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

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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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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.

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.

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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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

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

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:

(dollars in thousands)	September 30, 2016 Recorded Investment	September 30, 2016 Unpaid Principal Balance	September 30, 2016 Related Allowance	December 31, 2015 Recorded Investment	December 31, 2015 Unpaid Principal Balance	December 31, 2015 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.

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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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

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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:						
Cash and due from banks	54,505			60,782		
Premises and equipment, net	47,132			48,613		
Other assets	471,559			479,001		
Less allowance for loan losses	(54,185)			(51,023)		
Total Assets	$6,642,743			$6,166,121		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing demand	$663,477	$286	0.17%	$663,834	$242	0.14%
Money market	540,891	575	0.42%	385,520	174	0.18%
Savings	1,034,018	507	0.20%	1,091,482	447	0.16%
Certificates of deposit	1,379,952	3,312	0.95%	1,113,858	2,070	0.74%
Brokered deposits[4]	309,413	439	0.56%	394,415	342	0.34%
Total Interest-bearing Deposits	3,927,751	5,119	0.52%	3,649,109	3,275	0.36%
Securities sold under repurchase agreements	44,927	1	0.01%	42,937	1	0.01%
Short-term borrowings	459,043	761	0.66%	270,968	253	0.37%
Long-term borrowings	15,545	111	2.85%	117,864	228	0.77%
Junior subordinated debt securities	45,619	361	3.15%	45,619	316	2.75%
Total Interest-bearing Liabilities	4,492,885	6,353	0.56%	4,126,497	4,073	0.39%
Noninterest-bearing liabilities:						
Noninterest-bearing demand	1,247,884			1,196,200		
Other liabilities	70,799			65,873		
Shareholders' equity	831,175			777,551		
Total Liabilities and Shareholders' Equity	$6,642,743			$6,166,121		
Net Interest Income [2][3]		$53,226			$51,203	
Net Interest Margin [2] [3]			3.46%			3.61%

[1] Nonaccruing loans are included in the daily average loan amounts outstanding.
[2] Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 35 percent for 2016 and 2015.
[3] Taxable investment income is adjusted for the dividend-received deduction for equity securities.
[4] Brokered deposits consist of certificates of deposit, money market, and interest-bearing demand funds.

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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

(dollars in thousands)	Nine Months Ended September 30, 2016 Average Balance	Interest	Rate	Nine Months Ended September 30, 2015 Average Balance	Interest	Rate
ASSETS						
Loans [1] [2]	$5,261,629	$160,787	4.08%	$4,588,536	$141,202	4.11%
Interest-bearing deposits with banks	41,402	159	0.51%	69,062	122	0.24%
Taxable investment securities [3]	541,419	7,954	1.96%	514,195	7,577	1.96%
Tax-exempt investment securities [2]	134,271	4,251	4.22%	139,171	4,625	4.43%
Federal Home Loan Bank and other restricted stock	23,027	781	4.52%	19,276	1,162	8.04%
Total Interest-earning Assets	6,001,748	173,932	3.87%	5,330,240	154,688	3.88%
Noninterest-earning assets:						
Cash and due from banks	54,609			55,040		
Premises and equipment, net	47,606			46,222		
Other assets	469,661			447,169		
Less allowance for loan losses	(51,963)			(49,388)		
Total Assets	$6,521,661			$5,829,283		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing demand	$635,479	$751	0.16%	$586,149	$569	0.13%
Money market	476,768	1,243	0.35%	392,021	539	0.18%
Savings	1,041,802	1,474	0.19%	1,072,539	1,270	0.16%
Certificates of deposit	1,345,323	9,498	0.94%	1,075,666	6,120	0.76%
Brokered deposits[4]	358,568	1,437	0.54%	334,485	835	0.33%
Total Interest-bearing Deposits	3,857,940	14,403	0.50%	3,460,860	9,333	0.36%
Securities sold under repurchase agreements	53,858	4	0.01%	42,675	3	0.01%
Short-term borrowings	385,394	1,855	0.64%	245,431	628	0.34%
Long-term borrowings	62,109	563	1.21%	72,316	562	1.04%
Junior subordinated debt securities	45,619	1,052	3.08%	47,561	1,003	2.82%
Total Interest-bearing Liabilities	4,404,920	17,877	0.54%	3,868,843	11,529	0.40%
Noninterest-bearing liabilities:						
Noninterest-bearing demand	1,227,426			1,158,217		
Other liabilities	71,421			66,009		
Shareholders' equity	817,894			736,214		
Total Liabilities and Shareholders' Equity	$6,521,661			$5,829,283		
Net Interest Income [2][3]		$156,055			$143,159	
Net Interest Margin [2] [3]			3.47%			3.59%

[1] Nonaccruing loans are included in the daily average loan amounts outstanding.
[2] Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 35 percent for 2016 and 2015.
[3] Taxable investment income is adjusted for the dividend-received deduction for equity securities.
[4] Brokered deposits consist of certificates of deposit, money market, and interest-bearing demand funds.

Net interest income on an FTE basis increased $2.0 million, or 4.0 percent, for the three months and increased $12.9 million, or 9.0 percent, for the nine months ended September 30, 2016 compared to the same periods in 2015. The increases in net interest income on an FTE basis were due to the Merger and organic loan growth. Net interest income was unfavorably impacted by decreases in purchase accounting fair value adjustments of $1.6 million and $2.8 million for the three and nine months ended September 30, 2016 compared to the three and nine months in 2015. The net interest margin on an FTE basis decreased 15 and 12 basis points for the three and nine months ended September 30, 2016 compared to the same periods in 2015. The net interest margin rate was unfavorably impacted by 10 and six basis points for the three and nine months ended September 30, 2016 compared to the same periods in 2015 due to the decrease in purchase accounting fair value adjustments.

