaired if the carrying value exceeds fair value. The valuation model includes significant unobservable inputs; therefore, MSRs are classified as Level 3.
Other Assets

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

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

NOTE 4. FAIR VALUE MEASUREMENTS – continued

Financial Instruments
In addition to financial instruments recorded at fair value in our financial statements, fair value accounting guidance requires disclosure of the fair value of all of an entity's assets and liabilities that are considered financial instruments. The majority of our assets and liabilities are considered financial instruments. Many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaged in an exchange transaction. Also, it is our general practice and intent to hold our financial instruments to maturity and to not engage in trading or sales activities with respect to such financial instruments. For fair value disclosure purposes, we substantially utilize the fair value measurement criteria as required and explained above. In cases where quoted fair values are not available, we use present value methods to determine the fair value of our financial instruments.
Cash and Cash Equivalents
The carrying amounts reported in the Consolidated Balance Sheets for cash and due from banks, including interest-bearing deposits, approximate fair value.
Loans
The fair value of variable rate performing loans that may reprice frequently at short-term market rates is based on carrying values adjusted for credit risk. The fair value of variable rate performing loans that reprice at intervals of one year or longer, such as adjustable rate mortgage products, is estimated using discounted cash flow analyses that utilize interest rates currently being offered for similar loans and adjusted for credit risk. The fair value of fixed rate performing loans is estimated using a discounted cash flow analysis that utilizes interest rates currently being offered for similar loans and adjusted for credit risk. The fair value of nonperforming loans is the carrying value less any specific reserve on the loan if it is impaired. The carrying amount of accrued interest approximates fair value.
Bank Owned Life Insurance
Fair value approximates net cash surrender value of bank owned life insurance.
Federal Home Loan Bank, or FHLB, and Other Restricted Stock
It is not practical to determine the fair value of our FHLB and other restricted stock due to the restrictions placed on the transferability of these stocks; it is presented at carrying value.
Deposits
The fair values disclosed for deposits without defined maturities (e.g., noninterest and interest-bearing demand, money market and savings accounts) are by definition equal to the amounts payable on demand. The carrying amounts for variable rate, fixed-term time deposits approximate their fair values. Estimated fair values for fixed rate and other time deposits are based on discounted cash flow analysis using interest rates currently offered for time deposits with similar terms. The carrying amount of accrued interest approximates fair value.
Short-Term Borrowings
The carrying amounts of securities sold under repurchase agreements, or REPOs, and other short-term borrowings approximate their fair values.
Long-Term Borrowings
The fair values disclosed for fixed rate long-term borrowings are determined by discounting their contractual cash flows using current interest rates for long-term borrowings of similar remaining maturities. The carrying amounts of variable rate long-term borrowings approximate their fair values.
Junior Subordinated Debt Securities
The variable rate junior subordinated debt securities reprice quarterly; therefore, the carrying values approximate their fair values.

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

NOTE 4. FAIR VALUE MEASUREMENTS – continued

Loan Commitments and Standby Letters of Credit
Off-balance sheet financial instruments consist of commitments to extend credit and letters of credit. Except for interest rate lock commitments, estimates of the fair value of these off-balance sheet items are not made because of the short-term nature of these arrangements and the credit standing of the counterparties.
Other
Estimates of fair value are not made for items that are not defined as financial instruments, including such items as our core deposit intangibles and the value of our trust operations.
Assets and Liabilities Recorded at Fair Value on a Recurring Basis
The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at March 31, 2016 and December 31, 2015. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

