S&T BANCORP INC
Form 10-Q
November 03, 2015

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, 2015

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 - 34,811,636 shares as of October 31, 2015

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

(dollars in thousands, except per share data)	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
Cash and due from banks, including interest-bearing deposits of $55,662 and $57,048 at September 30, 2015 and December 31, 2014	$115,347	$109,580
Securities available-for-sale, at fair value	660,046	640,273
Loans held for sale	13,794	2,970
Portfolio loans, net of unearned income	4,925,963	3,868,746
Allowance for loan losses	(49,907)	(47,911)
Portfolio loans, net	4,876,056	3,820,835
Bank owned life insurance	79,894	62,252
Premises and equipment, net	49,106	38,166
Federal Home Loan Bank and other restricted stock, at cost	20,352	15,135
Goodwill	291,683	175,820
Other intangible assets, net	7,000	2,631
Other assets	102,060	97,024
Total Assets	$6,215,338	$4,964,686
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$1,188,331	$1,083,919
Interest-bearing demand	704,348	335,099
Money market	593,643	376,612
Savings	1,088,217	1,027,095
Certificates of deposit	1,302,870	1,086,117
Total Deposits	4,877,409	3,908,842
Securities sold under repurchase agreements	42,971	30,605
Short-term borrowings	280,000	290,000
Long-term borrowings	117,613	19,442
Junior subordinated debt securities	45,619	45,619
Other liabilities	63,923	61,789
Total Liabilities	5,427,535	4,356,297
SHAREHOLDERS' EQUITY		
Common stock ($2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at September 30, 2015 and 31,197,365 shares at December 31, 2014	90,326	77,993
Outstanding—34,811,636 shares at September 30, 2015 and 29,796,397 shares at December 31, 2014		
Additional paid-in capital	210,141	78,818
Retained earnings	533,442	504,060
Accumulated other comprehensive (loss) income	(9,736)	(13,833)
Treasury stock (1,318,844 shares at September 30, 2015 and 1,400,968 shares at December 31, 2014, at cost)	(36,370)	(38,649)
Total Shareholders' Equity	787,803	608,389

Total Liabilities and Shareholders' Equity	$6,215,338	$4,964,686

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)	2015	2014	2015	2014
INTEREST INCOME				
Loans, including fees	$49,578	$37,233	$138,438	$109,496
Investment Securities:				
Taxable	2,522	2,313	7,298	6,480
Tax-exempt	988	964	3,006	2,872
Dividends	581	95	1,453	294
Total Interest Income	53,669	40,605	150,195	119,142
INTEREST EXPENSE				
Deposits	3,275	2,480	9,333	7,466
Borrowings and junior subordinated debt securities	798	596	2,196	1,701
Total Interest Expense	4,073	3,076	11,529	9,167
NET INTEREST INCOME	49,596	37,529	138,666	109,975
Provision for loan losses	3,206	1,454	6,473	608
Net Interest Income After Provision for Loan Losses	46,390	36,075	132,193	109,367
NONINTEREST INCOME				
Securities (losses) gains, net	—	—	(34)	41
Service charges on deposit accounts	3,069	2,799	8,529	7,882
Debit and credit card fees	2,996	2,909	8,732	8,135
Wealth management fees	2,814	2,756	8,667	8,548
Insurance fees	1,332	1,722	4,374	4,824
Mortgage banking	698	270	2,006	666
Other	1,572	1,475	5,674	5,022
Total Noninterest Income	12,481	11,931	37,948	35,118
NONINTEREST EXPENSE				
Salaries and employee benefits	16,789	14,823	51,024	45,971
Net occupancy	2,744	2,004	8,014	6,218
Data processing	2,454	2,152	7,329	6,466
Furniture and equipment	1,653	1,308	4,461	3,856
FDIC insurance	990	607	2,493	1,817
Professional services and legal	946	950	2,270	2,488
Marketing	895	757	2,905	2,335
Other taxes	719	839	2,721	2,363
Merger related expenses	—	—	3,167	—
Other	6,639	5,000	18,515	16,005
Total Noninterest Expense	33,829	28,440	102,899	87,519
Income Before Taxes	25,042	19,566	67,242	56,966
Provision for income taxes	6,407	4,906	17,584	13,552
Net Income	$18,635	$14,660	$49,658	$43,414
Earnings per share—basic	$0.54	$0.49	$1.48	$1.46
Earnings per share—diluted	$0.54	$0.49	$1.48	$1.46
Dividends declared per share	$0.18	$0.17	$0.54	$0.50
Comprehensive Income	$22,420	$13,515	$53,755	$48,936

