S&T BANCORP INC
Form 10-Q
November 02, 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 September 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from To
Commission file number 0-12508

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

Pennsylvania	25-1434426
(State or other jurisdiction of 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 - 34,913,023 shares as of October 31, 2016

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

(dollars in thousands, except per share data)	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Cash and due from banks, including interest-bearing deposits of $68,961 and $41,639 at September 30, 2016 and December 31, 2015	$ 125,163	$ 99,399
Securities available-for-sale, at fair value	671,128	660,963
Loans held for sale	11,694	35,321
Portfolio loans, net of unearned income	5,418,234	5,027,612
Allowance for loan losses	(53,793)	(48,147)
Portfolio loans, net	5,364,441	4,979,465
Bank owned life insurance	71,523	70,175
Premises and equipment, net	47,122	49,127
Federal Home Loan Bank and other restricted stock, at cost	28,331	23,032
Goodwill	291,670	291,764
Other intangible assets, net	5,282	6,525
Other assets	101,851	102,583
Total Assets	$ 6,718,205	$ 6,318,354
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 1,232,469	$ 1,227,766
Interest-bearing demand	657,326	616,188
Money market	764,125	605,184
Savings	1,026,234	1,061,265
Certificates of deposit	1,465,277	1,366,208
Total Deposits	5,145,431	4,876,611
Securities sold under repurchase agreements	40,949	62,086
Short-term borrowings	565,000	356,000
Long-term borrowings	15,303	117,043
Junior subordinated debt securities	45,619	45,619
Other liabilities	67,196	68,758
Total Liabilities	5,879,498	5,526,117
SHAREHOLDERS' EQUITY		
Common stock ($2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at September 30, 2016 and December 31, 2015	90,326	90,326
Outstanding—34,913,023 shares at September 30, 2016 and 34,810,374 shares at December 31, 2015		
Additional paid-in capital	212,407	210,545
Retained earnings	575,192	544,228
Accumulated other comprehensive (loss) income	(5,643)	(16,457)
Treasury stock (1,217,457 shares at September 30, 2016 and 1,320,106 shares at December 31, 2015, at cost)	(33,575)	(36,405)
Total Shareholders' Equity	838,707	792,237
Total Liabilities and Shareholders' Equity	$ 6,718,205	$ 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 September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	2016	2015	2016	2015
INTEREST INCOME				
Loans, including fees	$53,956	$49,578	$157,133	$138,438
Investment Securities:				
Taxable	2,570	2,522	7,704	7,298
Tax-exempt	907	988	2,764	3,006
Dividends	375	581	1,077	1,453
Total Interest Income	57,808	53,669	168,678	150,195
INTEREST EXPENSE				
Deposits	5,119	3,275	14,403	9,333
Borrowings and junior subordinated debt securities	1,234	798	3,474	2,196
Total Interest Expense	6,353	4,073	17,877	11,529
NET INTEREST INCOME	51,455	49,596	150,801	138,666
Provision for loan losses	2,516	3,206	12,379	6,473
Net Interest Income After Provision for Loan Losses	48,939	46,390	138,422	132,193
NONINTEREST INCOME				
Securities (losses) gains, net	—	—	—	(34)
Service charges on deposit accounts	3,208	3,069	9,272	8,529
Debit and credit card fees	3,163	2,996	8,818	8,732
Wealth management fees	2,565	2,814	7,947	8,667
Insurance fees	1,208	1,332	4,187	4,374
Mortgage banking	1,077	698	2,185	2,006
Gain on sale of credit card portfolio	—	—	2,066	—
Other	2,227	1,572	7,238	5,674
Total Noninterest Income	13,448	12,481	41,713	37,948
NONINTEREST EXPENSE				
Salaries and employee benefits	19,011	16,789	57,539	51,024
Data processing	2,129	2,454	6,964	7,329
Net occupancy	2,776	2,744	8,413	8,014
Furniture and equipment	1,932	1,653	5,580	4,461
Marketing	896	895	2,872	2,905
Professional services and legal	1,041	946	3,035	2,270
FDIC insurance	1,005	990	2,938	2,493
Other taxes	1,080	719	3,076	2,721
Merger related expenses	—	—	—	3,167
Other	4,569	6,639	17,190	18,515
Total Noninterest Expense	34,439	33,829	107,607	102,899
Income Before Taxes	27,948	25,042	72,528	67,242
Provision for income taxes	7,367	6,407	18,795	17,584
Net Income	$20,581	$18,635	$53,733	$49,658
Earnings per share—basic	$0.59	$0.54	$1.55	$1.48
Earnings per share—diluted	$0.59	$0.54	$1.54	$1.48

Dividends declared per share	$0.19	$0.18	$0.57	$0.54
Comprehensive Income	$19,686	$22,420	$64,547	$53,755

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 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 nine months ended September 30, 2015	—	—	49,658	—	—	49,658
Other comprehensive income (loss), net of tax	—	—	—	4,097	—	4,097
Cash dividends declared ($0.54 per share)	—	—	(17,886)	—	—	(17,886)
Common stock issued in acquisition (4,933,115 shares)	12,333	130,136	—	—	—	142,469
Treasury stock issued for restricted awards (87,841 shares, net of 5,717 forfeitures)	—	—	(2,390)	—	2,279	(111)
Recognition of restricted stock compensation expense	—	1,266	—	—	—	1,266
Tax benefit from stock-based compensation	—	53	—	—	—	53
Issuance costs	—	(132)	—	—	—	(132)
Balance at September 30, 2015	$90,326	$210,141	$533,442	$ (9,736)	$(36,370)	$787,803
Balance at January 1, 2016	$90,326	$210,545	$544,228	$ (16,457)	$(36,405)	$792,237
Net income for nine months ended September 30, 2016	—	—	53,733	—	—	53,733
Other comprehensive income (loss), net of tax	—	—	—	10,814	—	10,814
Cash dividends declared ($0.57 per share)	—	—	(19,824)	—	—	(19,824)
Treasury stock issued for restricted awards (110,643) shares, net of 5,717 forfeitures)	—	—	(2,945)	—	2,830	(115)
Recognition of restricted stock compensation expense	—	1,862	—	—	—	1,862
Balance at September 30, 2016	$90,326	$212,407	$575,192	$ (5,643)	$(33,575)	$838,707

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)	2016	2015
OPERATING ACTIVITIES		
Net income	$53,733	$49,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	12,379	6,473
Provision for unfunded loan commitments	90	687
Depreciation, amortization and accretion	2,858	(6)
Net amortization of discounts and premiums on securities	2,816	2,682
Stock-based compensation expense	1,862	1,158
Securities losses, net	—	34
Tax benefit from stock-based compensation	—	(53)
Mortgage loans originated for sale	(75,505)	(81,966)
Proceeds from the sale of mortgage loans	77,009	71,872
Gain on the sale of mortgage loans, net	(1,154)	(730)
Gain on the sale of credit card portfolio	(2,066)	—
Pension plan curtailment gain	(1,017)	—
Net increase in interest receivable	(4,019)	(2,280)
Net increase (decrease) in interest payable	1,117	(637)
Net decrease in other assets	702	13,216
Net increase in other liabilities	3,586	1,531
Net Cash Provided by Operating Activities	72,391	61,639
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(53,282)	(54,465)
Proceeds from maturities, prepayments and calls of securities available-for-sale	52,049	36,680
Proceeds from sales of securities available-for-sale	—	11,119
Net purchases of Federal Home Loan Bank stock	(5,298)	(3,535)
Net increase in loans	(406,370)	(276,282)
Proceeds from sale of loans not originated for resale	8,433	2,804
Purchases of premises and equipment	(2,744)	(3,737)
Proceeds from the sale of premises and equipment	20	264
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	(382,173)	(303,499)
FINANCING ACTIVITIES		
Net increase in deposits	169,751	259,725
Net increase (decrease) in certificates of deposit	99,612	(12,399)
Net (decrease) increase in securities sold under repurchase agreements	(21,138)	12,366
Net increase (decrease) in short-term borrowings	209,000	(78,660)
Proceeds from long-term borrowings	—	100,000
Repayments of long-term borrowings	(101,740)	(1,829)
Repayment of junior subordinated debt	—	(13,500)
Treasury shares issued-net	(115)	(111)
Common stock issuance costs	—	(132)

Cash dividends paid to common shareholders	(19,824)	(17,886)
Tax benefit from stock-based compensation	—	53
Net Cash Provided by Financing Activities	335,546	247,627
Net increase in cash and cash equivalents	25,764	5,767
Cash and cash equivalents at beginning of period	99,399	109,580
Cash and Cash Equivalents at End of Period	$125,163	$115,347
Supplemental Disclosures		
Loans transferred from held for sale to portfolio	$1,540	$—
Interest paid	$16,761	$11,853
Income taxes paid, net of refunds	$17,974	$15,675
Net assets acquired from bank merger, excluding cash and cash equivalents	$—	$43,433
Transfers of loans to other real estate owned	$581	$628

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, 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 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.