	March 31, 2016			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	$—	$15,067	$ —	$15,067
Obligations of U.S. government corporations and agencies	—	271,540	—	271,540
Collateralized mortgage obligations of U.S. government corporations and agencies	—	137,330	—	137,330
Residential mortgage-backed securities of U.S. government corporations and agencies	—	39,285	—	39,285
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	70,664	—	70,664
Obligations of states and political subdivisions	—	134,382	—	134,382
Marketable equity securities	—	8,953	—	8,953
Total securities available-for-sale	—	677,221	—	677,221
Trading securities held in a Rabbi Trust	4,069	—	—	4,069
Total securities	4,069	677,221	—	681,290
Derivative financial assets:				
Interest rate swaps	—	15,281	—	15,281
Interest rate lock commitments	—	526	—	526
Total Assets	$4,069	$693,028	$ —	$697,097
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$—	$15,165	$ —	$15,165
Forward sale contracts	—	72	—	72
Total Liabilities	$—	$15,237	$ —	$15,237

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

NOTE 4. FAIR VALUE MEASUREMENTS – continued

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

We classify financial instruments as Level 3 when valuation models are used because significant inputs are not observable in the market.

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

	March 31, 2016				December 31, 2015			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS[1]								
Loans held for sale	$—	$—	$—	$—	$—	$—	$—	$—
Impaired loans	—	—	16,562	16,562	—	—	9,373	9,373
Other real estate owned	—	—	248	248	—	—	158	158
Mortgage servicing rights	—	—	3,112	3,112	—	—	3,396	3,396
Total Assets	$—	$—	$19,922	$19,922	$—	$—	$12,927	$12,927

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

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

NOTE 4. FAIR VALUE MEASUREMENTS – continued

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

(dollars in thousands)	Carrying Value(1)	Fair Value Measurements at March 31, 2016 Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$121,669	$121,669	$121,669	$—	$—
Securities available-for-sale	677,221	677,221	—	677,221	—
Loans held for sale	11,739	12,116	—	—	12,116
Portfolio loans, net of unearned income	5,176,748	5,163,461	—	—	5,163,461
Bank owned life insurance	70,684	70,684	—	70,684	—
FHLB and other restricted stock	23,337	23,337	—	—	23,337
Trading securities held in a Rabbi Trust	4,069	4,069	4,069	—	—
Mortgage servicing rights	3,112	3,112	—	—	3,112
Interest rate swaps	15,281	15,281	—	15,281	—
Interest rate lock commitments	526	526	—	526	—
LIABILITIES					
Deposits	$5,017,925	$5,025,397	$—	$—	$5,025,397
Securities sold under repurchase agreements	60,025	60,025	—	—	60,025
Short-term borrowings	355,000	355,000	—	—	355,000
Long-term borrowings	116,468	117,429	—	—	117,429
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	15,165	15,165	—	15,165	—
Forward sale contracts	72	72	—	72	—

(1) As reported in the Consolidated Balance Sheets

(dollars in thousands)	Carrying Value(1)	Fair Value Measurements at December 31, 2015 Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$99,399	$99,399	$99,399	$—	$—
Securities available-for-sale	660,963	660,963	—	660,963	—
Loans held for sale	35,321	35,500	—	—	35,500
Portfolio loans, net of unearned income	5,027,612	5,001,004	—	—	5,001,004
Bank owned life insurance	70,175	70,175	—	70,175	—
FHLB and other restricted stock	23,032	23,032	—	—	23,032
Trading securities held in a Rabbi Trust	4,021	4,021	4,021	—	—
Mortgage servicing rights	3,237	3,396	—	—	3,396
Interest rate swaps	11,295	11,295	—	11,295	—
Interest rate lock commitments	261	261	—	261	—
LIABILITIES					
Deposits	$4,876,611	$4,881,718	$—	$—	$4,881,718
Securities sold under repurchase agreements	62,086	62,086	—	—	62,086
Short-term borrowings	356,000	356,000	—	—	356,000
Long-term borrowings	117,043	117,859	—	—	117,859

Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	11,276	11,276	—	11,276	—
Forward sale contracts	5	5	—	5	—

(1) As reported in the Consolidated Balance Sheets

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
NOTE 5. SECURITIES AVAILABLE-FOR-SALE