Interest income on an FTE basis increased $4.3 million, or 7.8 percent for the three months and increased $19.2 million, or 12.4 percent for the nine months ended September 30, 2016 compared to the same periods in 2015. The increase in interest income is primarily due to the increases in average interest-earning assets compared to the same periods in 2015. Interest income was unfavorably impacted by a decrease in loan purchase accounting fair value adjustments of $1.3 million and $2.3 million for the three and nine months ended September 30, 2016 compared to the same periods in 2015. Average interest-earning assets increased $495.0 million and $671.5 million for the three and nine months ended September 30, 2016 primarily due to increased average loan balances due to organic loan growth and the Merger. Average loan balances increased $512.6 million and $673.1 million for the three and nine months ended September 30, 2016. The rates earned on loans decreased four and three basis points for the three and nine months ended September 30, 2016 when compared to the same periods in 2015. A decrease in loan purchase accounting fair value adjustments negatively impacted loan rates by nine and six basis points compared to the same periods in 2015. Average interest-bearing deposits with banks, which is primarily cash at the Federal Reserve, decreased $38.4 million and $27.7 million and tax-exempt investment securities decreased $4.9 million and $4.9 million while average investment securities increased $21.4 million and $27.2 million for the three and nine months ended September 30, 2016. Federal Home Loan Bank, or FHLB, and other restricted stock increased $4.3 million and $3.8 million for the three and nine months ended September 30, 2016 with a significant decrease in the rate primarily due to a special dividend received of $0.3 million in the first quarter of 2015. Overall, the FTE rate on interest-earning assets decreased three basis points and one basis point for the three and nine months ended September 30, 2016 compared to the same periods in 2015.

Interest expense increased $2.3 million and $6.3 million for the three and nine months ended September 30, 2016 compared to the same periods in 2015. The increase in interest expense is primarily due to the increases in average interest-bearing liabilities compared to the same periods in 2015. Interest expense was unfavorably impacted by a decrease in certificate of deposit purchase accounting fair value adjustments of $0.3 million and $0.5 million for the three and nine months ended September 30, 2016 compared to the same periods in 2015. Average deposits increased $278.6 million and $397.1 million for the three and nine months ended September 30, 2016. Average brokered deposits decreased $85.0 million and increased $24.1 million and average short-term borrowings increased $188.1 million and $140.0 million for the three and nine months ended September 30, 2016 compared to the same periods in 2015. Average long-term borrowings decreased $102.3 million and $10.2 million for the three and nine months ended September 30, 2016. This is mainly due to a $100 million long-term variable rate borrowing in the second quarter of 2015 that matured in the second quarter of 2016. A decrease in certificate of deposit purchase accounting fair value adjustments negatively impacted interest-bearing liability rates by two basis points compared to the same periods in 2015. Overall, the cost of interest-bearing liabilities increased by 17 and 14 basis points for the three and nine months ended September 30, 2016 as compared to the same periods in 2015 primarily due to the increase in the Federal Funds rate at the end of 2015.

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The following table sets forth for the periods presented a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rates:

	Three Months Ended September 30, 2016 compared to September 30, 2015			Nine Months Ended September 30, 2016 compared to September 30, 2015		
(dollars in thousands)	Volume [4]	Rate [4]	Net	Volume [4]	Rate [4]	Net
Interest earned on:						
Loans [1] [2]	$5,328	$(743)	$4,585	$20,713	$(1,128)	$19,585
Interest-bearing deposits with banks	(23)	26	3	(49)	86	37
Taxable investment securities [3]	106	(57)	49	401	(24)	377
Tax-exempt investment securities [2]	(53)	(72)	(125)	(163)	(211)	(374)
Federal Home Loan Bank and other restricted stock	103	(310)	(207)	226	(607)	(381)
Change in Interest Earned on Interest-earning Assets	5,461	(1,156)	4,305	21,128	(1,884)	19,244
Interest paid on:						
Interest-bearing demand	—	43	43	48	135	183
Money market	70	331	401	116	588	704
Savings	(24)	84	60	(36)	241	205
Certificates of deposit	494	747	1,241	1,534	1,843	3,377
Brokered deposits	(74)	171	97	60	542	602
Securities sold under repurchase agreements	—	—	—	1	—	1
Short-term borrowings	176	332	508	358	868	1,226
Long-term borrowings	(198)	81	(117)	(79)	81	2
Junior subordinated debt securities	—	45	45	(41)	90	49
Change in Interest Paid on Interest-bearing Liabilities	444	1,834	2,278	1,961	4,388	6,349
Net Change in Net Interest Income	$5,017	$(2,990)	$2,027	$19,167	$(6,272)	$12,895

(1) Nonaccruing loans are included in the daily average loan amounts outstanding.
(2) Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 35 percent for 2016 and 2015.
(3) Taxable investment income is adjusted for the dividend-received deduction for equity securities.
(4) Changes to rate/volume are allocated to both rate and volume on a proportionate dollar basis.

Provision for Loan Losses

The provision for loan losses is the adjustment to the allowance for loan losses, or ALL, after considering loan charge-offs and recoveries, to bring the ALL to a level determined to be appropriate in management's judgment to absorb probable losses inherent in the loan portfolio. 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 of $5.9 million in the provision for loan losses for the nine months ended September 2016 was 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.

Nonperforming loans increased $16.7 million to $40.5 million at September 30, 2016 compared to $23.8 million at September 30, 2015 primarily due to additional deterioration of acquired loans, subsequent to the acquisition date. The ALL at September 30, 2016 was $53.8 million, or 0.99 percent of total portfolio loans, compared to 1.01 percent of total portfolio loans at September 30, 2015. Refer to "Allowance for Loan Losses" in the MD&A of this report for additional information.