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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
Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments
In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The main objective of this ASU is to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this Update provide guidance on the following eight specific cash flow issues: Debt prepayment or debt extinguishments costs, Settlement of zero-coupon debt instruments, Contingent consideration payments made after a business combination, Proceeds from the settlement of insurance claims, Proceeds from the settlement of bank-owned life insurance (BOLI) policies, Distributions received from equity method investments, Beneficial interests in securitization transactions, and Separately identifiable cash flows and application of the predominance principle. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. We are evaluating the provisions of this ASU to determine the potential impact on our results of operations and financial position.
Financial Instruments - Credit Losses
In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments of this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The collective changes to the recognition and measurement accounting standards for financial instruments and their anticipated impact on the allowance for credit losses modeling have been universally referred to as the CECL, or current expected credit loss, model. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the provisions of this ASU to determine the potential impact on our results of operations and financial position.
Revenue from Contracts with Customers

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

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

NOTE 1. BASIS OF PRESENTATION - continued

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.
In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing, as an amendment to ASU No. 2014-09 to improve Topic 606, Revenue from Contracts with Customers, by reducing: 1. The potential for diversity in practice at initial application, and 2. The cost and complexity of applying Topic 606 both at transition and on an ongoing basis.
In May 2016, the FASB issued ASU No. 2016-12, Narrow-scope Improvements and Practical Expedients. The amendments in this ASU do not change the core principles of Topic 606, Revenue from Contracts with Customers. These amendments affect only the narrow aspects of Topic 606: 1. Collectibility Criterion, 2. Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, 3. Noncash Consideration, 4. Contract Modifications at Transition, and 5. Completed Contracts at Transition.
ASU 2014-09, including transition requirements for all amendments, is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the original effective date for interim and annual reporting periods in fiscal years beginning after December 15, 2016. We are evaluating the provisions of these ASUs to determine the potential impact to our results of operations and financial position.
Stock Compensation - Improvements to Employee Share-Based Payment Accounting
On March 31, 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including; 1. accounting for income taxes; 2. classification of excess tax benefits on the statement of cash flows; 3. forfeitures; 4. minimum statutory tax withholding requirements; 5. classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; 6. practical expedient -- expected term (nonpublic only); and 7. intrinsic value (nonpublic only). This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those years for public business entities. Early adoption is permitted in any interim or annual period provided that the entire ASU is adopted. We do not expect that this ASU will have a material impact on our results of operations and financial position.
Equity Method and Joint Ventures - Simplifying the Transition to the Equity Method of Accounting
In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. We do not expect that this ASU will have a material impact on our results of operations and financial position.
Leases - Section A-Amendments to the FASB Accounting Standards Codification, Section B-Conforming Amendments Related to Leases and Section C-Background Information and Basis for Conclusions
In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize a right-to-use asset and a lease obligation for all leases on the balance sheet. Lessor accounting remains substantially similar to current GAAP. ASU 2016-02 supersedes Topic 840, Leases. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. Early adoption of this ASU is permitted. We anticipate that this ASU will impact our financial statements as it relates to the recognition of right-to-use assets and lease obligations on our Consolidated Balance Sheet. However, we

do not expect that this ASU will have a material impact on our Consolidated Statement of Comprehensive Income.

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

NOTE 1. BASIS OF PRESENTATION - continued

Accounting for Financial Instruments - Overall: Classification and Measurement
In January 2016, the FASB issued ASU No. 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement (Subtopic 825-10). The amendments in this ASU No. 2016-01 address the following: 1. require equity investments to be measured at fair value with changes in fair value recognized in net income; 2. simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment; 3. eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4. require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5. require separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6. require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and 7. clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2017.
We anticipate that this ASU will have a significant impact on our financial statements and disclosures primarily as it relates to recognizing the fair value changes for equity securities in net income rather than an adjustment to equity through other comprehensive income.

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

NOTE 2. BUSINESS COMBINATIONS

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

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

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

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

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

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

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

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

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

NOTE 2. BUSINESS COMBINATIONS - continued

$184.2 million of Commercial and Industrial, or C&I, $92.4 million of commercial construction, $116.9 million of residential mortgage, $25.6 million of home equity, $36.1 million of installment and other consumer and $1.9 million of consumer construction.
Direct costs related to the Merger were expensed as incurred. No merger related expenses were recognized during the three month and nine month periods ended September 30, 2016 compared to no merger related expenses for the three month period and $3.2 million of Merger related expenses for the nine months ended September 30, 2015.

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 September 30,		Nine Months Ended September 30,	
(in thousands, except shares and per share data)	2016	2015	2016	2015
Numerator for Earnings per Share—Basic:				
Net income	$20,581	$ 18,635	$53,733	$ 49,658
Less: Income allocated to participating shares	68	81	167	204
Net Income Allocated to Shareholders	$20,513	$ 18,554	$53,566	$ 49,454
Numerator for Earnings per Share—Diluted:				
Net income	$20,581	$ 18,635	$53,733	$ 49,658
Net Income Available to Shareholders	$20,581	$ 18,635	$53,733	$ 49,658
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	34,687,487	34,660,007	34,674,453	33,527,549
Add: Potentially dilutive shares	81,018	32,985	72,724	33,980
Denominator for Treasury Stock Method—Diluted	34,768,505	34,692,992	34,747,177	33,561,529
Weighted Average Shares Outstanding—Basic	34,687,487	34,660,007	34,674,453	33,527,549
Add: Average participating shares outstanding	114,746	151,972	108,414	138,441
Denominator for Two-Class Method—Diluted	34,802,233	34,811,979	34,782,867	33,665,990
Earnings per share—basic	$0.59	$ 0.54	$1.55	$ 1.48
Earnings per share—diluted	$0.59	$ 0.54	$1.54	$ 1.48
Warrants considered anti-dilutive excluded from potentially dilutive shares - exercise price $31.53 per share, expire January 2019	517,012	517,012	517,012	517,012
Stock options considered anti-dilutive excluded from potentially dilutive shares - expired in December 2015	—	155,500	—	155,500
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	146,695	118,987	134,983	104,461

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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 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 interest rate on the variable rate junior subordinated debt securities is reset 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 September 30, 2016 and December 31, 2015. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

	September 30, 2016			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	$—	$15,056	$ —	$15,056
Obligations of U.S. government corporations and agencies	—	250,924	—	250,924
Collateralized mortgage obligations of U.S. government corporations and agencies	—	137,460	—	137,460
Residential mortgage-backed securities of U.S. government corporations and agencies	—	36,285	—	36,285
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	88,499	—	88,499
Obligations of states and political subdivisions	—	132,536	—	132,536
Marketable equity securities	—	10,368	—	10,368
Total securities available-for-sale	—	671,128	—	671,128
Trading securities held in a Rabbi Trust	4,312	—	—	4,312
Total securities	4,312	671,128	—	675,440
Derivative financial assets:				
Interest rate swap contracts - commercial loans	—	15,255	—	15,255
Interest rate lock commitments - mortgage loans	—	739	—	739
Total Assets	$4,312	$687,122	$ —	$691,434
LIABILITIES				
Derivative financial liabilities:				
Interest rate swap contracts - commercial loans	$—	$15,202	$ —	$15,202
Forward sale contracts - mortgage loans	—	98	—	98
Total Liabilities	$—	$15,300	$ —	$15,300

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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 swap contracts - commercial loans	—	11,295	—	11,295
Interest rate lock commitments - mortgage loans	—	261	—	261
Total Assets	$4,021	$672,519	$—	$676,540
LIABILITIES				
Derivative financial liabilities:				
Interest rate swap contracts - commercial loans	$—	$11,276	$—	$11,276
Forward sale contracts - mortgage loans	—	5	—	5
Total Liabilities	$—	$11,281	$—	$11,281