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

	March 31, 2016				December 31, 2015			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$14,923	$144	$—	$15,067	$14,914	$27	$—	$14,941
Obligations of U.S. government corporations and agencies	266,807	4,733	—	271,540	262,045	1,825	(567)	263,303
Collateralized mortgage obligations of U.S. government corporations and agencies	134,502	2,828	—	137,330	128,458	693	(316)	128,835
Residential mortgage-backed securities of U.S. government corporations and agencies	37,858	1,427	—	39,285	39,185	1,091	(151)	40,125
Commercial mortgage-backed securities of U.S. government corporations and agencies	69,445	1,226	(7)	70,664	69,697	183	(676)	69,204
Obligations of states and political subdivisions	126,892	7,490	—	134,382	128,904	5,988	(6)	134,886
Debt Securities	650,427	17,848	(7)	668,268	643,203	9,807	(1,716)	651,294
Marketable equity securities	7,579	1,374	—	8,953	7,579	2,090	—	9,669
Total	$658,006	$19,222	$(7)	$677,221	$650,782	$11,897	$(1,716)	$660,963

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

NOTE 5. SECURITIES AVAILABLE-FOR-SALE – continued

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

	March 31, 2016								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
Collateralized mortgage obligations of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	—	—	1	9,637	(7)	1	9,637	(7)
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—
Debt Securities	—	—	—	1	9,637	(7)	1	9,637	(7)
Total Temporarily Impaired Securities	—	$ —	$ —	1	$ 9,637	$ (7)	1	$ 9,637	$ (7)

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

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

We do not believe any individual unrealized loss as of March 31, 2016 represents an other than temporary impairment, or OTTI. As of March 31, 2016, the unrealized loss on one debt security was primarily attributable to changes in interest rates and not related to the credit quality of the security. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. There were no unrealized losses on marketable equity securities at either March 31, 2016 or December 31, 2015. We do not intend to sell and it is not more likely than not that we will be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost.

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

NOTE 5. SECURITIES AVAILABLE-FOR-SALE – continued

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

	March 31, 2016			December 31, 2015		
(dollars in thousands)	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	$19,222	$ (7)	$ 19,215	$11,897	$ (1,716)	$ 10,181
Income tax expense/(benefit)	6,728	(2)	6,726	4,164	(601)	3,563
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	$12,494	$ (5)	$ 12,489	$7,733	$ (1,115)	$ 6,618

The amortized cost and fair value of securities available-for-sale at March 31, 2016 by contractual maturity are included in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2016	
(dollars in thousands)	Amortized Cost	Fair Value
Obligations of the U.S. Treasury, U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	$46,963	$47,106
Due after one year through five years	220,193	225,234
Due after five years through ten years	66,133	68,646
Due after ten years	75,333	80,003
	408,622	420,989
Collateralized mortgage obligations of U.S. government corporations and agencies	134,502	137,330
Residential mortgage-backed securities of U.S. government corporations and agencies	37,858	39,285
Commercial mortgage-backed securities of U.S. government corporations and agencies	69,445	70,664
Debt Securities	650,427	668,268
Marketable equity securities	7,579	8,953
Total	$658,006	$677,221

At March 31, 2016 and December 31, 2015, securities with carrying values of $297.3 million and $278.4 million were pledged for various regulatory and legal requirements.

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

NOTE 6. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of $3.7 million and $3.2 million at March 31, 2016 and December 31, 2015 and net of a discount related to purchase accounting fair value adjustments of $10.4 million and $10.9 million at March 31, 2016 and December 31, 2015. The following table indicates the composition of the acquired and originated loans as of the dates presented:

(dollars in thousands)	March 31, 2016	December 31, 2015
Commercial		
Commercial real estate	$2,260,231	$ 2,166,603
Commercial and industrial	1,334,119	1,256,830
Commercial construction	379,293	413,444
Total Commercial Loans	3,973,643	3,836,877
Consumer		
Residential mortgage	650,544	639,372
Home equity	467,671	470,845
Installment and other consumer	76,189	73,939
Consumer construction	8,701	6,579
Total Consumer Loans	1,203,105	1,190,735
Total Portfolio Loans	5,176,748	5,027,612
Loans held for sale	11,739	35,321
Total Loans	$5,188,487	$ 5,062,933

The decrease in loans held for sale of $23.6 million primarily related to the sale of our credit card portfolio of $22.9 million and resulted in a $2.1 million gain for the three months ended March 31, 2016.