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Noninterest Income

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Securities gains/(losses), net	$—	$—	$ —	NM	$—	$(34)	$ 34	NM
Service charges on deposit accounts	3,208	3,069	139	4.5	9,272	8,529	743	8.7
Debit and credit card fees	3,163	2,996	167	5.6	8,818	8,732	86	1.0
Wealth management fees	2,565	2,814	(249)	(8.8)	7,947	8,667	(720)	(8.3)
Insurance fees	1,208	1,332	(124)	(9.3)	4,187	4,374	(187)	(4.3)
Mortgage banking	1,077	698	379	54.3	2,185	2,006	179	8.9
Gain on sale of credit card portfolio	—	—	—	—	2,066	—	2,066	NM
Other	2,227	1,572	655	41.7	7,238	5,674	1,564	27.6
Total Noninterest Income	$13,448	$12,481	$ 967	7.7 %	$41,713	$37,948	$ 3,765	9.9 %

NM- Not meaningful

Noninterest income increased $1.0 million, or 7.7 percent, to $13.4 million for the three months ended September 30, 2016 and increased $3.8 million, or 9.9 percent, to $41.7 million for the nine months ended September 30, 2016 compared to the same periods in 2015. Noninterest income for the nine months ended September 30, 2016 includes a $2.1 million gain on the sale of our credit card portfolio. Subsequent to the sale of the credit card portfolio, we will continue to earn income based on the terms of the marketing agreement which provides incentives for new credit card accounts and a percentage of both interchange income and finance charges. Service charges on deposit accounts increased $0.1 million and $0.7 million for the three and nine months ended September 30, 2016 due to program changes for both periods and growth from the Merger for the nine month period. The decrease in wealth management fees of $0.2 million and $0.7 million for the three and nine months ended September 30, 2016 compared to the same periods in 2015 was due to a decline in market conditions and a decrease in assets under management. The increase in mortgage banking fees of $0.4 million and $0.2 million for the three and nine months ended September 30, 2016 related to an increase in the volume of loans originated for sale in the secondary market and more favorable pricing on loan sales. The increase of $0.7 million in other noninterest income for the three month period was primarily related to higher interest rate swap fees from our commercial customers. The $1.6 million increase in other noninterest income for the nine months ended September 30, 2016 was primarily related to the $1.0 million defined benefit plan curtailment gain.

Noninterest Expense

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2016	2015	$ Change	% Change	2016	2015	$ Change	% Change
Salaries and employee benefits [(1)]	$19,011	$16,789	$ 2,222	13.2 %	$57,539	$51,024	$ 6,515	12.8 %
Data processing [(1)]	2,129	2,454	(325)	(13.2)	6,964	7,329	(365)	(5.0)
Net occupancy [(1)]	2,776	2,744	32	1.2	8,413	8,014	399	5.0
Furniture and equipment	1,932	1,653	279	16.9	5,580	4,461	1,119	25.1
Marketing	896	895	1	0.1	2,872	2,905	(33)	(1.1)
Professional services and legal [(1)]	1,041	946	95	10.0	3,035	2,270	765	33.7
FDIC insurance	1,005	990	15	1.5	2,938	2,493	445	17.8
Other taxes	1,080	719	361	50.2	3,076	2,721	355	13.0
Merger related expense	—	—	—	NM	—	3,167	(3,167)	NM
Other[(1)]	4,569	6,639	(2,070)	(31.2)	17,190	18,515	(1,325)	(7.2)
Total Noninterest Expense	$34,439	$33,829	$ 610	1.8 %	$107,607	$102,899	$ 4,708	4.6 %

(1) Excludes Merger related expenses for 2015 amounts only.

NM - not meaningful

Noninterest expense increased $0.6 million, or 1.8 percent, to $34.4 million for the three months ended September 30, 2016 and increased $4.7 million, or 4.6 percent, to $107.6 million for the nine months ended September 30, 2016 compared to the same periods in 2015.

Our operating costs were higher during the 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. In 2015, we incurred merger related expense of $3.2 million for the nine months ended September 30, 2015.

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Salaries and employee benefits expense increased $2.2 million and $6.5 million for the three and nine months ended September 30, 2016 compared to the same periods in 2015. The increases were primarily due to additional employees, annual merit increases and higher restricted stock expense and medical claims. These increases were offset by a decrease in pension expense of $0.1 million and $0.2 million for the three and nine months ended September 30, 2016 related to the amendment to freeze benefit accruals for all participants in our defined benefit pension plans.
Other noninterest expense decreased $2.0 million and $1.3 million for the three and nine months ended September 30, 2016 compared to the same periods in 2015. The decrease primarily related to lower loan related expenses due to expense recoveries on impaired loans that paid off in third quarter of 2016, other real estate owned, or OREO, meals and entertainment expenses, amortization of both our core deposit intangible asset and qualified affordable housing projects.
Net occupancy expense increased $0.4 million and furniture and equipment expense increased $1.1 million for the nine months ended September 30, 2016 compared to the same period in 2015 primarily due to the additional locations acquired from the Merger and technology upgrades. Data processing decreased $0.3 million and $0.4 million for the three and nine months ended September 30, 2016 compared to the same period in 2015 primarily due to a renegotiation of a core data processing contract. Professional services and legal expense increased $0.1 million and $0.8 million due to systems and credit related issues that were incurred for the three and nine months ended September 30, 2016. Other taxes increased $0.4 million during both periods and Federal Deposit Insurance Corporation, or FDIC, insurance expense increased $0.4 million for the nine months ended September 30, 2016 compared to the same period in 2015 primarily due to expansion from the Merger and organic growth.