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

	September 30, 2016				December 31, 2015			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS[(1)]								
Impaired loans	—	—	9,000	9,000	—	—	9,373	9,373
Other real estate owned	—	—	181	181	—	—	158	158
Mortgage servicing rights	—	—	3,253	3,253	—	—	3,396	3,396
Total Assets	$—	$—	$12,434	$12,434	$—	$—	$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 September 30, 2016 and December 31, 2015 are presented in the following tables:

(dollars in thousands)	Carrying Value[1]	Fair Value Measurements at September 30, 2016			
		Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$125,163	$125,163	$125,163	$—	$—
Securities available-for-sale	671,128	671,128	—	671,128	—
Loans held for sale	11,695	12,176	—	—	12,176
Portfolio loans, net of unearned income	5,418,234	5,406,298	—	—	5,406,298
Bank owned life insurance	71,523	71,523	—	71,523	—
FHLB and other restricted stock	28,331	28,331	—	—	28,331
Trading securities held in a Rabbi Trust	4,312	4,312	4,312	—	—
Mortgage servicing rights	3,252	3,253	—	—	3,253
Interest rate swap contracts - commercial loans	15,255	15,255	—	15,255	—
Interest rate lock commitments - mortgage loans	739	739	—	739	—
LIABILITIES					
Deposits	$5,145,431	$5,151,031	$—	$—	$5,151,031
Securities sold under repurchase agreements	40,949	40,949	—	—	40,949
Short-term borrowings	565,000	565,000	—	—	565,000
Long-term borrowings	15,303	16,111	—	—	16,111
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swap contracts - commercial loans	15,202	15,202	—	15,202	—
Forward sale contracts - mortgage loans	98	98	—	98	—

(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 swap contracts - commercial loans	11,295	11,295	—	11,295	—
Interest rate lock commitments - mortgage loans	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 swap contracts - commercial loans	11,276	11,276	—	11,276	—
Forward sale contracts - mortgage loans	5	5	—	5	—

(1) As reported in the Consolidated Balance Sheets

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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:

	September 30, 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	$14,944	$ 112	$ —	$15,056	$14,914	$ 27	$ —	$14,941
Obligations of U.S. government corporations and agencies	246,259	4,665	—	250,924	262,045	1,825	(567)	263,303
Collateralized mortgage obligations of U.S. government corporations and agencies	134,675	2,785	—	137,460	128,458	693	(316)	128,835
Residential mortgage-backed securities of U.S. government corporations and agencies	34,685	1,600	—	36,285	39,185	1,091	(151)	40,125
Commercial mortgage-backed securities of U.S. government corporations and agencies	86,827	1,680	(8)	88,499	69,697	183	(676)	69,204
Obligations of states and political subdivisions	124,229	8,307	—	132,536	128,904	5,988	(6)	134,886
Debt Securities	641,619	19,149	(8)	660,760	643,203	9,807	(1,716)	651,294
Marketable equity securities	7,579	2,789	—	10,368	7,579	2,090	—	9,669
Total	$649,198	$ 21,938	$ (8)	$671,128	$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:

	September 30, 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
U.S. Treasury securities	—	$ —	$ —	—	$ —	$ —	—	$ —	$ —
Obligations of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Collateralized mortgage obligations of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—	—	—	—	—	—	—	—
Commercial mortgage-backed securities of U.S. government corporations and agencies	1	7,841	(8)	—	—	—	1	7,841	(8)
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—
Debt Securities	1	7,841	(8)	—	—	—	1	7,841	(8)
Marketable equity securities	1	71	—	—	—	—	1	71	—
Total Temporarily Impaired Securities	2	$ 7,912	$ (8)	—	$ —	$ —	2	$ 7,912	$ (8)

	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
U.S. Treasury securities	—	$—	$—	—	$—	$ —	—	$—	$—
Obligations of U.S. government corporations and agencies	10	88,584	(379)	2	14,542	(188)	12	103,126	(567)
Collateralized mortgage obligations of U.S. government corporations and agencies	6	61,211	(316)	—	—	—	6	61,211	(316)
Residential mortgage-backed	1	7,993	(151)	—	—	—	1	7,993	(151)

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

We do not believe any individual unrealized loss as of September 30, 2016 represents an other than temporary impairment. As of September 30, 2016, one debt security and one marketable equity security were in an unrealized loss position compared to unrealized losses on 26 debt securities at December 31, 2015. There were no unrealized losses on marketable equity securities at December 31, 2015. These unrealized losses were primarily attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. We do not intend to sell and it is not more likely than not that we will be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost.

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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:

	September 30, 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	$21,938	$ (8)	$ 21,930	$11,897	$ (1,716)	$ 10,181
Income tax expense/(benefit)	7,678	(3)	7,675	4,164	(601)	3,563
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	$14,260	$ (5)	$ 14,255	$7,733	$ (1,115)	$ 6,618

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

	September 30, 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	$52,302	$52,439
Due after one year through five years	216,729	222,114
Due after five years through ten years	55,893	58,699
Due after ten years	60,508	65,264
	385,432	398,516
Collateralized mortgage obligations of U.S. government corporations and agencies	134,675	137,460
Residential mortgage-backed securities of U.S. government corporations and agencies	34,685	36,285
Commercial mortgage-backed securities of U.S. government corporations and agencies	86,827	88,499
Debt Securities	641,619	660,760
Marketable equity securities	7,579	10,368
Total	$649,198	$671,128

At September 30, 2016 and December 31, 2015, securities with carrying values of $291.4 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 $4.6 million and $3.2 million at September 30, 2016 and December 31, 2015 and net of a discount related to purchase accounting fair value adjustments of $8.2 million and $10.9 million at September 30, 2016 and December 31, 2015. The following table indicates the composition of loans as of the dates presented:

(dollars in thousands)	September 30, 2016	December 31, 2015
Commercial		
Commercial real estate	$ 2,427,164	$ 2,166,603
Commercial and industrial	1,344,297	1,256,830
Commercial construction	402,124	413,444
Total Commercial Loans	4,173,585	3,836,877
Consumer		
Residential mortgage	692,574	639,372
Home equity	483,935	470,845
Installment and other consumer	62,288	73,939
Consumer construction	5,852	6,579
Total Consumer Loans	1,244,649	1,190,735
Total Portfolio Loans	5,418,234	5,027,612
Loans held for sale	11,694	35,321
Total Loans	$ 5,429,928	$ 5,062,933

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, geography, collateral and industry and actively managing concentrations. When concentrations exist in certain segments, we monitor this risk by reviewing the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 77 percent of total portfolio loans at September 30, 2016 and 76 percent of total portfolio loans at December 31, 2015. Within our commercial portfolio, the CRE and Commercial Construction portfolios combined comprised $2.8 billion or 68 percent of total commercial loans and 52 percent of total portfolio loans at September 30, 2016 and comprised of $2.6 billion or 67 percent of total commercial loans and 51 percent of total portfolio loans at December 31, 2015. Further segmentation of the CRE and Commercial Construction portfolios by collateral type reveals no concentration in excess of seven percent of total loans at September 30, 2016 and December 31, 2015.

Our market area includes Pennsylvania and the contiguous states of Ohio, West Virginia, New York and Maryland. The majority of our commercial and consumer loans are made to businesses and individuals in this market area, resulting in a geographic concentration. We believe our knowledge and familiarity with customers and conditions locally outweighs this geographic concentration risk. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Our CRE and Commercial Construction portfolios have out-of-market exposure of 5.4 percent of the combined portfolio and 2.8 percent of total loans at September 30, 2016 and 5.8 percent of the combined portfolio and 3.0 percent of total loans at December 31, 2015.

The decrease in loans held for sale of $23.6 million primarily related to the sale of our credit card portfolio, which was sold for $25.0 million and resulted in a $2.1 million gain for the nine months ended September 30, 2016.