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

(dollars in thousands, except shares and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Treasury Stock	Total
Balance at January 1, 2014	$77,993	$78,140	$468,158	$ (12,694)	$(40,291)	$571,306
Net income for nine months ended September 30, 2014	—	—	43,414	—	—	43,414
Other comprehensive income (loss), net of tax	—	—	—	5,522	—	5,522
Cash dividends declared ($0.50 per share)	—	—	(14,858)	—	—	(14,858)
Treasury stock issued for restricted awards (80,455 shares, net of 21,783 forfeitures)	—	—	(1,805)	—	1,642	(163)
Recognition of restricted stock compensation expense	—	676	—	—	—	676
Balance at September 30, 2014	$77,993	$78,816	$494,909	$ (7,172)	$(38,649)	$605,897
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
Common stock issuance costs	—	(132)	—	—	—	(132)
Balance at September 30, 2015	$90,326	$210,141	$533,442	$ (9,736)	$(36,370)	$787,803

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

	Nine Months Ended September 30,	
(dollars in thousands)	2015	2014
OPERATING ACTIVITIES		
Net income	$49,658	$43,414
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,473	608
Provision for unfunded loan commitments	687	(262)
Depreciation, amortization and accretion	(6)	3,510
Net amortization of discounts and premiums on securities	2,682	2,800
Stock-based compensation expense	1,158	594
Securities losses (gains), net	34	(41)
Tax benefit from stock-based compensation	(53)	—
Mortgage loans originated for sale	(81,966)	(28,652)
Proceeds from the sale of mortgage loans	71,872	27,894
Gain on the sale of mortgage loans, net	(730)	(232)
Net increase in interest receivable	(2,280)	(604)
Net decrease in interest payable	(637)	(423)
Net decrease in other assets	13,216	10,749
Net increase (decrease) in other liabilities	1,531	(897)
Net Cash Provided by Operating Activities	61,639	58,458
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(54,465)	(149,268)
Proceeds from maturities, prepayments and calls of securities available-for-sale	36,680	46,662
Proceeds from sales of securities available-for-sale	11,119	1,418
Net purchases of Federal Home Loan Bank stock	(3,535)	(5,366)
Net increase in loans	(276,282)	(244,836)
Proceeds from sale of loans not originated for resale	2,804	5,408
Purchases of premises and equipment	(3,737)	(3,220)
Proceeds from the sale of premises and equipment	264	98
Net cash paid in excess of cash acquired from bank merger	(16,347)	—
Net Cash Used in Investing Activities	(303,499)	(349,104)
FINANCING ACTIVITIES		
Net increase in core deposits	259,725	176,182
Net (decrease) increase in certificates of deposit	(12,399)	52,491
Net increase (decrease) in securities sold under repurchase agreements	12,366	(10,763)
Net (decrease) increase in short-term borrowings	(78,660)	125,000
Proceeds from long-term borrowings	100,000	—
Repayments of long-term borrowings	(1,829)	(1,768)
Repayment of junior subordinated debt	(13,500)	—
Treasury shares issued-net	(111)	(163)
Common stock issuance costs	(132)	—
Cash dividends paid to common shareholders	(17,886)	(14,858)
Tax benefit from stock-based compensation	53	—
Net Cash Provided by Financing Activities	247,627	326,121

Net increase in cash and cash equivalents	5,767	35,475
Cash and cash equivalents at beginning of period	109,580	108,356
Cash and Cash Equivalents at End of Period	$115,347	$143,831
Supplemental Disclosures		
Loans transferred to held for sale	$—	$1,300
Interest paid	$11,853	$9,590
Income taxes paid, net of refunds	$15,675	$12,900
Net assets acquired from bank merger, excluding cash and cash equivalents	$43,433	$—
Transfers of loans to other real estate owned	$628	$430

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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, 2014, filed with the Securities and Exchange Commission, or SEC, on February 20, 2015. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

Reclassification

Certain amounts in the prior periods' financial statements and footnotes have been reclassified to conform to the current period's presentation. The reclassifications had no significant effect on our results of operations or financial condition.