Provision for Income Taxes

The provision for income taxes increased $0.9 million to $7.4 million for the three months and increased $1.2 million to $18.8 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.

Financial Condition

September 30, 2016

Total assets increased $399.9 million, or 6.3 percent, to $6.7 billion at September 30, 2016 compared to $6.3 billion at December 31, 2015. Loan growth was strong resulting in an increase in total portfolio loans of $390.6 million, or 7.8 percent. Our commercial loan portfolio grew by $336.7 million, or 8.8 percent, to $4.2 billion with growth in the Commercial Real Estate, or CRE, and Commercial and Industrial, or C&I, portfolios. Our consumer loan portfolio increased $53.9 million, or 4.5 percent, with growth primarily in residential mortgages and home equity. Securities increased $10.2 million, or 1.5 percent, compared to December 31, 2015 primarily due to increases in market value. Our deposits increased $268.8 million, or 5.5 percent, with total deposits of $5.1 billion at September 30, 2016 compared to $4.9 billion at December 31, 2015. The increase primarily related to a $99.1 million, or 7.3 percent, increase in certificates of deposits, or CDs, and a $158.9 million, or 26.3 percent, increase in money market accounts. Interest-bearing and noninterest-bearing demand accounts increased $41.1 million and $4.7 million while savings accounts decreased compared to December 31, 2015. The increases in CDs and money market accounts are related to rate promotions offered during 2016.
Total borrowings increased $86.1 million at September 30, 2016 to $666.8 million compared to $580.7 million at December 31, 2015. Short-term borrowings increased $209.0 million compared to December 31, 2015 primarily due to a $100 million long-term borrowing maturity in May 2016 that was replaced with FHLB short-term borrowings and to support our asset growth.
Total shareholders' equity increased by $46.5 million, or 5.9 percent, at September 30, 2016 compared to December 31, 2015. The increase was primarily due to net income of $53.7 million offset partially by dividends of $19.8 million and a $10.8 million increase in accumulated other comprehensive income. The $10.8 million increase in accumulated

other comprehensive income was due to an $7.6 million increase in unrealized gains on our available-for-sale investment securities and a $3.2 million change in the funded status of our employee benefit plans.

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Securities Activity

(dollars in thousands)	September 30, 2016	December 31, 2015	$ Change
U.S. treasury securities	$ 15,056	$ 14,941	$115
Obligations of U.S. government corporations and agencies	250,924	263,303	(12,379)
Collateralized mortgage obligations of U.S. government corporations and agencies	137,460	128,835	8,625
Residential mortgage-backed securities of U.S. government corporations and agencies	36,285	40,125	(3,840)
Commercial mortgage-backed securities of U.S. government corporations and agencies	88,499	69,204	19,295
Obligations of states and political subdivisions	132,536	134,886	(2,350)
Debt Securities Available-for-Sale	660,760	651,294	9,466
Marketable equity securities	10,368	9,669	699
Total Securities Available-for-Sale	$ 671,128	$ 660,963	$10,165

We invest in various securities in order to maintain a source of liquidity, to satisfy various pledging requirements, to increase net interest income and as a tool of the ALCO to reposition the balance sheet for interest rate risk purposes. Securities are subject to market risks that could negatively affect the level of liquidity available to us. Security purchases are subject to an investment policy approved annually by our Board of Directors and administered through ALCO and our treasury function. The securities portfolio increased $10.2 million, or 1.5 percent, at September 30, 2016 compared to December 31, 2015 primarily due to increases in market value.

Management evaluates the securities portfolio for other than temporary impairment, or OTTI, on a quarterly basis. At September 30, 2016 our bond portfolio was in a net unrealized gain position of $19.1 million compared to a net unrealized gain of $8.1 million at December 31, 2015. At September 30, 2016, total gross unrealized gains were $19.1 million offset by immaterial unrealized losses, compared to December 31, 2015, when total gross unrealized gains were $9.8 million offset by gross unrealized losses of $1.7 million. The increase in the value of our securities portfolio was a result of the changing interest rate environment in 2016. Total unrealized gains on marketable equity securities at September 30, 2016 were $2.8 million compared to $2.1 million at December 31, 2015. During the nine months ended September 30, 2016 and 2015 we did not record any OTTI. The performance of the debt and equity securities markets could generate impairments in future periods requiring realized losses to be reported.

Loan Composition

	September 30, 2016		December 31, 2015	
(dollars in thousands)	Amount	% of Loans	Amount	% of Loans
Commercial				
Commercial real estate	$2,427,164	44.8 %	$2,166,603	43.1 %
Commercial and industrial	1,344,297	24.8 %	1,256,830	25.0 %
Construction	402,124	7.4 %	413,444	8.2 %
Total Commercial Loans	4,173,585	77.0 %	3,836,877	76.3 %
Consumer				
Residential mortgage	692,574	12.8 %	639,372	12.7 %
Home equity	483,935	8.9 %	470,845	9.4 %
Installment and other consumer	62,288	1.2 %	73,939	1.5 %
Construction	5,852	0.1 %	6,579	0.1 %
Total Consumer Loans	1,244,649	23.0 %	1,190,735	23.7 %
Total Portfolio Loans	5,418,234	100.0 %	5,027,612	100.0 %

Loans Held for Sale	11,694	35,321
Total Loans	$5,429,928	$5,062,933

Our loan portfolio represents our most significant source of interest income. The risk that borrowers will be unable to pay such obligations is inherent in the loan portfolio. Other conditions such as downturns in the borrower's industry or the overall economic climate can significantly impact the borrower’s ability to pay.