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 mitigate this risk by monitoring the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 77 percent of total portfolio loans at March 31, 2016 and 76 percent of total portfolio loans at December 31, 2015. Within our commercial portfolio, the CRE and Commercial Construction portfolios combined comprised $2.6 billion or 66 percent of total commercial loans and 51 percent of total portfolio loans at March 31, 2016 and 67 percent of total commercial loans and 51 percent of total portfolio loans at December 31, 2015. Further segmentation of the CRE and Commercial Construction portfolios by industry and collateral type reveal no concentration in excess of seven percent of total loans at March 31, 2016 and December 31, 2015.

Our market area includes Pennsylvania and the contiguous states of Ohio, West Virginia, New York and Maryland. The majority of our commercial and consumer loans are made to businesses and individuals in this market area, resulting in a geographic concentration. We believe our knowledge and familiarity with customers and conditions locally outweighs this geographic concentration risk. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Management believes underwriting guidelines, active monitoring of economic conditions and ongoing review by credit administration mitigates the concentration risk present in the loan portfolio. Our CRE and Commercial Construction portfolios have out-of-market exposure of 5.4 percent of the combined portfolio and 2.7 percent of total loans at March 31, 2016 and 5.8 percent of the combined portfolio and 3.0 percent of total loans at December 31, 2015.

Troubled debt restructurings, or TDRs, are loans where we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we would not otherwise grant. We strive to identify borrowers in financial difficulty early and work with them to modify the terms before their loan reaches nonaccrual status. These modified terms generally include extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics, reductions in contractual interest rates or principal deferment. While unusual, there may be instances of principal forgiveness. These modifications are generally for longer term periods that would not be considered insignificant. Additionally, we classify loans where the debt obligation has been discharged through a Chapter 7 Bankruptcy and not reaffirmed as TDRs.

We individually evaluate all substandard commercial loans that have experienced a forbearance or change in terms agreement, as well as all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan to determine if they should be designated as TDRs. All TDRs are considered to be impaired loans and will be reported as impaired loans for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal

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

NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

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 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:

	March 31, 2016			December 31, 2015		
(dollars in thousands)	Performing TDRs	Nonperforming TDRs	Total TDRs	Performing TDRs	Nonperforming TDRs	Total TDRs
Commercial real estate	$6,339	$ 3,747	$10,086	$6,822	$ 3,548	$10,370
Commercial and industrial	6,280	1,695	7,975	6,321	1,570	7,891
Commercial construction	4,367	1,742	6,109	5,013	1,265	6,278
Residential mortgage	2,537	1,193	3,730	2,590	665	3,255
Home equity	3,215	911	4,126	3,184	523	3,707
Installment and other consumer	23	3	26	25	88	113
Total	$22,761	$ 9,291	$32,052	$23,955	$ 7,659	$31,614

There were no TDRs returned to accruing status during the three months ended March 31, 2016 or three months ended March 31, 2015.