Use of Estimates

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

Recently Adopted Accounting Standards Updates, or ASU

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

In June 2014, the Financial Accounting Standards Board, or FASB, issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures which introduces two accounting changes to the Transfers and Servicing guidance (Topic 860). Repurchase-to-maturity transactions will be accounted for as secured borrowing transactions on the balance sheet and for repurchase financing arrangements, an entity will account separately for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty. This will also generally result in secured borrowing accounting for the repurchase agreement. With respect to disclosures, a transferor is required to disclose information about transactions accounted for as a sale in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets through an agreement with the transferee. Additionally, new disclosures are required for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions that are accounted for as secured borrowings. The new disclosure for transactions accounted for as secured borrowings is required for interim periods beginning after March 15, 2015. These new disclosures are included in Note 9. Borrowings. The adoption of this ASU had no impact on our results of operations or financial position.

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

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

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

NOTE 1. BASIS OF PRESENTATION - continued

discontinued operations. Additional disclosures are required when an entity retains significant continuing involvement with a discontinued operation after its disposal, including the amount of cash flows to and from a discontinued operation. The new standard applies prospectively after the effective date of December 15, 2014, and early adoption was permitted. The adoption of this ASU had no impact on our results of operations or financial position.

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The ASU clarifies that an in substance repossession or foreclosure has occurred and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The new standard is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption was permitted. The adoption of this ASU had no impact on our results of operations or financial position.

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The ASU permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The proportional amortization method permits the amortization of the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The new standard is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption was permitted. This ASU did not have a material impact on our results of operations or financial position. We did not adopt the proportional amortization method. Refer to Note 14 for additional disclosure.

Recently Issued Accounting Standards Updates not yet Adopted

Business Combinations – Simplifying the Accounting for Measurement Period Adjustments

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations – Simplifying the Accounting for Measurement Period Adjustments (Topic 805): The amendments in this ASU 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. We do not expect that this ASU will have a material 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

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. We do not expect that this ASU will have a material impact on our results of operations or financial position.

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

NOTE 1. BASIS OF PRESENTATION - continued

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, 2016. We do not expect that this ASU will have a material impact on our results of operations or financial position.
Consolidation: Amendments to the Consolidation Analysis
In April 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 (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. We are currently evaluating the impact that these amendments may have on our consolidated financial statements. We do not expect that this ASU will have a material 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 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. We do not expect that this ASU will have a material impact on our results of operations or financial position.

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

NOTE 2. BUSINESS COMBINATIONS

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

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

The Merger was accounted for under the acquisition method of accounting and our consolidated financial statements include all Integrity Bank transactions from March 4, 2015, until it was merged into S&T Bank on May 8, 2015. The assets acquired and liabilities assumed were recorded at their respective fair values and represent management's estimates based on available information. Purchase accounting guidance allows for a reasonable period of time following an acquisition for the acquirer to obtain the information necessary to complete the accounting for a business combination. This period is known as the measurement period. As of September 30, 2015, an additional $1.1 million of purchase accounting adjustments were recognized that increased goodwill. The measurement period adjustments primarily related to a $0.8 million reduction in the fair value of land recorded in the second quarter of 2015 and a $0.3 million reduction in deferred taxes recorded in the third quarter of 2015.

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 as of September 30, 2015:

(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	19,076
Total Assets Acquired	864,970
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	56,117
Goodwill	$115,862

Loans acquired in the Merger were recorded at fair value with no carryover of the related allowance for loan losses. 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. Loans acquired with evidence of credit quality deterioration were evaluated and not considered to be significant. The fair value of the loans acquired was $788.7 million net of a $14.8 million discount. The discount may be accreted to interest income over the remaining contractual life of

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

NOTE 2. BUSINESS COMBINATIONS - continued

the loans. Acquired loans included $331.6 million of commercial real estate, or CRE, $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. During the nine months ended September 30, 2015, we recognized $3.2 million of merger related expenses, including $1.3 million for data processing contract termination and system conversion costs, $1.2 million in legal and professional expenses, $0.4 million in severance payments and $0.3 million in other expenses.

The following table presents unaudited pro forma financial information which combines the historical consolidated statements of income of S&T and Integrity to give effect to the Merger as if it had occurred on January 1, 2014, for the periods presented.