Total portfolio loans as of September 30, 2016 increased $390.6 million, or 7.8 percent, to $5.4 billion compared to $5.0 billion at December 31, 2015 primarily due to growth in our commercial loan portfolio. CRE loans increased $260.6 million, or 12.0 percent, and C&I loans increased $87.5 million, or 7.0 percent. Commercial organic loan growth was strong, with growth coming from our newer markets in New York, Ohio and southcentral Pennsylvania. Approximately $243.3 million of the organic loan growth came from our loan production offices in Ohio and New York and $30.9 million from our southcentral Pennsylvania market. Total consumer loans increased $53.9 million, or 4.5 percent, with growth primarily in residential mortgages and home equity loans. Loans held for sale decreased $23.6 million primarily due to the sale of our credit card portfolio during the first quarter of 2016.

Allowance for Loan Losses

We maintain an ALL at a level determined to be adequate to absorb estimated probable credit losses inherent within the loan portfolio as of the balance sheet date and it is presented as a reserve against loans in the Consolidated Balance Sheets. Determination of an adequate ALL is inherently subjective and may be subject to significant changes from period to period. The methodology for determining the ALL has two main components: evaluation and impairment tests of individual loans and impairment tests of certain groups of homogeneous loans with similar risk characteristics. An inherent risk to the loan portfolio as a whole is the condition of the economy in our markets. In addition, each loan segment carries with it risks specific to the segment. 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 is a discussion of the key risks by portfolio segment that management assesses in preparing the ALL.

CRE loans are 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 are 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 are 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 risks depending on the type of project and the experience and resources of the developer.

Consumer Real Estate loans are 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 markets 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 are made to individuals and 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.

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The following tables summarize the ALL and recorded investments in loans by category for the dates 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

	September 30, 2016	December 31, 2015
Ratio of net charge-offs to average loans outstanding	0.17 %*	0.22 %
Allowance for loan losses as a percentage of total loans	0.99 %	0.96 %
Allowance for loan losses as a percentage of originated loans	1.11 %	1.10 %
Allowance for loan losses to nonperforming loans	133 %	136 %

* Annualized

The ALL was $53.8 million, or 0.99 percent of total portfolio loans and 1.11 percent of originated loans at September 30, 2016 compared to $48.1 million, or 0.96 percent of total portfolio loans and 1.10 percent of originated loans at December 31, 2015. Originated loans excludes acquired loans of $569.5 million as of September 30, 2016 related to the Merger.

The increase in the ALL of $5.7 million was primarily due to an increase in specific reserves for loans individually evaluated for impairment and loan growth. The increase in specific reserves related to a $4.2 million C&I relationship that became impaired during the three months ended March 31, 2016 requiring a $2.2 million specific reserve. Impaired loans decreased $7.6 million, or 16.6 percent, from December 31, 2015 to $38.1 million at September 30, 2016. The decrease was primarily due to loan pay-offs. The reserve for loans collectively evaluated for impairment increased at September 30, 2016 compared to December 31, 2015 primarily due to loan growth.

Net loan charge-offs were $6.7 million for the nine months ended September 30, 2016, which primarily related to a $4.3 million C&I loan requiring a $2.1 million charge-off and a $4.7 million CRE loan requiring a $2.4 million charge-off. Commercial special mention, substandard and doubtful loans at September 30, 2016 increased by $14.8

million to $198.3 million compared to $183.5 million at December 31, 2015.

We individually evaluate all substandard and nonaccrual commercial loans greater than $0.5 million for impairment. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Our methodology for evaluating whether a loan is impaired includes risk-rating credits on an individual basis and consideration of the borrower's overall financial condition, payment history and available cash resources. In measuring impairment, we primarily utilize fair market value of the collateral; however, we also use discounted cash flow when warranted.

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

An accruing loan that is modified into a TDR can remain in accrual status if, based on a current credit analysis, collection of principal and interest in accordance with the modified terms is reasonably assured, and the borrower has demonstrated sustained historical repayment performance for a reasonable period before the modification. 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 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. Further, all impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

As an example, consider a substandard commercial construction loan that is currently 90 days past due where the loan is restructured to extend the maturity date for a period longer than would be considered an insignificant period of time. The post-modification interest rate given to the borrower is considered to be lower than the current market rate for new debt with similar risk and all other terms remain the same according to the original loan agreement. This loan will be considered a TDR as the borrower is experiencing financial difficulty and a concession has been granted due to the long extension, resulting in payment delay as well as the rate being lower than current market rate for new debt with similar risk. The loan will be reported as a nonaccrual TDR and an impaired loan. In addition, the loan could be charged down to the fair value of the collateral if a confirmed loss exists. If the loan subsequently performs, by means of making on-time principal and interest payments according to the newly restructured terms for a period of six months, and it is expected that all remaining principal and interest will be collected according to the terms of the restructured agreement, the loan will be returned to accrual status and reported as an accruing TDR. The loan will remain an impaired loan for the remaining life of the loan because the interest rate was not adjusted to be equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk.

TDRs decreased $3.6 million to $28.0 million at September 30, 2016 compared to $31.6 million at December 31, 2015. The decrease is primarily due to principal reductions and charge-offs of $17.2 million offset by new TDRs of $13.6 million. The $17.2 million of principal reductions and charge-offs included $10.5 million of loan payoffs from four commercial relationships. Total TDRs of $28.0 million at September 30, 2016 included $12.9 million, or 46.1 percent, that were accruing and $15.1 million, or 53.9 percent, that were nonaccrual.