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

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

NOTE 6. 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:

	September 30, 2016			December 31, 2015		
(dollars in thousands)	Performing TDRs	Nonperforming TDRs	Total TDRs	Performing TDRs	Nonperforming TDRs	Total TDRs
Commercial real estate	$3,054	$ 866	$3,920	$6,822	$ 3,548	$10,370
Commercial and industrial	863	7,007	7,870	6,321	1,570	7,891
Commercial construction	3,460	992	4,452	5,013	1,265	6,278
Residential mortgage	2,453	5,248	7,701	2,590	665	3,255
Home equity	3,084	973	4,057	3,184	523	3,707
Installment and other consumer	22	9	31	25	88	113
Total	$12,936	$ 15,095	$28,031	$23,955	$ 7,659	$31,614

There were no TDRs returned to accruing status during the three and nine months ended September 30, 2016 and there were six TDRs that returned to accruing status totaling $0.3 million during the three and nine months ended September 30, 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:

(dollars in thousands)	Three Months Ended September 30, 2016				Three Months Ended September 30, 2015			
	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								
Interest rate reduction	1	$ 250	$ 248	$ (2)	—	$ —	$ —	$ —
Maturity date extension	—	—	—	—	1	264	260	(4)
Commercial and industrial								
Maturity date extension	2	4,105	4,162	57	—	—	—	—
Commercial Construction								
Maturity date extension	—	—	—	—	2	813	812	(1)
Residential mortgage								
Chapter 7 bankruptcy[2]	3	153	152	(1)	2	74	74	—
Maturity date extension	—	—	—	—	1	180	180	—
Maturity date extension and interest rate reduction	1	280	280	—	—	—	—	—
Home equity								
Chapter 7 bankruptcy[2]	7	163	161	(2)	5	115	110	(5)
Maturity date extension and interest rate reduction	—	—	—	—	2	138	138	—
Installment and other consumer								
Chapter 7 bankruptcy[2]	—	—	—	—	1	9	4	(5)
Total by Concession Type								
Chapter 7 bankruptcy[2]	10	$ 316	$ 313	$ (3)	8	$ 198	$ 188	$ (10)
Interest rate reduction	1	250	248	(2)	—	—	—	—
Maturity date extension and interest rate reduction	1	280	280	—	2	138	138	—
Maturity date extension	2	4,105	4,162	57	4	1,257	1,252	(5)
Total	14	$ 4,951	$ 5,003	$ 52	14	$ 1,593	$ 1,578	$ (15)

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

NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

(dollars in thousands)	Nine Months Ended September 30, 2016				Nine Months Ended September 30, 2015			
	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	$ 4,721	$ 2,270	$ (2,451)	2	$ 2,851	$ 1,841	$ (1,010)
Chapter 7 bankruptcy[2]	1	709	681	(28)	—	—	—	—
Interest rate reduction	1	250	248	(2)	—	—	—	—
Maturity date extension	—	—	—	—	1	264	260	(4)
Commercial and industrial								
Principal forgiveness	—	—	—	—	1	400	273	(127)
Principal deferral	5	985	985	—	6	661	363	(298)
Chapter 7 bankruptcy[2]	—	—	—	—	1	3	—	(3)
Maturity date extension	5	4,860	4,891	31	1	780	720	(60)
Commercial Construction								
Principal deferral	—	—	—	—	1	104	—	(104)
Maturity date extension	5	1,357	1,302	(55)	2	813	812	(1)
Residential mortgage								
Principal deferral	1	3,273	3,273	—	—	—	—	—
Chapter 7 bankruptcy[2]	7	439	433	(6)	2	74	74	—
Maturity date extension	1	483	483	—	1	180	180	—
Maturity date extension and interest rate reduction	1	280	280	—	2	225	229	4
Home equity								
Principal deferral	1	47	46	(1)	—	—	—	—
Chapter 7 bankruptcy[2]	16	481	470	(11)	17	428	389	(39)
Maturity date extension and interest rate reduction	1	130	128	(2)	2	138	138	—
Maturity date extension	4	274	272	(2)	1	71	70	(1)
Installment and other consumer								
Chapter 7 bankruptcy[2]	2	16	13	(3)	1	9	4	(5)
Total by Concession Type								
Principal forgiveness	—	$ —	$ —	$ —	1	$ 400	$ 273	$ (127)
Principal deferral	8	9,026	6,574	(2,452)	9	3,616	2,204	(1,412)
Chapter 7 bankruptcy[2]	26	1,645	1,597	(48)	21	514	467	(47)
Interest rate reduction	1	250	248	(2)				—
Maturity date extension and interest rate reduction	2	410	408	(2)	4	363	367	4
Maturity date extension	15	6,974	6,948	(26)	6	2,108	2,042	(66)
Total	52	$ 18,305	$ 15,775	$ (2,530)	41	$ 7,001	$ 5,353	$ (1,648)

(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 September 30, 2016, we modified 12 C&I loan totaling $16.9 million and one CRE loan totaling $1.9 million that were not considered to be TDRs. For the nine months ended September 30, 2016, we modified 15 C&I loans totaling $25.6 million and two CRE loans totaling $2.5 million that were not considered to be TDRs. The modifications were administrative extensions of maturity dates that were determined not to be a concession. As of September 30, 2016, we have $0.3 million of commitments to lend additional funds on TDRs.

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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

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

	Defaulted TDRs							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
(dollars in thousands)	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate	—	$ —	—	$ —	—	$ —	—	$ —
Commercial and Industrial	—	—	—	—	—	—	—	—
Commercial construction	—	—	—	—	—	—	—	—
Residential mortgage	—	—	—	—	—	—	1	183
Home equity	—	—	—	—	—	—	3	124
Installment and other consumer	—	—	—	—	—	—	—	—
Consumer construction	—	—	—	—	—	—	—	—
Total	—	$ —	—	$ —	—	$ —	4	$ 307

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

	Nonperforming Assets	
(dollars in thousands)	September 30, 2016	December 31, 2015
Nonperforming Assets		
Nonaccrual loans	$25,398	$ 27,723
Nonaccrual TDRs	15,095	7,659
Total nonaccrual loans	40,493	35,382
OREO	512	354
Total Nonperforming Assets	$41,005	$ 35,736

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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 completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the type of project and the experience and resources of the developer.

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

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

We further assess risk within each portfolio segment by pooling loans with similar risk characteristics. For the commercial loan classes, the most important indicator of risk is the internally assigned risk rating, including pass, special mention and substandard. Consumer loans are pooled by type of collateral, lien position and loan to value, or LTV, 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:

	September 30, 2016					
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	$2,413,004	$ 3,286	$ 3,323	$ 7,551	$ 14,160	$2,427,164
Commercial and industrial	1,327,898	3,536	973	11,890	16,399	1,344,297
Commercial construction	394,812	456	203	6,653	7,312	402,124
Residential mortgage	679,237	585	1,352	11,400	13,337	692,574
Home equity	478,389	2,321	270	2,955	5,546	483,935
Installment and other consumer	61,954	205	85	44	334	62,288
Consumer construction	5,852	—	—	—	—	5,852
Loans held for sale	11,694	—	—	—	—	11,694
Total	$5,372,840	$ 10,389	$ 6,206	$ 40,493	$ 57,088	$5,429,928

	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
Total	$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 necessitate this classification.

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

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

	September 30, 2016							
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	$2,346,848	96.7 %	$ 1,253,411	93.2 %	$ 375,006	93.2 %	$3,975,265	95.2 %
Special mention	30,050	1.2 %	37,079	2.8 %	14,335	3.6 %	81,464	2.0 %
Substandard	50,266	2.1 %	53,807	4.0 %	12,783	3.2 %	116,856	2.8 %
Total	$2,427,164	100.0 %	$ 1,344,297	100.0 %	$ 402,124	100.0 %	$4,173,585	100.0 %

	December 31, 2015							
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	$2,094,851	96.7 %	$ 1,182,685	94.1 %	$ 375,808	90.9 %	$3,653,344	95.2 %
Special mention	19,938	0.9 %	43,896	3.5 %	19,846	4.8 %	83,680	2.2 %
Substandard	51,814	2.4 %	30,249	2.4 %	17,790	4.3 %	99,853	2.6 %
Total	$2,166,603	100.0 %	$ 1,256,830	100.0 %	$ 413,444	100.0 %	$3,836,877	100.0 %

We monitor the delinquent status of the consumer portfolio on a monthly basis. Loans are considered nonperforming when interest and principal are 90 days or more past due or management has determined that a material deterioration in the borrower's financial condition exists. The risk of loss is generally highest for nonperforming loans.
The following tables present the recorded investment in consumer loan classes by performing and nonperforming status as of the dates presented:

	September 30, 2016									
(dollars in thousands)	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	$681,174	98.4 %	$480,980	99.4 %	$ 62,244	99.9 %	$ 5,852	100.0 %	$1,230,250	98.8 %
Nonperforming	11,400	1.6 %	2,955	0.6 %	44	0.1 %	—	— %	14,399	1.2 %
Total	$692,574	100.0 %	$483,935	100.0 %	$ 62,288	100.0 %	$ 5,852	100.0 %	$1,244,649	100.0 %

	December 31, 2015									
(dollars in thousands)	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	$633,743	99.1 %	$467,943	99.4 %	$ 73,839	99.8 %	$ 6,579	100.0 %	$1,182,104	99.3 %
Nonperforming	5,629	0.9 %	2,902	0.6 %	100	0.2 %	—	— %	8,631	0.7 %
Total	$639,372	100.0 %	$470,845	100.0 %	$ 73,939	100.0 %	$ 6,579	100.0 %	$1,190,735	100.0 %

We individually evaluate all substandard and nonaccrual commercial loans greater than $0.5 million for impairment. Loans are considered to be impaired when based upon current information and events it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. All TDRs will be reported as an impaired loan for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is expected that the remaining principal and interest will be fully collected according to the restructured agreement. For all TDRs, regardless of size, as well as all other impaired loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate.