	Unaudited Pro Forma Information Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	2015	2014	2015	2014
Total revenue(1)	$59,819	$58,875	$179,559	$174,097
Net income (2)	$18,527	$18,250	$51,406	$51,651
Earnings per common share: (2)				
Basic	$0.53	$0.53	$1.49	$1.49
Diluted	$0.53	$0.53	$1.48	$1.49

(1)Total pro forma revenue is defined as net interest income plus non-interest income, excluding gains and losses on sales of investment securities available-for-sale.

(2)Excludes merger expenses

Pro forma adjustments include intangible amortization expense, net amortization or accretion of valuation amounts and income tax expense. The pro forma results are not indicative of the results of operations that would have occurred had the Merger taken place at the beginning of the periods presented nor are they intended to be indicative of results that may occur in the future.

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

NOTE 3. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except shares and per share data)	2015	2014	2015	2014
Numerator for Earnings per Share—Basic:				
Net income	$18,635	$14,660	$49,658	$43,414
Less: Income allocated to participating shares	81	51	204	115
Net Income Allocated to Shareholders	$18,554	$14,609	$49,454	$43,299
Numerator for Earnings per Share—Diluted:				
Net income	18,635	14,660	$49,658	$43,414
Net Income Available to Shareholders	$18,635	$14,660	$49,658	$43,414
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	34,660,007	29,693,417	33,527,549	29,679,623
Add: Potentially dilutive shares	32,985	21,195	33,980	25,732
Denominator for Treasury Stock Method—Diluted	34,692,992	29,714,612	33,561,529	29,705,355
Weighted Average Shares Outstanding—Basic	34,660,007	29,693,417	33,527,549	29,679,623
Add: Average participating shares outstanding	151,972	102,980	138,441	78,835
Denominator for Two-Class Method—Diluted	34,811,979	29,796,397	33,665,990	29,758,458
Earnings per share—basic	$0.54	$0.49	$1.48	$1.46
Earnings per share—diluted	$0.54	$0.49	$1.48	$1.46
Warrants considered anti-dilutive excluded from potentially dilutive shares - exercise price $31.53 per share, expires January 2019	517,012	517,012	517,012	517,012
Stock options considered anti-dilutive excluded from potentially dilutive shares	155,500	427,362	155,500	428,233
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	118,987	81,785	104,461	53,103

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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 derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, impaired loans, other real estate owned, or OREO, mortgage servicing rights, or MSRs, and certain other assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction. In determining fair value, we use various valuation approaches, including market, income and cost approaches. The fair value standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, which is developed, based on market data we have obtained from independent sources. Unobservable inputs reflect our estimate of assumptions that market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

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

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

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

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

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

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

Recurring Basis

Securities Available-for-Sale

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

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

Trading Assets

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

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

NOTE 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 any applicable credit enhancements and collateral postings.

Nonrecurring Basis

Loans Held for Sale

Loans held for sale consist of 1-4 family residential loans originated for sale in the secondary market and, from time to time, certain loans transferred from the loan portfolio to loans held for sale, all of which are carried at the lower of cost or fair value. The fair value of 1-4 family residential loans is based on the principal or most advantageous market currently offered for similar loans using observable market data. The fair value of the loans transferred from the loan portfolio is based on the amounts offered for these loans in currently pending sales transactions. Loans held for sale carried at fair value are classified as Level 3.

Impaired Loans

Impaired loans are carried at the lower of carrying value or fair value. Fair value is determined as the recorded investment balance less any specific reserve. We establish a specific reserve based on the following three impairment methods: 1) the present value of expected future cash flows discounted at the loan’s original effective interest rate, 2) the loan’s observable market price or 3) the fair value of the collateral less estimated selling costs when the loan is collateral dependent and we expect to liquidate the collateral. However, if repayment is expected to come from the operation of the collateral, rather than liquidation, then we do not consider estimated selling costs in determining the fair value of the collateral. Collateral values are generally based upon appraisals by approved, independent state certified appraisers. Appraisals may be discounted based on our historical knowledge, 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.