Our charge-off policy for commercial loans requires that loans and other obligations that are not collectible be promptly charged-off when the loss becomes probable, regardless of the delinquency status of the loan. We may elect to recognize a partial charge-off when management has determined that the value of collateral is less than the remaining investment in the loan. A loan or obligation does not need to be charged-off, regardless of delinquency status, if (i) management has determined there exists sufficient collateral to protect the remaining loan balance and

(ii) there exists a strategy to liquidate the collateral. Management may also consider a number of other factors to determine when a charge-off is appropriate. These factors may include, but are not limited to:

•The status of a bankruptcy proceeding

•The value of collateral and probability of successful liquidation; and/or

•The status of adverse proceedings or litigation that may result in collection

Consumer unsecured loans and secured loans are evaluated for charge-off after the loan becomes 90 days past due. Unsecured loans are fully charged-off and secured loans are charged-off to the estimated fair value of the collateral less the cost to sell.

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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

Our allowance for lending-related commitments is determined using a methodology similar to that used for the ALL. Amounts are added to the allowance for lending-related commitments by a charge to current earnings through noninterest expense. The reserve is calculated by applying historical loss rates to unfunded commitments and considering qualitative factors. The balance in the allowance for unfunded loan commitments was $2.6 million at September 30, 2016 compared to $2.5 million at December 31, 2015. The increase primarily related to an increase in the balance of unfunded commitments. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets.

Nonperforming assets consist of nonaccrual loans, nonaccrual TDRs and OREO. The following table summarizes nonperforming assets for the dates presented:

(dollars in thousands)	September 30, 2016	December 31, 2015	$ Change
Nonaccrual Loans			
Commercial real estate	$ 6,685	$ 5,171	$ 1,514
Commercial and industrial	4,883	7,709	(2,826)
Commercial construction	5,661	7,488	(1,827)
Residential mortgage	6,152	4,964	1,188
Home equity	1,982	2,379	(397)
Installment and other consumer	35	12	23
Consumer construction	—	—	—
Total Nonaccrual Loans	25,398	27,723	(2,325)
Nonaccrual Troubled Debt Restructurings			
Commercial real estate	866	3,548	(2,682)
Commercial and industrial	7,007	1,570	5,437
Commercial construction	992	1,265	(273)
Residential mortgage	5,248	665	4,583
Home equity	973	523	450
Installment and other consumer	9	88	(79)
Total Nonaccrual Troubled Debt Restructurings	15,095	7,659	7,436
Total Nonaccrual Loans	40,493	35,382	5,111
OREO	512	354	158
Total Nonperforming Assets	$ 41,005	$ 35,736	$ 5,269

Asset Quality Ratios:		
Nonperforming loans as a percent of total loans	0.75 %	0.70 %
Nonperforming assets as a percent of total loans plus OREO	0.76 %	0.71 %

Our policy is to place loans in all categories in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due.

Nonperforming assets, or NPAs, increased $5.3 million to $41.0 million at September 30, 2016 compared to $35.7 million at December 31, 2015. The increase in NPAs was due to new nonperforming loans of approximately $21.7 million which were offset by $16.4 million of principal reductions and loan charge-offs. The increase in new nonperforming loans was primarily the result of credit deterioration in the acquired portfolio experienced since the Merger of $15.4 million and in one originated loan relationship of $4.4 million.

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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

Deposits

(dollars in thousands)	September 30, 2016	December 31, 2015	$ Change
Noninterest-bearing demand	$ 1,232,469	$ 1,227,766	$4,703
Interest-bearing demand	649,610	586,936	62,674
Money market	557,940	384,725	173,215
Savings	1,026,234	1,061,265	(35,031)
Certificates of deposit	1,374,906	1,197,030	177,876
Brokered deposits	304,272	418,889	(114,617)
Total Deposits	$ 5,145,431	$ 4,876,611	$268,820

Deposits are our primary source of funds. We believe that our deposit base is stable and that we have the ability to attract new deposits. Total deposits at September 30, 2016 increased $268.8 million, or 5.5 percent, primarily in CDs, money market and interest-bearing demand accounts. CDs and money market accounts increased due to sales efforts and rate promotions offered during 2016. Overall, our deposits, excluding brokered deposits, increased by $383.4 million, or 8.6 percent, from December 31, 2015. Our brokered deposits decreased $114.6 million compared to December 31, 2015. Brokered deposits consist of CDs, money market, and interest-bearing demand accounts and are an additional source of funds utilized by the ALCO as a way to diversify funding sources, as well as manage our funding costs and structure. The decrease in brokered deposits was primarily due to utilization of short-term borrowings to fund asset growth.

Borrowings

(dollars in thousands)	September 30, 2016	December 31, 2015	$ Change
Securities sold under repurchase agreements	$ 40,949	$ 62,086	$(21,137)
Short-term borrowings	565,000	356,000	209,000
Long-term borrowings	15,303	117,043	(101,740)
Junior subordinated debt securities	45,619	45,619	—
Total Borrowings	$ 666,871	$ 580,748	$86,123

Borrowings are an additional source of funding for us. Total borrowings increased by $86.1 million from December 31, 2015 to support our asset growth. The increase in short-term borrowings and decrease in long-term borrowings was partially due to a $100 million long-term borrowing maturity in May 2016 that was replaced by short-term borrowings. Additional short-term borrowings were used to support our asset growth.

Information pertaining to short-term borrowings is summarized in the tables below at and for the nine and twelve month periods ended September 30, 2016 and December 31, 2015.