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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 summarize investments in loans considered to be impaired and related information on those impaired loans as of the dates presented:

	September 30, 2016			December 31, 2015		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Without a related allowance recorded:						
Commercial real estate	$7,589	$7,818	$ —	$12,661	$13,157	$ —
Commercial and industrial	8,261	9,730	—	14,417	15,220	—
Commercial construction	7,987	11,547	—	10,998	14,200	—
Consumer real estate	11,731	12,434	—	6,845	7,521	—
Other consumer	29	36	—	111	188	—
Total without a Related Allowance Recorded	35,597	41,565	—	45,032	50,286	—
With a related allowance recorded:						
Commercial real estate	—	—	—	—	—	—
Commercial and industrial	2,433	2,433	2,206	—	—	—
Commercial construction	—	—	—	500	1,350	3
Consumer real estate	27	27	27	116	116	32
Other consumer	2	2	2	2	2	2
Total with a Related Allowance Recorded	2,462	2,462	2,235	618	1,468	37
Total:						
Commercial real estate	7,589	7,818	—	12,661	13,157	—
Commercial and industrial	10,694	12,163	2,206	14,417	15,220	—
Commercial construction	7,987	11,547	—	11,498	15,550	3
Consumer real estate	11,758	12,461	27	6,961	7,637	32
Other consumer	31	38	2	113	190	2
Total	$38,059	$44,027	$ 2,235	$45,650	$51,754	$ 37

As of September 30, 2016, we had $38.1 million of impaired loans which included $14.4 million of acquired loans from the Merger that experienced credit deterioration since the acquisition date.

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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 summarize investments in loans considered to be impaired and related information on those impaired loans for the periods presented:

	For the Three Months Ended			
	September 30, 2016		September 30, 2015	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	$7,582	$ 38	$14,101	$ 352
Commercial and industrial	7,326	52	8,993	44
Commercial construction	8,039	49	11,034	67
Consumer real estate	11,686	159	6,829	92
Other consumer	32	—	183	—
Total without a Related Allowance Recorded	34,665	298	41,140	555
With a related allowance recorded:				
Commercial real estate	—	—	—	—
Commercial and industrial	2,437	37	1,977	7
Commercial construction	—	—	—	—
Consumer real estate	28	—	119	2
Other consumer	2	—	2	—
Total with a Related Allowance Recorded	2,467	37	2,098	9
Total:				
Commercial real estate	7,582	38	14,101	352
Commercial and industrial	9,763	89	10,970	51
Commercial construction	8,039	49	11,034	67
Consumer real estate	11,714	159	6,948	94
Other consumer	34	—	185	—
Total	$37,132	$ 335	$43,238	$ 564

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

NOTE 7. ALLOWANCE FOR LOAN LOSSES – continued

	For the Nine Months Ended			
	September 30, 2016		September 30, 2015	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	$7,551	$ 106	$14,994	$ 731
Commercial and industrial	7,447	156	9,742	131
Commercial construction	8,498	143	8,920	200
Consumer real estate	11,831	400	6,856	279
Other consumer	38	1	119	1
Total without a Related Allowance Recorded	35,365	806	40,631	1,342
With a related allowance recorded:				
Commercial real estate	—	—	—	—
Commercial and industrial	2,492	100	1,980	42
Commercial construction	—	—	—	—
Consumer real estate	29	2	121	5
Other consumer	2	—	2	—
Total with a Related Allowance Recorded	2,523	102	2,103	47
Total:				
Commercial real estate	7,551	106	14,994	731
Commercial and industrial	9,939	256	11,722	173
Commercial construction	8,498	143	8,920	200
Consumer real estate	11,860	402	6,977	284
Other consumer	40	1	121	1
Total	$37,888	$ 908	$42,734	$ 1,389

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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 detail activity in the ALL for the periods presented:

	Three Months Ended September 30, 2016					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$15,978	$ 14,771	$ 11,701	$ 8,418	$ 1,345	$52,213
Charge-offs	(93)	(414)	(163)	(369)	(461)	(1,500)
Recoveries	264	169	17	44	70	564
Net (Charge-offs)/ Recoveries	171	(245)	(146)	(325)	(391)	(936)
Provision for loan losses	4,244	(2,232)	1,356	(1,760)	908	2,516
Balance at End of Period	$20,393	$ 12,294	$ 12,911	$ 6,333	$ 1,862	$53,793

	Three Months Ended September 30, 2015					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$19,018	$ 13,308	$ 7,671	$ 7,027	$ 1,790	$48,814
Charge-offs	(2,361)	(1,121)	(1,247)	(445)	(467)	(5,641)
Recoveries	2,896	272	129	132	99	3,528
Net (Charge-offs)/ Recoveries	535	(849)	(1,118)	(313)	(368)	(2,113)
Provision for loan losses	(2,575)	12	4,983	302	484	3,206
Balance at End of Period	$16,978	$ 12,471	$ 11,536	$ 7,016	$ 1,906	$49,907

	Nine Months Ended September 30, 2016					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$15,043	$ 10,853	$ 12,625	$ 8,400	$ 1,226	$48,147
Charge-offs	(1,808)	(3,244)	(1,108)	(891)	(1,572)	(8,623)
Recoveries	662	589	20	342	277	1,890
Net (Charge-offs)/Recoveries	(1,146)	(2,655)	(1,088)	(549)	(1,295)	(6,733)
Provision for loan losses	6,496	4,096	1,374	(1,518)	1,931	12,379
Balance at End of Period	$20,393	$ 12,294	$ 12,911	$ 6,333	$ 1,862	$53,793

	Nine Months Ended September 30, 2015					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$20,164	$ 13,668	$ 6,093	$ 6,333	$ 1,653	$47,911
Charge-offs	(2,738)	(2,819)	(1,247)	(997)	(1,046)	(8,847)
Recoveries	3,072	475	132	379	312	4,370

Net (Charge-offs)/Recoveries	334	(2,344)	(1,115)	(618)	(734)	(4,477)
Provision for loan losses	(3,520)	1,147	6,558	1,301	987	6,473
Balance at End of Period	$16,978	$ 12,471	$ 11,536	$ 7,016	$ 1,906	$49,907

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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 ALL and recorded investments in loans by category as of the periods presented:

	September 30, 2016					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$—	$ 20,393	$20,393	$7,589	$ 2,419,575	$2,427,164
Commercial and industrial	2,206	10,088	12,294	10,694	1,333,603	1,344,297
Commercial construction	—	12,911	12,911	7,987	394,137	402,124
Consumer real estate	27	6,306	6,333	11,758	1,170,603	1,182,361
Other consumer	2	1,860	1,862	31	62,257	62,288
Total	$2,235	$ 51,558	$53,793	$38,059	$ 5,380,175	$5,418,234

	December 31, 2015					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$—	$ 15,043	$15,043	$12,661	$ 2,153,942	$2,166,603
Commercial and industrial	—	10,853	10,853	14,417	1,242,413	1,256,830
Commercial construction	3	12,622	12,625	11,498	401,946	413,444
Consumer real estate	32	8,368	8,400	6,961	1,109,835	1,116,796
Other consumer	2	1,224	1,226	113	73,826	73,939
Total	$37	$ 48,110	$48,147	$45,650	$ 4,981,962	$5,027,612

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

NOTE 8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Swaps

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

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

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

Interest Rate Lock Commitments and Forward Sale Contracts

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

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

NOTE 8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – continued

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

(dollars in thousands)	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Derivatives not Designated as Hedging Instruments:				
Interest Rate Swap Contracts- Commercial Loans				
Fair value	$ 15,255	$ 11,295	$ 15,202	$ 11,276
Notional amount	264,655	245,595	264,655	245,595
Collateral posted	—	—	14,542	12,753
Interest Rate Lock Commitments- Mortgage Loans				
Fair value	739	261	—	—
Notional amount	21,699	9,894	—	—
Forward Sale Contracts- Mortgage Loans				
Fair value	—	—	98	5
Notional amount	$ —	$ —	$ 16,892	$ 9,800

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

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

(dollars in thousands)	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Derivatives not Designated as Hedging Instruments:				
Gross amounts recognized	$15,255	$ 11,295	$15,202	$ 11,276
Gross amounts offset	—	—	—	—
Net amounts presented in the Consolidated Balance Sheets	15,255	11,295	15,202	11,276
Gross amounts not offset[(1)]	—	—	(14,542)	(12,573)
Net Amount	$15,255	$ 11,295	$660	$ (1,297)

[(1)] Amounts represent posted collateral.

