

S&T BANCORP INC
Form 10-Q
November 05, 2014
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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

(State or other jurisdiction of
incorporation or organization)

25-1434426
(IRS Employer
Identification No.)

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

15701
(zip code)

800-325-2265

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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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 - 29,796,397 shares as of October 31, 2014

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S&T BANCORP, INC. AND SUBSIDIARIES

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

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
(dollars in thousands, except share data)		
ASSETS		
Cash and due from banks, including interest-bearing deposits of \$92,443 and \$53,594 at September 30, 2014 and December 31, 2013, respectively	\$ 143,831	\$ 108,356
Securities available-for-sale, at fair value	615,657	509,425
Loans held for sale	3,126	2,136
Portfolio loans, net of unearned income	3,801,189	3,566,199
Allowance for loan losses	(47,316)	(46,255)
Portfolio loans, net	3,753,873	3,519,944
Bank owned life insurance	61,794	60,480
Premises and equipment, net	37,240	36,615
Federal Home Loan Bank and other restricted stock, at cost	18,995	13,629
Goodwill	175,820	175,820
Other intangible assets, net	2,886	3,759
Other assets	93,522	103,026
Total Assets	\$4,906,744	\$4,533,190
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 1,077,505	\$ 992,779
Interest-bearing demand	336,720	312,790
Money market	295,559	281,403
Savings	1,048,175	994,805
Certificates of deposit	1,143,142	1,090,531
Total Deposits	3,901,101	3,672,308
Securities sold under repurchase agreements	23,084	33,847
Short-term borrowings	265,000	140,000
Long-term borrowings	20,042	21,810
Junior subordinated debt securities	45,619	45,619
Other liabilities	46,001	48,300
Total Liabilities	4,300,847	3,961,884
SHAREHOLDERS' EQUITY		
Common stock (\$2.50 par value)		
Authorized—50,000,000 shares		
Issued—31,197,365 shares at September 30, 2014 and December 31, 2013	77,993	77,993
Outstanding—29,796,397 shares at September 30, 2014 and 29,737,725 shares at December 31, 2013		
Additional paid-in capital	78,816	78,140
Retained earnings	494,909	468,158
Accumulated other comprehensive income (loss)	(7,172)	(12,694)
Treasury stock 1,400,968 shares at September 30, 2014 and 1,459,640 shares at December 31, 2013, (at cost)	(38,649)	(40,291)
Total Shareholders' Equity	605,897	571,306
Total Liabilities and Shareholders' Equity	\$4,906,744	\$4,533,190

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 September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	2014	2013	2014	2013
INTEREST INCOME				
Loans, including fees	\$37,233	\$35,733	\$109,496	\$106,543
Investment Securities:				
Taxable	2,313	1,889	6,480	5,631
Tax-exempt	964	865	2,872	2,513
Dividends	95	94	294	290
Total Interest Income	40,605	38,581	119,142	114,977
INTEREST EXPENSE				
Deposits	2,480	2,717	7,466	8,870
Borrowings and junior subordinated debt securities	596	590	1,701	2,568
Total Interest Expense	3,076	3,307	9,167	11,438
NET INTEREST INCOME	37,529	35,274	109,975	103,539
Provision for loan losses	1,454	3,419	608	6,749
Net Interest Income After Provision for Loan Losses	36,075	31,855	109,367	96,790
NONINTEREST INCOME				
Securities gains, net	—	3	41	5
Debit and credit card fees	2,909	2,764	8,135	8,365
Service charges on deposit accounts	2,799	2,801	7,882	7,744
Wealth management fees	2,756	2,747	8,548	8,143
Insurance fees	1,722	1,738	4,824	5,156
Mortgage banking	270	265	666	1,658
Gain on sale of merchant card servicing business	—	—	—	3,093
Other	1,475	2,224	5,022	6,051
Total Noninterest Income	11,931	12,542	35,118	40,215
NONINTEREST EXPENSE				
Salaries and employee benefits	14,823	14,910	45,971	45,701
Data processing	2,152	2,137	6,466	6,938
Net occupancy	2,004	1,910	6,218	6,037
Furniture and equipment	1,308	1,084	3,856	3,623
Professional services and legal	950	996	2,488	3,141
Other taxes	839	1,039	2,363	2,953
Marketing	757	607	2,335	2,088
FDIC insurance	607	629	1,817	2,112
Other	5,000	4,631	16,005	15,352
Total Noninterest Expense	28,440	27,943	87,519	87,945
Income Before Taxes	19,566	16,454	56,966	49,060
Provision for income taxes	4,906	4,207	13,552	10,380
Net Income	\$14,660	\$12,247	\$43,414	\$38,680
Earnings per share—basic	\$0.49	\$0.41	\$1.46	\$1.30
Earnings per share—diluted	\$0.49	\$0.41	\$1.46	\$1.30
Dividends declared per share	\$0.17	\$0.15	\$0.50	\$0.45
Comprehensive Income	\$13,515	\$12,874	\$48,936	\$31,094