	Securities Sold Under Repurchase Agreements			
(dollars in thousands)	September 30, 2016		December 31, 2015	
Balance at the period end	$ 40,949		$ 62,086	
Average balance during the period	53,858		44,394	
Average interest rate during the period	0.01	%	0.01	%
Maximum month-end balance during the period	$ 68,216		$ 62,086	
Average interest rate at the period end	0.01	%	0.01	%

	Short-Term Borrowings	
(dollars in thousands)	September 30, 2016	December 31, 2015
Balance at the period end	$ 565,000	$ 356,000
Average balance during the period	385,394	257,117

Average interest rate during the period	0.64	%	0.36	%
Maximum month-end balance during the period	$ 565,000		$ 356,000	
Average interest rate at the period end	0.60	%	0.52	%

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Information pertaining to long-term borrowings is summarized in the tables below at and for the nine and twelve month periods ended September 30, 2016 and December 31, 2015.

	Long-Term Borrowings	
(dollars in thousands)	September 30, 2016	December 31, 2015
Balance at the period end	$15,303	$117,043
Average balance during the period	62,109	83,648
Average interest rate during the period	1.21 %	0.94 %
Maximum month-end balance during the period	$116,852	$118,432
Average interest rate at the period end	2.91 %	0.81 %

	Junior Subordinated Debt Securities	
(dollars in thousands)	September 30, 2016	December 31, 2015
Balance at the period end	$45,619	$45,619
Average balance during the period	45,619	47,071
Average interest rate during the period	3.08 %	2.82 %
Maximum month-end balance during the period	$45,619	$45,619
Average interest rate at the period end	3.11 %	2.89 %

Liquidity and Capital Resources

Liquidity is defined as a financial institution's ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or of borrowers needing to access funds to meet their credit needs. In order to manage liquidity risk our Board of Directors has delegated authority to the ALCO for formulation, implementation and oversight of liquidity risk management for S&T. ALCO's goal is to maintain adequate levels of liquidity at a reasonable cost to meet funding needs in both a normal operating environment and for potential liquidity stress events. ALCO monitors and manages liquidity through various ratios, reviewing cash flow projections, performing stress tests and by having a detailed contingency funding plan. ALCO policy guidelines define graduated risk tolerance levels. If our liquidity position moves to a level that has been defined as high risk, specific actions are required, such as increased monitoring or the development of an action plan to reduce the risk position.

Our primary funding and liquidity source is a stable customer deposit base. We believe S&T has the ability to retain existing and attract new deposits, mitigating any funding dependency on other more volatile sources. Refer to the Deposits Section of Item 2, MD&A, for additional discussion on deposits. Although deposits are the primary source of funds, we have identified various other funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. Additional funding sources accessible to S&T include borrowing availability at the FHLB of Pittsburgh, Federal Funds lines with other financial institutions, the brokered deposit market, and borrowing availability through the Federal Reserve Borrower-In-Custody program.

An important component of S&T's ability to effectively respond to potential liquidity stress events is maintaining a cushion of highly liquid assets. Highly liquid assets are those that can be converted to cash quickly, with little or no loss in value, to meet financial obligations. ALCO policy guidelines define a ratio of highly liquid assets to total assets by graduated risk tolerance levels of minimal, moderate and high. At September 30, 2016, S&T had $437.6 million in highly liquid assets, which consisted of $68.3 million in interest-bearing deposits with banks, $357.6 million in unpledged securities and $11.7 million in loans held for sale. The highly liquid assets to total assets resulted in an asset liquidity ratio of 6.5 percent at September 30, 2016. Also, at September 30, 2016, S&T had a remaining borrowing availability of $1.4 billion with the FHLB of Pittsburgh. Refer to Note 9 Borrowings in the Notes to Consolidated Financial Statements, and the Borrowing section of Item 2, MD&A, for more details.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

The following summarizes capital amounts and ratios for S&T and S&T Bank for the dates presented:

(dollars in thousands)	Adequately Capitalized	Well-Capitalized	September 30, 2016 Amount	September 30, 2016 Ratio	December 31, 2015 Amount	December 31, 2015 Ratio
S&T Bancorp, Inc.						
Tier 1 leverage	4.00 %	5.00 %	$570,620	9.02 %	$535,234	8.96 %
Common equity tier 1 to risk-weighted assets	4.50 %	6.50 %	550,620	10.01 %	515,234	9.77 %
Tier 1 capital to risk-weighted assets	6.00 %	8.00 %	570,620	10.37 %	535,234	10.15 %
Total capital to risk-weighted assets	8.00 %	10.00 %	653,296	11.87 %	611,859	11.60 %
S&T Bank						
Tier 1 leverage	4.00 %	5.00 %	$532,761	8.45 %	$502,114	8.43 %
Common equity tier 1 to risk-weighted assets	4.50 %	6.50 %	532,761	9.72 %	502,114	9.55 %
Tier 1 capital to risk-weighted assets	6.00 %	8.00 %	532,761	9.72 %	502,114	9.55 %
Total capital to risk-weighted assets	8.00 %	10.00 %	614,212	11.20 %	577,824	11.00 %

In October 2015, we filed a new shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the SEC, to replace the prior shelf registration statement that was due to expire. The new shelf registration statement allows for the issuance of a variety of securities including debt and capital securities, preferred and common stock and warrants. We may use the proceeds from the sale of securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to subsidiaries, possible acquisitions and stock repurchases. As of September 30, 2016, we had not issued any securities pursuant to the new shelf registration statement.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect a financial institution's earnings or capital. For most financial institutions, including S&T, market risk primarily reflects exposures to changes in interest rates. Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes affect capital by changing the net present value of a bank's future cash flows, and the cash flows themselves, as rates change. Accepting this risk is a normal part of banking and can be an important source of profitability and enhancing shareholder value. However, excessive interest rate risk can threaten a bank's earnings, capital, liquidity and solvency. Our sensitivity to changes in interest rate movements is continually monitored by the ALCO. ALCO monitors and manages market risk through rate shock analyses, economic value of equity, or EVE, analysis and by performing stress tests in order to mitigate earnings and market value fluctuations due to changes in interest rates.