The following table indicates the gain or loss recognized in income on derivatives for the periods presented:

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Derivatives not Designated as Hedging Instruments				

Interest rate swap contracts—commercial loans	$(87)	$29	$34	$20
Interest rate lock commitments—mortgage loans	97	208	478	339
Forward sale contracts—mortgage loans	106	(143)	(93)	(69)
Total Derivatives Gain	$116	$94	$419	$290

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

NOTE 9. BORROWINGS

Short-term borrowings are for terms under one year and were comprised of REPOs and FHLB advances. All REPOs are overnight short-term investments and are not insured by the Federal Deposit Insurance Corporation. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. Mortgage-backed securities with a total carrying value of $47.4 million at September 30, 2016 and $67.0 million at December 31, 2015 were pledged as collateral for these secured transactions. The pledged securities are held in safekeeping at the Federal Reserve. Due to the overnight short-term nature of REPOs, potential risk due to a decline in the value of the pledged collateral is low. Collateral pledging requirements with REPOs are monitored daily. FHLB advances are for various terms and are secured by a blanket lien on residential mortgages and other real estate secured loans.

Long-term borrowings are for original terms greater than or equal to one year and were comprised of FHLB advances, a capital lease and junior subordinated debt securities. Long-term FHLB advances are secured by the same loans as short-term FHLB advances. We had total long-term borrowings outstanding of $12.1 million at a fixed rate and $3.1 million at a variable rate at September 30, 2016, excluding our capital lease of $0.1 million. On March 4, 2015 we assumed $13.5 million of junior subordinated debt in connection with the Merger. On March 5, 2015, we paid off $8.5 million and on June 18, 2015, we paid off the remaining $5.0 million.

Information pertaining to borrowings is summarized in the table below as of the dates presented:

	September 30, 2016			December 31, 2015		
(dollars in thousands)	Balance	Weighted Average Rate		Balance	Weighted Average Rate	
Short-term borrowings						
Securities sold under repurchase agreements	$40,949	0.01	%	$62,086	0.01	%
Short-term borrowings	565,000	0.60	%	356,000	0.52	%
Total short-term borrowings	605,949	0.56	%	418,086	0.44	%
Long-term borrowings						
Other long-term borrowings	15,303	2.91	%	117,043	0.81	%
Junior subordinated debt securities	45,619	3.11	%	45,619	2.89	%
Total long-term borrowings	60,922	3.06	%	162,662	1.39	%
Total Borrowings	$666,871	0.79	%	$580,748	0.71	%

We had total borrowings at September 30, 2016 and December 31, 2015 at the FHLB of Pittsburgh of $580.2 million and $473.0 million. The $580.2 million at September 30, 2016 consisted of $565.0 million in short-term borrowings and $15.2 million in long-term borrowings. Our maximum borrowing capacity with the FHLB of Pittsburgh was $2.2 billion at September 30, 2016. Our remaining borrowing availability is $1.4 billion. We utilized $802.1 million of our borrowing capacity at September 30, 2016 consisting of $580.2 million for borrowings and $221.9 million for letters of credit to collateralize public funds.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued
NOTE 10. COMMITMENTS AND CONTINGENCIES

Commitments

In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event the customer does not satisfy the terms of the agreement, equals the contractual amount of the obligation less the value of any collateral. We apply the same credit policies in making commitments and standby letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Our allowance for unfunded commitments totaled $2.6 million at September 30, 2016 and $2.5 million at December 31, 2015. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets. The allowance for unfunded commitments is determined using a similar methodology as our ALL methodology. The reserve is calculated by applying historical loss rates and qualitative adjustments to our unfunded commitments. Estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties.

The following table sets forth our commitments and letters of credit as of the dates presented:

(dollars in thousands)	September 30, 2016	December 31, 2015
Commitments to extend credit	$ 1,546,164	$ 1,619,854
Standby letters of credit	80,181	97,676
Total	$ 1,626,345	$ 1,717,530

Litigation

In the normal course of business, we are subject to various legal and administrative proceedings and claims. While any type of litigation contains a level of uncertainty, we believe that no outcome of any such proceedings or claims pending will have a material adverse effect on our consolidated financial position or results of operations.

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

NOTE 11. OTHER COMPREHENSIVE INCOME

The following table represents the change in components of other comprehensive income (loss) for the periods presented, net of tax effects.

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in net unrealized gains/(losses) on securities available-for-sale	$(1,921)	$ 672	$ (1,249)	$5,177	$ (1,812)	$ 3,365
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income [1]	—	—	—	—	—	—
Adjustment to funded status of employee benefit plans	544	(190)	354	647	(227)	420
Other Comprehensive Income/(Loss)	$(1,377)	$ 482	$ (895)	$5,824	$ (2,039)	$ 3,785

[1] Reclassification adjustments are comprised of realized security gains or losses. The realized gains or losses have been reclassified out of accumulated other comprehensive income/(loss) and have affected certain lines in the Consolidated Statements of Comprehensive Income as follows; the pre-tax amount is included in securities gains/losses-net, the tax expense amount is included in the provision for income taxes and the net of tax amount is included in net income.

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in net unrealized gains/(losses) on securities available-for-sale	$11,748	$ (4,112)	$ 7,636	$4,288	$ (1,501)	$ 2,787
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income [1]	—	—	—	34	(12)	22
Adjustment to funded status of employee benefit plans	4,889	(1,711)	3,178	1,839	(551)	1,288
Other Comprehensive Income	$16,637	$ (5,823)	$ 10,814	$6,161	$ (2,064)	$ 4,097

[1] Reclassification adjustments are comprised of realized security gains or losses. The realized gains or losses have been reclassified out of accumulated other comprehensive income and have affected certain lines in the consolidated statement of comprehensive income as follows; the pre-tax amount is included in securities gains/losses-net, the tax expense amount is included in the provision for income taxes and the net of tax amount is included in net income.

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

NOTE 12. EMPLOYEE BENEFITS

Effective March 31, 2016, the qualified and nonqualified defined benefit plans were amended to freeze benefit accruals for all persons entitled to benefits under the plan. We recorded a curtailment gain in the first quarter of 2016 resulting from the amendment. The curtailment gain totaled $1.0 million and represented the unrecognized benefits associated with prior plan amendments that would have been amortized into income over the next seven years. The qualified plan was previously closed to new participants effective December 31, 2007. We will continue recording pension expense related to this plan, primarily representing interest costs on the accumulated benefit obligation and amortization of actuarial losses accumulated in the plan, as well as income from expected investment returns on pension assets.

Prior to March 31, 2016, the accrued benefits were based on years of service and the employee’s compensation for the highest five consecutive years in the last ten years. Contributions were intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future. The expected long-term rate of return on plan assets is 7.50 percent. Effective January 1, 2015, the plan was amended to provide unmarried participants with the ability to name a beneficiary to receive a lump sum death benefit equal to 80 percent of the participant’s accrued benefit payable at normal retirement age, in the event the participant dies while employed by S&T.

The following table summarizes the components of net periodic pension cost for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2016	2015	2016	2015
Components of Net Periodic Pension Cost				
Service cost—benefits earned during the period	$(6)	$606	$469	$1,951
Interest cost on projected benefit obligation	1,099	1,120	3,200	3,319
Expected return on plan assets	(1,444)	(1,772)	(4,337)	(5,385)
Amortization of prior service credit	29	(34)	(41)	(104)
Recognized net actuarial loss	638	586	1,708	1,521
Net Periodic Pension Expense	$316	$506	$999	$1,302

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

NOTE 13. SEGMENTS

We operate three reportable operating segments: Community Banking, Insurance and Wealth Management.