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Unaudited)

(dollars in thousands, except shares and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2013	\$77,993	\$77,458	\$436,039	\$ (13,582)	\$(40,486)	\$537,422
Net income for nine months ended September 30, 2013	—	—	38,680	—	—	38,680
Other comprehensive income (loss), net of tax	—	—	—	(7,586)	—	(7,586)
Cash dividends declared (\$0.45 per share)	—	—	(13,379)	—	—	(13,379)
Treasury stock issued for restricted awards (22,189 shares, net of 16,093 forfeitures)	—	—	(296)	—	210	(86)
Recognition of restricted stock compensation expense	—	424	—	—	—	424
Tax expense from stock-based compensation	—	(47)	—	—	—	(47)
Balance at September 30, 2013	\$77,993	\$77,835	\$461,044	\$ (21,168)	\$(40,276)	\$555,428
Balance at January 1, 2014	\$77,993	\$78,140	\$468,158	\$ (12,694)	\$(40,291)	\$571,306
Net income for nine months ended September 30, 2014	—	—	43,414	—	—	43,414
Other comprehensive income (loss), net of tax	—	—	—	5,522	—	5,522
Cash dividends declared (\$0.50 per share)	—	—	(14,858)	—	—	(14,858)
Treasury stock issued for restricted awards (80,455 shares, net of 21,783 forfeitures)	—	—	(1,805)	—	1,642	(163)
Recognition of restricted stock compensation expense	—	676	—	—	—	676
Tax expense from stock-based compensation	—	—	—	—	—	—
Balance at September 30, 2014	\$77,993	\$78,816	\$494,909	\$ (7,172)	\$(38,649)	\$605,897
See Notes to Consolidated Financial Statements						

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

	Nine Months Ended September 30,	
(dollars in thousands)	2014	2013
OPERATING ACTIVITIES		
Net income	\$43,414	\$38,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	608	6,749
Provision for unfunded loan commitments	(262)	) 143
Depreciation and amortization	3,510	4,320
Net amortization of discounts and premiums	2,800	2,757
Stock-based compensation expense	594	508
Securities gains, net	(41)	) (5)
Net gain on sale of merchant card servicing business	—	(3,093)
Tax expense from stock-based compensation	—	47
Mortgage loans originated for sale	(28,652)	) (55,702)
Proceeds from the sale of loans	27,894	77,540
Gain on the sale of loans, net	(232)	) (776)
Net increase in interest receivable	(604)	) (21)
Net decrease in interest payable	(423)	) (2,230)
Net decrease in other assets	10,749	21,543
Net decrease in other liabilities	(897)	) (22,543)
Net Cash Provided by Operating Activities	58,458	67,917
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(149,268)	) (102,419)
Proceeds from maturities, prepayments and calls of securities available-for-sale	46,662	50,177
Proceeds from sales of securities available-for-sale	1,418	94
Net (payments for) proceeds from Federal Home Loan Bank stock	(5,366)	) 265
Net increase in loans	(244,836)	) (177,433)
Proceeds from sale of loans not originated for resale	5,408	—
Purchases of premises and equipment	(3,220)	) (2,599)
Proceeds from the sale of premises and equipment	98	625
Proceeds from the sale of merchant card servicing business	—	4,750
Net Cash Used in Investing Activities	(349,104)	) (226,540)
FINANCING ACTIVITIES		
Net increase in core deposits	176,182	41,570
Net increase in certificates of deposit	52,491	13,785
Net decrease in securities sold under repurchase agreements	(10,763)	) (29,292)
Net increase in short-term borrowings	125,000	100,000
Repayments of long-term borrowings	(1,768)	) (11,711)
Repayment of junior subordinated debt	—	(45,000)
Treasury shares issued-net	(163)	) (86)
Cash dividends paid to common shareholders	(14,858)	) (13,379)
Tax expense from stock-based compensation	—	(47)
Net Cash Provided by Financing Activities	326,121	55,840
Net increase (decrease) in cash and cash equivalents	35,475	(102,783)