Rate shock analyses results are compared to a base case to provide an estimate of the impact that market rate changes may have on 12 months of pretax net interest income. The base case and rate shock analyses are performed on a static balance sheet. A static balance sheet is a no growth balance sheet in which all maturing and/or repricing cash flows are reinvested in the same product at the existing product spread. Rate shock analyses assume an immediate parallel shift in market interest rates and also include management assumptions regarding the impact of interest rate changes on non-maturity deposit products (noninterest-bearing demand, interest-bearing demand, money market and savings) and changes in the prepayment behavior of loans and securities with optionality. S&T policy guidelines limit the change in pretax net interest income over a 12 month horizon using rate shocks of +/- 300 basis points. Policy guidelines define the percent change in pretax net interest income by graduated risk tolerance levels of minimal, moderate and high. We have temporarily suspended the -200 and -300 basis point rate shock analyses. Due to the low interest rate environment, we believe the impact to net interest income when evaluating the -200 and -300 basis point rate shock scenarios does not provide meaningful insight into our interest rate risk position.

In order to monitor interest rate risk beyond the 12 month time horizon of rate shocks, we also perform EVE analysis. EVE represents the present value of all asset cash flows minus the present value of all liability cash flows. An EVE rate change results are compared to a base case to determine the impact that market rate changes may have on our EVE. As with rate shock analysis, EVE analysis incorporates management assumptions regarding prepayment behavior of fixed rate loans and securities with optionality and the behavior and value of non-maturity deposit products. S&T policy guidelines limit the change in EVE given changes in rates of +/- 300 basis points. Policy guidelines define the percent change in EVE by graduated risk tolerance levels of minimal, moderate and high. We have also temporarily suspended the EVE -200 and -300 basis point scenarios due to the low interest rate environment.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - continued

The table below reflects the rate shock analyses and EVE analysis results. Both are in the minimal risk tolerance level.

	September 30, 2016		December 31, 2015	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in EVE	% Change in Pretax Net Interest Income	% Change in EVE
+300	5.9	3.3	5.5	(0.8)
+200	3.9	5.4	3.3	1.7
+100	2.1	5.7	1.6	2.3
-100	(4.3)	(13.4)	(5.1)	(11.1)

The results from the rate shock analyses are consistent with having an asset sensitive balance sheet. Having an asset sensitive balance sheet means more assets than liabilities will reprice during the measured time frames. The implications of an asset sensitive balance sheet will differ depending upon the change in market interest rates. For example, with an asset sensitive balance sheet in a declining interest rate environment, more assets than liabilities will decrease in rate. This situation could result in a decrease in net interest income and operating income. Conversely, with an asset sensitive balance sheet in a rising interest rate environment, more assets than liabilities will increase in rate. This situation could result in an increase in net interest income and operating income. As measured by rate shock analyses, an increase in interest rates would have a positive impact on pretax net interest income.

Our rate shock analyses indicate that there was an improvement in the percent change in pretax net interest income for our rates up and rates down shock scenarios when comparing September 30, 2016 to December 31, 2015. The improvement is mainly a result of an increase in variable rate loans and certificates of deposit repricing.

When comparing the EVE results for September 30, 2016 and December 31, 2015 the percent change to EVE has improved in the rates up shock scenarios and decreased in the rate down shock scenario. The percent change to EVE in our rate shock scenarios is mainly attributed to the change in value of our core deposits.

In addition to rate shocks and EVE analyses, we perform a market risk stress test at least annually. The market risk stress test includes sensitivity analyses and simulations. Sensitivity analyses are performed to help us identify which model assumptions cause the greatest impact on pretax net interest income. Sensitivity analyses may include changing prepayment behavior of loans and securities with optionality and the impact of interest rate changes on non-maturity deposit products. Simulation analyses may include the potential impact of rate shocks other than the policy guidelines of +/- 300 basis points, yield curve shape changes, significant balance mix changes and various growth scenarios. Simulations indicate that an increase in rates, particularly if the yield curve steepens, will most likely result in an improvement in pretax net interest income. We realize that some of the benefit reflected in our scenarios may be offset by a change in the competitive environment and a change in product preference by our customers.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of S&T's Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of S&T's disclosure controls and procedures as of September 30, 2016. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to S&T's management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Based on and as of the date of such evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective in all material respects, as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2016, there were no changes made to S&T's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, S&T's internal control over financial reporting.

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S&T BANCORP, INC. AND SUBSIDIARIES

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have been no material changes to the risk factors that we have previously disclosed in Item 1A – “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC on February 23, 2016.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

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S&T BANCORP, INC. AND SUBSIDIARIES

Item 6. Exhibits

31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32	Rule 13a-14(b) Certification of the Chief Executive Officer and Chief Financial Officer.
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheet at September 30, 2016 and Audited Consolidated Balance Sheet at December 31, 2015, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three and Nine Months ended September 30, 2016 and 2015, (iii) Unaudited Consolidated Statements of Changes in Shareholders' Equity for the Nine Months ended September 30, 2016 and 2015, (iv) Unaudited Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2016 and 2015 and (v) Notes to Unaudited Consolidated Financial Statements.

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S&T BANCORP, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

S&T Bancorp, Inc.
(Registrant)

Date: November 2, 2016 /s/ Mark Kochvar
Mark Kochvar
Senior Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Signatory)