- Our Community Banking segment offers services which include accepting time and demand deposits and originating commercial and consumer loans.
- Our Insurance segment includes a full-service insurance agency offering commercial property and casualty insurance, group life and health coverage, employee benefit solutions and personal insurance lines.
- Our Wealth Management segment offers discount brokerage services, services as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisor that manages private investment accounts for individuals and institutions.

The following table represents total assets by reportable operating segment as of the dates presented:

(dollars in thousands)	September 30, 2016	December 31, 2015
Community Banking	$ 6,706,383	$ 6,305,046
Insurance	8,050	9,619
Wealth Management	3,772	3,689
Total Assets	$ 6,718,205	$ 6,318,354

The following tables provide financial information for our three operating segments for the three and nine month periods ended September 30, 2016 and 2015. The financial results of the business segments include allocations for shared services based on an internal analysis that supports line of business and branch performance measurements. Shared services include expenses such as employee benefits, occupancy expense, computer support and other corporate overhead. Even with these allocations, the financial results are not necessarily indicative of the business segments' financial condition and results of operations as if they existed as independent entities. The information provided under the caption "Eliminations" represents operations not considered to be reportable segments and/or general operating expenses and eliminations and adjustments, which are necessary for purposes of reconciling to the Consolidated Financial Statements.

	Three Months Ended September 30, 2016				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$57,804	$ 1	$ 98	$ (95)	$ 57,808
Interest expense	6,433	—	—	(80)	6,353
Net interest income	51,371	1	98	(15)	51,455
Provision for loan losses	2,516	—	—	—	2,516
Noninterest income	9,548	1,119	2,563	218	13,448
Noninterest expense	28,889	1,097	2,591	203	32,780
Depreciation expense	1,269	11	4	—	1,284
Amortization of intangible assets	359	12	4	—	375
Provision for income taxes	7,347	(1)	21	—	7,367
Net Income	$20,539	$ 1	$ 41	$ —	$ 20,581

	Three Months Ended September 30, 2015				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$53,625	$ 1	$ 108	$ (65)	$ 53,669
Interest expense	4,200	—	—	(127)	4,073
Net interest income	49,425	1	108	62	49,596
Provision for loan losses	3,206	—	—	—	3,206

Noninterest income	8,651	1,197	2,806	(173)	12,481
Noninterest expense	28,941	1,098	2,210	(111)	32,138
Depreciation expense	1,192	13	6	—	1,211
Amortization of intangible assets	460	13	7	—	480
Provision for income taxes	6,139	26	242	—	6,407
Net Income	$18,138	$ 48	$ 449	$ —	$ 18,635

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

NOTE 13. SEGMENTS – continued

	Nine Months Ended September 30, 2016				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$168,661	$ 2	$ 343	$ (328)	$ 168,678
Interest expense	18,085	—	—	(208)	17,877
Net interest income	150,576	2	343	(120)	150,801
Provision for loan losses	12,379	—	—	—	12,379
Noninterest income	28,468	3,836	7,936	1,473	41,713
Noninterest expense	90,499	3,455	7,334	1,353	102,641
Depreciation expense	3,678	33	12	—	3,723
Amortization of intangible assets	1,189	37	17	—	1,243
Provision for income taxes	18,364	110	321	—	18,795
Net Income	$52,935	$ 203	$ 595	$ —	$ 53,733

	Nine Months Ended September 30, 2015				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$150,108	$ 2	$ 406	$ (321)	$ 150,195
Interest expense	12,144	—	—	(615)	11,529
Net interest income	137,964	2	406	294	138,666
Provision for loan losses	6,473	—	—	—	6,473
Noninterest income	25,056	4,079	8,639	174	37,948
Noninterest expense	87,542	3,288	6,716	468	98,014
Depreciation expense	3,482	39	19	—	3,540
Amortization of intangible assets	1,283	38	24	—	1,345
Provision for income taxes	16,534	250	800	—	17,584
Net Income	$47,706	$ 466	$ 1,486	$ —	$ 49,658

NOTE 14. QUALIFIED AFFORDABLE HOUSING PROJECTS

We invest in affordable housing projects primarily to satisfy our Community Reinvestment Act requirements. As a limited partner in these operating partnerships, we receive tax credits and tax deductions for losses incurred by the underlying properties. We use the cost method to account for these partnerships. Our total investment in qualified affordable housing projects was $12.6 million at September 30, 2016 and $15.0 million at December 31, 2015. We had no open commitments to fund current or future investments in qualified affordable housing projects at September 30, 2016 or December 31, 2015. Amortization expense, included in other noninterest expense in the Consolidated Statements of Net Income, was $0.8 million and $2.5 million for the three and nine months ended September 30, 2016 and $0.9 million and $2.8 million for the three and nine months ended September 30, 2015. The amortization expense was offset by tax credits of $0.9 million and $2.7 million for the three and nine months ended September 30, 2016 and $1.0 million and $3.0 million for the three and nine months ended September 30, 2015 as a reduction to our federal tax provision.

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S&T BANCORP, INC. AND SUBSIDIARIES
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, represents an overview of our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations at and for the three and nine month periods ended September 30, 2016 and 2015. Our MD&A should be read in conjunction with our Consolidated Financial Statements and notes thereto. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

Important Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains or incorporates statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements generally relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as "will likely result," "may," "are expected to," "is anticipated," "estimate," "forecast," "projected," "intends to" or other similar words. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including but not limited to, those described in this Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which is on file with the Securities and Exchange Commission, or SEC. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information actually known to us at that time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

These forward-looking statements are based on current expectations, estimates and projections about our business and beliefs and assumptions made by management. Forward looking statements are not guarantees of our future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and may change over time. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements.

Our forward looking statements are subject to the following principal risks and uncertanties:

- credit losses;
- cyber-security concerns, including an interruption or breach in the security of our information systems;
- rapid technological developments and changes;
- sensitivity to the interest rate environment including a prolonged period of low interest rates, a rapid increase in interest rates or a change in the shape of the yield curve;
- a change in spreads on interest-earning assets and interest-bearing liabilities;
- regulatory supervision and oversight, including Basel III required capital levels, and public policy changes, including environmental regulations;
- legislation affecting the financial services industry as a whole, and S&T, in particular, including the effects of the Dodd-Frank Act;
- the outcome of pending and future litigation and governmental proceedings;
- increasing price and product/service competition, including new entrants;
- the ability to continue to introduce competitive new products and services on a timely, cost-effective basis;
- managing our internal growth and acquisitions, particularly our acquisition of Integrity Bancshares, Inc., or Integrity;
- the possibility that the anticipated benefits from the Integrity acquisition and any other future acquisitions cannot be fully realized in a timely manner or at all, or that integrating the operations of Integrity or future acquired operations will be more difficult, disruptive or costly than anticipated;
- containing costs and expenses;

- reliance on significant customer relationships;
- general economic or business conditions, either nationally or regionally in our market areas, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other services;
- deterioration of the housing market and reduced demand for mortgages;
- a deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income;
- a re-emergence of turbulence in significant portions of the global financial and real estate markets that could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities, and indirectly, by affecting the economy generally; and
- access to capital in the amounts, at the times and on the terms required to support our future businesses.

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We provide greater detail about these and other risks in our "Risk Factor" section of our Annual Report on Form 10-K for the year ended December 31, 2015.

Critical Accounting Policies and Estimates

Our critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of September 30, 2016 have remained unchanged from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2015 under the section "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Overview

We are a bank holding company headquartered in Indiana, Pennsylvania with assets of $6.7 billion at September 30, 2016. We operate bank branches in Pennsylvania and Ohio and loan production offices in Pennsylvania, Ohio and New York. We provide a full range of financial services with retail and commercial banking products, cash management services, insurance and trust and brokerage services. Our common stock trades on the NASDAQ Global Select Market under the symbol "STBA."

We earn revenue primarily from interest on loans and securities and fees charged for financial services provided to our customers. Offsetting these revenues are the cost of deposits and other funding sources, provision for loan losses and other operating costs such as salaries and employee benefits, data processing, occupancy and tax expense.

Our mission is to become the financial services provider of choice within the markets that we serve. We strive to do this by delivering exceptional service and value, one customer at a time. Our strategic plan focuses on organic growth, which includes growth within our current footprint and growth through market expansion. We also actively evaluate acquisition opportunities as another source of growth. Our strategic plan includes a collaborative model that combines expertise from all of our business segments and focuses on satisfying each customer's individual financial objectives. Our focus continues to be on loan and deposit growth and implementing opportunities to increase fee income while closely monitoring our operating expenses and asset quality. With our recent expansion into new markets, we are focused on executing our strategy to successfully build our brand and grow our business in these markets. The low interest rate environment remains a challenge for our net interest income, but we expect that our organic growth will help to mitigate the impact.