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Cash and cash equivalents at beginning of period	108,356	337,711
Cash and Cash Equivalents at End of Period	\$ 143,831	\$ 234,928
Supplemental Disclosures		
Loans transferred to held for sale	\$ 1,300	\$ —
Interest paid	9,590	13,668
Income taxes paid, net of refunds	12,900	8,130
Transfers of loans to other real estate owned	\$ 430	\$ 493
See Notes to Consolidated Financial Statements		

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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, 2013, filed with the Securities and Exchange Commission, or SEC, on February 21, 2014. 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

Certain amounts in the prior periods' financial statements and footnotes have been reclassified to conform to the current period's presentation. The reclassifications had no significant 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

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Tax Credit Carryforward Exists

In July 2013, the Financial Accounting Standards Board (FASB) issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Tax Credit Carryforward Exists. The ASU requires that entities should present an unrecognized tax benefit as a reduction of the deferred tax asset for a net operating loss, or NOL, or similar tax loss or tax credit carry forward rather than as a liability when the uncertain tax position would reduce the NOL or other carry forward under the tax law. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this ASU had no impact on our results of operations or financial position.

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date

In February 2013, the FASB issued ASU No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. The ASU requires the measurement of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors as well as any additional amount that the entity expects to pay on behalf of its co-obligors. The new standard is effective retrospectively for fiscal years and interim periods within those years,

beginning after December 15, 2013, and early adoption is permitted. 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

Recently Issued Accounting Standards Updates not yet Adopted

Share-Based Payment Awards with Performance Targets

In June 2014, the FASB issued ASU No. 2014-12, Share-Based Payment Awards with Performance Targets. The main provisions of ASU 2014-12 require that a performance target included in a share-based payment award that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Therefore, under the existing stock compensation guidance in ASC Topic 718, the performance target should not be reflected in estimating the grant-date fair value of the award. The standard is effective for annual periods and interim periods beginning after December 15, 2015. We do not expect that this ASU will have a material impact on our results of operations or financial position.

Repurchase-To-Maturity Transactions, Repurchase Financings and New Disclosures

In June 2014, the FASB issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings and New Disclosures to change the accounting for repurchase-to-maturity transactions and certain linked repurchase financings. This will result in accounting for both types of arrangements as secured borrowings on the balance sheet and require new disclosures to (i) increase transparency about the types of collateral pledged in secured borrowing transactions and (ii) enable users to better understand transactions in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. The disclosure for repurchase agreements, securities lending transactions and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. All other accounting and disclosure amendments in the ASU are effective for the first interim or annual period beginning after December 15, 2014. Earlier application for a public business entity is prohibited. We do not expect that this ASU will have a material impact on our results of operations or financial position.