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

NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

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

	Three Months Ended March 31, 2016				Three Months Ended March 31, 2015			
(dollars in thousands)	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	—	$ —	$ —	$ —	2	$ 2,851	$ 2,851	$ —
Chapter 7 bankruptcy[2]	1	709	702	(7)	—	—	—	—
Commercial and industrial								
Principal deferral	—	—	—	—	6	661	661	—
Chapter 7 bankruptcy[2]	—	—	—	—	1	3	1	(2)
Maturity date extension	2	625	605	(20)	1	780	765	(15)
Commercial Construction								
Principal deferral	—	—	—	—	1	104	103	(1)
Maturity date extension	1	33	33	—	—	—	—	—
Residential mortgage								
Chapter 7 bankruptcy[2]	3	221	219	(2)	—	—	—	—
Maturity date extension	1	483	483	—	—	—	—	—
Home equity								
Principal deferral	—	—	—	—	—	—	—	—
Chapter 7 bankruptcy[2]	5	245	243	(2)	8	142	133	(9)
Maturity date extension and interest rate reduction	1	130	130	—	—	—	—	—
Maturity date extension	2	200	199	(1)	1	71	71	—
Total by Concession Type								
Principal deferral	—	$ —	$ —	$ —	9	$ 3,616	$ 3,615	$ (1)
Maturity date extension and interest rate reduction	1	130	130	—	—	—	—	—
Chapter 7 bankruptcy[2]	9	1,175	1,164	(11)	9	145	134	(11)
Maturity date extension	6	1,341	1,320	(21)	2	851	836	(15)
Total	16	$ 2,646	$ 2,614	$ (32)	20	$ 4,612	$ 4,585	$ (27)

[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 March 31, 2016, we modified one C&I loan totaling $2.2 million that was not considered to be a TDR. The modification was not deemed a TDR since we were adequately compensated through additional collateral and a higher interest rate. As of March 31, 2016 we have no commitments to lend additional funds on any TDRs.

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S&T BANCORP, INC. AND SUBSIDIARIES
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NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

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

	Defaulted TDRs			
	March 31, 2016		March 31, 2015	
(dollars in thousands)	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate	—	$ —	—	$ —
Commercial and Industrial	—	—	—	—
Commercial construction	1	616	—	—
Residential mortgage	—	—	1	183
Home equity	—	—	1	5
Installment and other consumer	—	—	—	—
Consumer construction	—	—	—	—
Total	1	$ 616	2	$ 188

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

	Nonperforming Assets	
(dollars in thousands)	March 31, 2016	December 31, 2015
Nonperforming Assets		
Nonaccrual loans	$42,543	$ 27,723
Nonaccrual TDRs	9,291	7,659
Total nonaccrual loans	51,834	35,382
OREO	297	354
Total Nonperforming Assets	$52,131	$ 35,736

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S&T BANCORP, INC. AND SUBSIDIARIES
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NOTE 7. 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 complete, 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, ratio 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.

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

NOTE 7. 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:

	March 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	$2,238,144	$ 6,669	$ 174	$ 15,244	$ 22,087	$2,260,231
Commercial and industrial	1,306,834	12,509	567	14,209	27,285	1,334,119
Commercial construction	364,675	1,086	3,539	9,993	14,618	379,293
Residential mortgage	636,328	1,749	3,455	9,012	14,216	650,544
Home equity	460,203	3,754	447	3,267	7,468	467,671
Installment and other consumer	75,741	297	42	109	448	76,189
Consumer construction	8,701	—	—	—	—	8,701
Loans held for sale	11,739	—	—	—	—	11,739
Totals	$5,102,365	$ 26,064	$ 8,224	$ 51,834	$ 86,122	$5,188,487

	December 31, 2015					
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	$2,145,655	$ 11,602	$ 627	$ 8,719	$ 20,948	$2,166,603
Commercial and industrial	1,244,802	2,453	296	9,279	12,028	1,256,830
Commercial construction	401,084	3,517	90	8,753	12,360	413,444
Residential mortgage	631,085	1,728	930	5,629	8,287	639,372
Home equity	465,055	2,365	523	2,902	5,790	470,845
Installment and other consumer	73,486	242	111	100	453	73,939
Consumer construction	6,579	—	—	—	—	6,579
Loans held for sale	35,179	94	48	—	142	35,321
Totals	$5,002,925	$ 22,001	$ 2,625	$ 35,382	$ 60,008	$5,062,933

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