Earnings Summary

Net income increased $2.0 million for the three months and increased $4.0 million for the nine months ended September 30, 2016 compared to the same periods in 2015. The timing of the Integrity merger, or Merger, on March 4, 2015 has impacted the comparability of financial results for the nine months ended September 30, 2016 and the nine months ended September 30, 2015 due to approximately only seven months of Integrity results being included in earnings in the prior year. Net income for the three and nine months ended September 30, 2016 was $20.6 million and $53.7 million resulting in diluted earnings per share of $0.59 and $1.54 compared to net income of $18.6 million and $49.7 million and $0.54 and $1.48 diluted earnings per share for the same periods in 2015. The increase in net income for the three month period was primarily driven by increases in the net interest income of $1.8 million and noninterest income of $1.0 million and decreases in our provision for loan losses of $0.7 million partially offset by increases in noninterest expense of $0.6 million and income taxes of $0.9 million. The increase in net income for the nine month period was primarily due to increases in the net interest income of $12.1 million and noninterest income of $3.8 million. These increases were partially offset by increases in our provision for loan losses of $5.9 million, noninterest expenses of $4.7 million and income taxes of $1.2 million. Noninterest expense included $3.2 million of Merger related expenses during the nine months ended September 30, 2015 and no Merger related expenses during the nine month period ended September 30, 2016.

Net interest income increased $1.8 million, or 3.8 percent, for the three months ended September 30, 2016 and increased $12.1 million, or 8.8 percent, for the nine months ended September 30, 2016 compared to the same periods in 2015. The increases for both the three and nine month periods were primarily due to the increases in average interest-earning assets, compared to the same periods in 2015. Average interest-earnings assets increased $495.0 million, or 8.8 percent, and $671.5 million, or 12.6 percent, for the three and nine month periods ended September 30, 2016 compared to the same periods in 2015. The increases in average interest-earning assets were due to our successful efforts in growing our loan portfolio organically and as a result of the Merger. These increases were partially offset by increases in average interest-bearing liabilities of $366.4 million, or 8.8 percent, and $536.1 million, or 13.9 percent, for the three and nine months ended September 30, 2016 compared to the same periods in 2015. The increases in average interest-bearing liabilities for the three and nine month periods are mainly due to successful deposit promotions and the Merger. Net interest income included purchase accounting fair value adjustments of $0.7 million and $2.1 million for the three and nine months ended September 30, 2016 compared to $2.2 million and $4.9 million for the same periods in 2015.

The provision for loan losses decreased $0.7 million to $2.5 million and increased $5.9 million to $12.4 million for the three and nine months ended September 30, 2016 compared to $3.2 million and $6.5 million for the same periods in 2015. The decrease of $0.7 million in the provision for loan losses for the three months ended September 30, 2016 related primarily to a decrease of $1.2 million in net charge-offs to $0.9 million compared to $2.1 million for the same period in 2015. The increase in the provision for loan losses for the nine months ended September 30, 2016 is attributed to higher net charge-offs and specific reserves on impaired loans and loan growth. Net charge-offs increased $2.2 million to $6.7 million for the nine months ended September 30, 2016 compared to $4.5 million for the same period in 2015. Annualized net loan charge-offs to average loans were 0.07 percent and 0.17 percent for the three and nine months ended September 30, 2016 compared to 0.17 percent and 0.13 percent for the same periods in 2015. Specific reserves for impaired loans were $2.2 million at September 30, 2016 compared to $1.3 million at September 30, 2015.

Noninterest income increased $1.0 million to $13.4 million and increased $3.8 million to $41.7 million for the three and nine months ended September 30, 2016 compared to the same periods in 2015. The increase during the three month period was primarily related to increases in mortgage banking fees and other income. The increase in noninterest income for the nine months ended September 30, 2016 was primarily due to a curtailment gain of $1.0 million resulting from the amendment to freeze benefit accruals for all participants in our defined benefit plans, a gain of $2.1 million on the sale of our credit card portfolio in the first quarter of 2016 and increases in service charge fees of $0.7 million due to program changes and growth from the Merger for the period ended September 30, 2016 compared to the same period in 2015.

Noninterest expense increased $0.6 million to $34.4 million and increased $4.7 million to $107.6 million for the three and nine months ended September 30, 2016 compared to the same periods in 2015. The increase in noninterest expense for the three month period was due to higher salaries and employee benefits, furniture and equipment and other taxes offset by decreases in data processing and other noninterest expenses. The increase in noninterest expense for the nine months ended September was partly due to higher salaries and employee benefits expense, furniture and equipment and professional services and legal expenses offset by decreases in data processing and other noninterest expense. Additionally, our operating costs were higher during the full nine months ended September 30, 2016 compared to the same period last year when we incurred approximately seven months of additional expense resulting from the Merger.

The provision for income taxes increased $0.9 million for the three months and increased $1.2 million for the nine months ended September 30, 2016 compared to the same periods in 2015. The increases to the provision for income taxes for the three and nine months ended September 30, 2016 were primarily due to increases in pretax income compared to the same periods in 2015.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with generally accepted accounting principles, or GAAP, management uses, and this quarterly report references a non-GAAP financial measure, net interest income on a fully taxable equivalent, or FTE basis. Management believes this measure provides information useful to investors in understanding our underlying business, operational performance and performance trends as it facilitates comparisons with the performance of other companies in the financial services industry. Although management believes that this non-GAAP financial measure enhance investors' understanding of our business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP or considered to be more important than financial results determined in accordance with GAAP, nor is it necessarily comparable with non-GAAP measures which may be presented by other companies.

We believe the presentation of net interest income on an FTE basis ensures the comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Consolidated Statements of Comprehensive Income is reconciled to net interest income adjusted to an FTE basis in the Net Interest Income section of the "Results of Operations - Three and Nine Months Ended September 30, 2016 Compared to Three and Nine Months Ended September 30, 2015."

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S&T BANCORP, INC. AND SUBSIDIARIES
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

RESULTS OF OPERATIONS
Three and Nine Months Ended September 30, 2016 Compared to
Three and Nine Months Ended September 30, 2015
Net Interest Income
Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our Asset and Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to produce what we believe is an acceptable level of net interest income.
The interest income on interest-earning assets and the net interest margin are presented on an FTE basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and securities using the federal statutory tax rate of 35 percent for each period and the dividend-received deduction for equity securities. We believe this to be the preferred industry measurement of net interest income that provides a relevant comparison between taxable and non-taxable sources of interest income.
The following table reconciles interest income per the Consolidated Statements of Comprehensive Income to net interest income and rates on an FTE basis for the periods presented:

	Three months ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2016	2015	2016	2015
Total interest income	$57,808	$53,669	$168,678	$150,195
Total interest expense	6,353	4,073	17,877	11,529
Net interest income per consolidated statements of comprehensive income	51,455	49,596	150,801	138,666
Adjustment to FTE basis	1,771	1,607	5,254	4,493
Net Interest Income on an FTE basis (non-GAAP)	$53,226	$51,203	$156,055	$143,159
Net interest margin	3.34 %	3.50 %	3.36 %	3.48 %
Adjustment to FTE basis	0.12 %	0.11 %	0.11 %	0.11 %
Net Interest Margin on an FTE basis (non-GAAP)	3.46 %	3.61 %	3.47 %	3.59 %

Income amounts are annualized for rate calculations.

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S&T BANCORP, INC. AND SUBSIDIARIES
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Average Balance Sheet and Net Interest Income Analysis
The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the periods presented:

	Three months ended September 30, 2016			Three months ended September 30, 2015		
(dollars in thousands)	Average Balance	Interest	Rate	Average Balance	Interest	Rate
ASSETS						
Loans [1] [2]	$5,382,516	$55,201	4.08%	$4,869,914	$50,616	4.12%
Interest-bearing deposits with banks	37,852	49	0.52%	76,246	46	0.24%
Taxable investment securities [3]	545,249	2,657	1.95%	523,890	2,609	1.99%
Tax-exempt investment securities [2]	133,661	1,395	4.17%	138,514	1,520	4.39%
Federal Home Loan Bank and other restricted stock	24,454	277	4.52%	20,184	485	9.60%
Total Interest-earning Assets	6,123,732	59,579	3.87%	5,628,748	55,276	3.90%
Noninterest-earning assets:						