Revenues from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenues from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2016. The provisions do not apply to lease contracts, insurance contracts, financial instruments and other contractual rights or obligations (e.g. receivables, debt and equity securities, liabilities, debt, derivatives transfers, and servicing, etc.), guarantees, or non-monetary exchanges between entities. We are currently evaluating the impact of the adoption of this pronouncement on our consolidated financial statements.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance applies to all entities that dispose of components. It will significantly change current practices for assessing discontinued operations and affect an entity's income and earnings per share from continuing operations. An entity is required to reclassify assets and liabilities of a discontinued operation that are classified as held for sale or disposed of in the current period for all comparative periods presented. The ASU requires that an entity present in the statement of cash flows or disclose in a

note either total operating and investing cash flows for discontinued operations, or depreciation, amortization, capital expenditures and significant operating and investing noncash items related to discontinued operations. Additional disclosures are required when an entity retains significant continuing involvement with a discontinued operation after its disposal, including the amount of cash flows to and from a discontinued operation. The new standard applies prospectively after the effective date of December 15, 2014, and early adoption is permitted. We do not expect that this ASU will have a material 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

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The ASU clarifies that an in substance repossession or foreclosure has occurred and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The new standard is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. We do not expect that this ASU will have a material impact on our results of operations or financial position.

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The ASU permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The proportional amortization method permits the amortization of the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The new standard is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. We do not expect that this ASU will have a material 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 2. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except shares and per share data)	2014	2013	2014	2013
Numerator for Earnings per Share—Basic:				
Net income	\$ 14,660	\$ 12,247	\$ 43,414	\$ 38,680
Less: Income allocated to participating shares	51	33	115	114
Net Income Allocated to Shareholders	\$ 14,609	\$ 12,214	\$ 43,299	\$ 38,566
Numerator for Earnings per Share—Diluted:				
Net income	14,660	12,247	\$ 43,414	\$ 38,680
Net Income Available to Shareholders	\$ 14,660	\$ 12,247	\$ 43,414	\$ 38,680
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	29,693,417	29,658,065	29,679,623	29,644,646
Add: Potentially dilutive shares	21,195	27,535	25,732	35,132
Denominator for Treasury Stock Method—Diluted	29,714,612	29,685,600	29,705,355	29,679,778
Weighted Average Shares Outstanding—Basic	29,693,417	29,658,065	29,679,623	29,644,646
Add: Average participating shares outstanding	102,980	80,240	78,835	87,725
Denominator for Two-Class Method—Diluted	29,796,397	29,738,305	29,758,458	29,732,371
Earnings per share—basic	\$ 0.49	\$ 0.41	\$ 1.46	\$ 1.30
Earnings per share—diluted	\$ 0.49	\$ 0.41	\$ 1.46	\$ 1.30
Warrants considered anti-dilutive excluded from potentially dilutive shares	517,012	517,012	517,012	517,012
Stock options considered anti-dilutive excluded from potentially dilutive shares	427,362	612,768	428,233	632,481
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	81,785	52,705	53,103	52,593

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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 derivatives 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, 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 estimate 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 valuation 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 3. FAIR VALUE MEASUREMENT – continued

Derivative Financial Instruments

We use derivative instruments including interest rate swaps for commercial loans with our customers and we sell mortgage loans in the secondary market and enter into interest rate lock commitments. 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 counterparty's 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 reserve 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 of the type of property and market area, 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 of the type of property and market area, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets 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 affecting 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.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – 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 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 and Other Short-Term Assets

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 discounted cash flow analyses that utilize interest rates currently being offered for similar loans and adjusted for credit risk. The fair value of nonperforming loans is based on their carrying values less any specific reserve. The carrying amount of accrued interest approximates fair value.

Bank Owned Life Insurance

Fair value approximates net cash surrender 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, federal funds purchased 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 fair values are based on the carrying values.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – 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.

The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at September 30, 2014 and December 31, 2013. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

	September 30, 2014			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	\$—	\$14,803	\$—	\$14,803
Obligations of U.S. government corporations and agencies	—	263,406	—	263,406
Collateralized mortgage obligations of U.S. government corporations and agencies	—	111,053	—	111,053
Residential mortgage-backed securities of U.S. government corporations and agencies	—	44,581	—	44,581
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	39,380	—	39,380
Obligations of states and political subdivisions	—	133,945	—	133,945
Marketable equity securities	179	8,310	—	8,489
Total securities available-for-sale	179	615,478	—	615,657
Trading securities held in a Rabbi Trust	3,286	—	—	3,286
Total securities	3,465	615,478	—	618,943
Derivative financial assets:				
Interest rate swaps	—	12,125	—	12,125
Interest rate lock commitments	—	187	—	187
Forward sale contracts	—	—	—	—
Total Assets	\$3,465	\$627,790	\$—	\$631,255
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	\$—	\$12,103	\$—	\$12,103
Forward sale contracts	—	10	—	10
Total Liabilities	\$—	\$12,113	\$—	\$12,113

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

	December 31, 2013			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	\$—	\$—	\$—	\$—
Obligations of U.S. government corporations and agencies	—	234,751	—	234,751
Collateralized mortgage obligations of U.S. government corporations and agencies	—	63,774	—	63,774
Residential mortgage-backed securities of U.S. government corporations and agencies	—	48,669	—	48,669
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	39,052	—	39,052
Obligations of states and political subdivisions	—	114,264	—	114,264
Marketable equity securities	202	8,713	—	8,915
Total securities available-for-sale	202	509,223	—	509,425
Trading securities held in a Rabbi Trust	2,864	—	—	2,864
Total securities	3,066	509,223	—	512,289
Derivative financial assets:				
Interest rate swaps	—	13,698	—	13,698
Interest rate lock commitments	—	85	—	85
Forward sale contracts	—	34	—	34
Total Assets	\$3,066	\$523,040	\$—	\$526,106
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	\$—	\$13,647	\$—	\$13,647
Total Liabilities	\$—	\$13,647	\$—	\$13,647

We classify financial instruments as Level 3 when valuation models are used because significant inputs are not observable in the market. The following table presents the changes in assets measured at fair value on a recurring basis for which we have utilized Level 3 inputs to determine the fair value:

	Three Months Ended		Nine Months Ended	
(dollars in thousands)	September 30,		September 30,	
	2014	2013	2014	2013
Balance at beginning of period	\$—	\$—	\$—	\$300
Total gains included in other comprehensive income ⁽¹⁾	—	—	—	44
Net purchases, sales, issuances and settlements	—	—	—	—
Transfers out of Level 3	—	—	—	(344)
Balance at end of period	\$—	\$—	\$—	\$—

⁽¹⁾ Changes in estimated fair value of available-for-sale investments are recorded in accumulated other comprehensive income (loss), while realized gains and losses from sales are recorded in security gains (losses), net in the Consolidated Statements of Comprehensive Income.

We may be required to measure certain assets and liabilities on a nonrecurring basis. The following table presents our assets that were measured at fair value on a nonrecurring basis by the fair value hierarchy level at September 30, 2014

and December 31, 2013. There were no liabilities measured at fair value on a nonrecurring basis during these periods.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

(dollars in thousands)	September 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								
Loans held for sale	\$—	\$—	\$—	\$—	\$—	\$—	\$1,516	\$1,516
Impaired loans	—	—	13,331	13,331	—	—	19,197	19,197
Other real estate owned	—	—	74	74	—	—	317	317
Mortgage servicing rights	—	—	2,977	2,977	—	—	1,025	1,025
Total Assets	\$—	\$—	\$16,382	\$16,382	\$—	\$—	\$22,055	\$22,055

The carrying values and fair values of our financial instruments at September 30, 2014 and December 31, 2013 are presented in the following tables:

(dollars in thousands)	Carrying Value ⁽¹⁾	Fair Value Measurements at September 30, 2014			
		Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	\$143,831	\$143,831	\$143,831	\$—	\$—
Securities available-for-sale	615,657	615,657	179	615,478	—
Loans held for sale	3,126	3,167	—	—	3,167
Portfolio loans, net of unearned income	3,801,189	3,764,172	—	—	3,764,172
Bank owned life insurance	61,794	61,794	—	61,794	—
FHLB and other restricted stock	18,995	18,995	—	—	18,995
Trading securities held in a Rabbi Trust	3,286	3,286	3,286	—	—
Mortgage servicing rights	2,792	2,977	—	—	2,977
Interest rate swaps	12,125	12,125	—	12,125	—
Interest rate lock commitments	187	187	—	187	—
LIABILITIES					
Deposits	\$3,901,101	\$3,903,211	\$—	\$—	\$3,903,211
Securities sold under repurchase agreements	23,084	23,084	—	—	23,084
Short-term borrowings	265,000	265,000	—	—	265,000
Long-term borrowings	20,042	21,022	—	—	21,022
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	12,103	12,103	—	12,103	—
Forward sale contracts	10	10	—	10	—

⁽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 3. FAIR VALUE MEASUREMENT – continued

(dollars in thousands)	Carrying Value ⁽¹⁾	Fair Value Measurements at December 31, 2013			
		Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	\$108,356	\$108,356	\$108,356	\$—	\$—
Securities available-for-sale	509,425	509,425	202	509,223	—
Loans held for sale	2,136	2,139	—	—	2,139
Portfolio loans, net of unearned income	3,566,199	3,538,072	—	—	3,538,072
Bank owned life insurance	60,480	60,480	—	60,480	—
FHLB and other restricted stock	13,629	13,629	—	—	13,629
Trading securities held in a Rabbi Trust	2,864	2,864	2,864	—	—
Mortgage servicing rights	2,919	3,143	—	—	3,143
Interest rate swaps	13,698	13,698	—	13,698	—
Interest rate lock commitments	85	85	—	85	—
Forward sale contracts	34	34	—	34	—
LIABILITIES					
Deposits	\$3,672,308	\$3,673,624	\$—	\$—	\$3,673,624
Securities sold under repurchase agreements	33,847	33,847	—	—	33,847
Short-term borrowings	140,000	140,000	—	—	140,000
Long-term borrowings	21,810	22,924	—	—	22,924
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	13,647	13,647	—	13,647	—

⁽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 4. SECURITIES AVAILABLE-FOR-SALE

The following table indicates the composition of the securities available-for-sale portfolio as of the dates presented:

	September 30, 2014				December 31, 2013			
(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	\$ 14,863	\$ —	\$ (60	) \$ 14,803	\$ —	\$ —	\$ —	\$ —
Obligations of U.S. government corporations and agencies	263,254	1,930	(1,778	) 263,406	235,181	2,151	(2,581	) 234,751
Collateralized mortgage obligations of U.S. government corporations and agencies	110,626	644	(217	) 111,053	63,776	601	(603	) 63,774
Residential mortgage-backed securities of U.S. government corporations and agencies	43,405	1,429	(253	) 44,581	47,934	1,420	(685	) 48,669
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,967	80	(667	) 39,380	40,357	—	(1,305	) 39,052
Obligations of states and political subdivisions	129,133	4,952	(140	) 133,945	115,572	1,294	(2,602	) 114,264
Debt Securities	601,248	9,035	(3,115	) 607,168	502,820	5,466	(7,776	) 500,510
Marketable equity securities	7,579	910	—	8,489	7,579	1,336	—	8,915
Total	\$ 608,827	\$ 9,945	\$ (3,115	) \$ 615,657	\$ 510,399	\$ 6,802	\$ (7,776	) \$ 509,425

Realized gains and losses on the sale of securities are determined using the specific-identification method. The following table shows the composition of gross and net realized gains and losses for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2014	2013	2014	2013
Gross realized gains	\$ —	\$ 3	\$ 41	\$ 5
Gross realized losses	—	—	—	—
Net Realized Gains	\$ —	\$ 3	\$ 41	\$ 5

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

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

(dollars in thousands)	September 30, 2014								
	Less Than 12 Months Number of Securities	Fair Value	Unrealized Losses	12 Months or More Number of Securities	Fair Value	Unrealized Losses	Total Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	3	\$14,803	\$(60)	—	\$—	\$—	3	\$14,803	\$(60)
Obligations of U.S. government corporations and agencies	9	83,654	(377)	8	62,754	(1,401)	17	146,408	(1,778)
Collateralized mortgage obligations of U.S. government corporations and agencies	6	71,273	(217)	—	—	—	6	71,273	(217)
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—	—	1	9,118	(253)	1	9,118	(253)
Commercial mortgage-backed securities of U.S. government corporations and agencies	1	9,927	(97)	2	20,546	(570)	3	30,473	(667)
Obligations of states and political subdivisions	3	12,313	(3)	2	10,715	(137)	5	23,028	(140)
Total Temporarily Impaired Securities	22	\$191,970	\$(754)	13	\$103,133	\$(2,361)	35	\$295,103	\$(3,115)

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

(dollars in thousands)	December 31, 2013								
	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	—	\$—	\$—	—	\$—	\$—	\$—	\$—	\$—
Obligations of U.S. government corporations and agencies	16	126,017	(2,581)	—	—	—	16	126,017	(2,581)
Collateralized mortgage obligations of U.S. government corporations and agencies	3	39,522	(603)	—	—	—	3	39,522	(603)
Residential mortgage-backed securities of U.S. government corporations and agencies	2	22,822	(685)	—	—	—	2	22,822	(685)
Commercial mortgage-backed securities of U.S. government corporations and agencies	4	39,052	(1,305)	—	—	—	4	39,052	(1,305)
Obligations of states and political subdivisions	16	47,529	(1,739)	2	10,088	(863)	18	57,617	(2,602)
Debt Securities	41	274,942	(6,913)	2	10,088	(863)	43	285,030	(7,776)
Marketable equity securities	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Securities	41	\$274,942	\$(6,913)	2	\$10,088	\$(863)	43	\$285,030	\$(7,776)

We do not believe any individual unrealized loss as of September 30, 2014 represents an other than temporary impairment, or OTTI. As of September 30, 2014, the unrealized losses on 35 debt securities were 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. There were no unrealized losses on marketable equity securities as of September 30, 2014. 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, referenced in the table above, 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 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 income/(loss) for the periods presented:

(dollars in thousands)	September 30, 2014			December 31, 2013		
	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	\$9,945	\$(3,115)	)\$6,830	\$6,802	\$(7,776)	)\$ (974)
Income tax expense/(benefit)	3,480	(1,090)	)2,390	2,381	(2,722)	) (341)
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	\$6,465	\$(2,025)	)\$4,440	\$4,421	\$(5,054)	)\$ (633)

The amortized cost and fair value of securities available-for-sale at September 30, 2014, by contractual maturity, are included in the table below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	September 30, 2014 Amortized Cost	Fair Value
Obligations of the U.S. Treasury and U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	\$20,713	\$20,936
Due after one year through five years	202,379	202,439
Due after five years through ten years	90,813	91,899
Due after ten years	93,345	96,880
	407,250	412,154
Collateralized mortgage obligations of U.S. government corporations and agencies	110,626	111,053
Residential mortgage-backed securities of U.S. government corporations and agencies	43,405	44,581
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,967	39,380
Debt Securities	601,248	607,168
Marketable equity securities	7,579	8,489
Total	\$608,827	\$615,657

At September 30, 2014 and December 31, 2013, securities with carrying values of \$314.8 million and \$243.2 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 5. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of \$2.0 million and \$1.3 million at September 30, 2014 and December 31, 2013. The following table indicates the composition of the loans as of the dates presented:

(dollars in thousands)	September 30, 2014	December 31, 2013
Commercial		
Commercial real estate	\$1,691,649	\$1,607,756
Commercial and industrial	946,366	842,449
Commercial construction	183,509	143,675
Total Commercial Loans	2,821,524	2,593,880
Consumer		
Residential mortgage	491,404	487,092
Home equity	418,659	414,195
Installment and other consumer	66,607	67,883
Consumer construction	2,995	3,149
Total Consumer Loans	979,665	972,319
Total Portfolio Loans	3,801,189	3,566,199
Loans held for sale	3,126	2,136
Total Loans	\$3,804,315	\$3,568,335

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, 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 74 percent of total portfolio loans at September 30, 2014 and 73 percent of total portfolio loans at December 31, 2013. Within our commercial portfolio, the commercial real estate, or CRE, and commercial construction portfolios combined comprised 66 percent of total commercial loans and 49 percent of total portfolio loans at September 30, 2014 and 68 percent of total commercial loans and 49 percent of total portfolio loans at December 31, 2013. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type revealed no concentration in excess of nine percent of total loans at either September 30, 2014 or December 31, 2013.

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 7.7 percent of the combined portfolio and 3.8 percent of total loans at September 30, 2014 and 7.9 percent of the combined portfolio and 3.9 percent of total loans at December 31, 2013. 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 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

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

(dollars in thousands)	September 30, 2014			December 31, 2013		
	Accruing TDRs	Nonaccruing TDRs	Total TDRs	Accruing TDRs	Nonaccruing TDRs	Total TDRs
Commercial real estate	\$17,140	\$898	\$18,038	\$19,711	\$3,898	\$23,609
Commercial and industrial	7,401	1,443	8,844	7,521	1,884	9,405
Commercial construction	6,273	1,869	8,142	5,338	2,708	8,046
Residential mortgage	2,743	486	3,229	2,581	1,356	3,937
Home equity	3,594	223	3,817	3,924	218	4,142
Installment and other consumer	122	10	132	154	3	157
Total	\$37,273	\$4,929	\$42,202	\$39,229	\$10,067	\$49,296

There were five TDRs for \$0.5 million returned to accruing status during the three months ended September 30, 2014 and ten TDRs for \$2.0 million were returned to accruing status during the nine months ended September 30, 2014.

There were no TDRs returned to accruing status during the three months ended September 30, 2013 and one TDR for \$0.2 million was returned to accruing status during the nine months ended September 30, 2013.

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S&T BANCORP, INC. AND SUBSIDIARIES

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NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

The following tables present the restructured loans for the three and nine month periods ended September 30, 2014 and September 30, 2013:

(dollars in thousands)	Three Months Ended September 30, 2014				Three Months Ended September 30, 2013			
	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	\$ 487	\$ 475	\$ (12)	—	\$ —	\$ —	\$ —
Chapter 7 bankruptcy ⁽²⁾	1	83	83	—	—	—	—	—
Maturity date extension and interest rate reduction	—	—	—	—	2	664	644	(20)
Commercial and industrial								
Principal deferral	2	381	366	(15)	1	278	278	—
Residential mortgage								
Chapter 7 bankruptcy ⁽²⁾	2	135	134	(1)	—	—	—	—
Interest rate reduction	—	—	—	—	1	54	54	—
Home equity								
Chapter 7 bankruptcy ⁽²⁾	2	14	14	—	8	772	767	(5)
Maturity date extension and interest rate reduction	2	96	96	—	—	—	—	—
Installment and other consumer								
Chapter 7 bankruptcy ⁽²⁾	2	14	11	(3)	3	17	15	(2)
Total by Concession Type								
Principal deferral	3	868	841	(27)	1	278	278	—
Chapter 7 bankruptcy ⁽²⁾	7	246	242	(4)	11	789	782	(7)
Interest rate reduction	—	—	—	—	1	54	54	—
Maturity date extension and interest rate reduction	2	96	96	—	2	664	644	(20)
Total	12	\$ 1,210	\$ 1,179	\$ (31)	15	1,785	1,758	(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.

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NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

(dollars in thousands)	Nine Months Ended September 30, 2014				Nine Months Ended September 30, 2013			
	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	\$ 616	\$ 602	\$ (14)	3	\$ 1,541	\$ 1,288	\$ (253)
Maturity date extension and interest rate reduction	—	—	—	—	2	664	644	(20)
Principal forgiveness ⁽³⁾	—	—	—	—	1	4,339	4,339	—
Chapter 7 bankruptcy ⁽²⁾	1	83	83	—	7	258	255	(3)