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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 impaired nonperforming loans is based on their carrying values less any specific reserve. The carrying amount of accrued interest approximates fair value.
Bank Owned Life Insurance
Fair value approximates net cash surrender value 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; therefore, 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 and other short-term borrowings approximate their fair values.
Long-Term Borrowings
The fair values disclosed for fixed rate long-term borrowings are determined by discounting their contractual cash flows using current interest rates for long-term borrowings of similar remaining maturities. The carrying amounts of variable rate long-term borrowings approximate their fair values.
Junior Subordinated Debt Securities
The variable rate junior subordinated debt securities reprice quarterly; therefore, the fair values approximate the carrying 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.
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, 2015 and December 31, 2014. Due to limited trading volume, we transferred marketable equity securities with a fair value of $0.2 million from Level 1 to Level 2 during the nine month period ended September 30, 2015. There were no other transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

	September 30, 2015			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	$—	$15,062	$—	$15,062
Obligations of U.S. government corporations and agencies	—	271,332	—	271,332
Collateralized mortgage obligations of U.S. government corporations and agencies	—	135,216	—	135,216
Residential mortgage-backed securities of U.S. government corporations and agencies	—	42,065	—	42,065
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	50,223	—	50,223
Obligations of states and political subdivisions	—	137,335	—	137,335
Marketable equity securities	—	8,813	—	8,813
Total securities available-for-sale	—	660,046	—	660,046
Trading securities held in a Rabbi Trust	3,690	—	—	3,690
Total securities	3,690	660,046	—	663,736
Derivative financial assets:				
Interest rate swaps	—	14,232	—	14,232
Interest rate lock commitments	—	574	—	574
Total Assets	$3,690	$674,852	$—	$678,542
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$—	$14,184	$—	$14,184
Forward sale contracts	—	126	—	126
Total Liabilities	$—	$14,310	$—	$14,310

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

NOTE 4. FAIR VALUE MEASUREMENTS – continued

	December 31, 2014			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	$—	$14,880	$—	$14,880
Obligations of U.S. government corporations and agencies	—	269,285	—	269,285
Collateralized mortgage obligations of U.S. government corporations and agencies	—	118,006	—	118,006
Residential mortgage-backed securities of U.S. government corporations and agencies	—	46,668	—	46,668
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	39,673	—	39,673
Obligations of states and political subdivisions	—	142,702	—	142,702
Marketable equity securities	178	8,881	—	9,059
Total securities available-for-sale	178	640,095	—	640,273
Trading securities held in a Rabbi Trust	3,456	—	—	3,456
Total securities	3,634	640,095	—	643,729
Derivative financial assets:				
Interest rate swaps	—	12,981	—	12,981
Interest rate lock commitments	—	235	—	235
Total Assets	$3,634	$653,311	$—	$656,945
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$—	$12,953	$—	$12,953
Forward sale contracts	—	57	—	57
Total Liabilities	$—	$13,010	$—	$13,010

We classify financial instruments as Level 3 when valuation models are used because significant inputs are not observable in the market. We had no assets or liabilities measured at fair value on a recurring basis for which we have utilized Level 3 inputs to determine the fair value at either September 30, 2015 or December 31, 2014.

We may be required to measure certain assets and liabilities on a nonrecurring basis. Nonrecurring assets are recorded at the lower of cost or fair value in our financial statements. The following table presents our assets that were measured at fair value on a nonrecurring basis by the fair value hierarchy level at September 30, 2015 and December 31, 2014. There were no liabilities measured at fair value on a nonrecurring basis during these periods.

	September 30, 2015				December 31, 2014			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS(1)								
Loans held for sale	$—	$—	$216	$216	$—	$—	$—	$—
Impaired loans	—	—	8,870	8,870	—	—	12,916	12,916
Other real estate owned	—	—	439	439	—	—	117	117
Mortgage servicing rights	—	—	1,827	1,827	—	—	2,934	2,934
Total Assets	$—	$—	$11,352	$11,352	$—	$—	$15,967	$15,967

(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, 2015 and December 31, 2014 are presented in the following tables:

	Carrying	Fair Value Measurements at September 30, 2015			
(dollars in thousands)	Value[1]	Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$115,347	$115,347	$115,347	$—	$—
Securities available-for-sale	660,046	660,046	—	660,046	—
Loans held for sale	13,794	14,134	—	—	14,134
Portfolio loans, net of unearned income	4,925,963	4,902,661	—	—	4,902,661
Bank owned life insurance	79,894	79,894	—	79,894	—
FHLB and other restricted stock	20,352	20,352	—	—	20,352
Trading securities held in a Rabbi Trust	3,690	3,690	3,690	—	—
Mortgage servicing rights	3,083	3,170	—	—	3,170
Interest rate swaps	14,232	14,232	—	14,232	—
Interest rate lock commitments	574	574	—	574	—
LIABILITIES					
Deposits	$4,877,409	$4,883,132	$—	$—	$4,883,132
Securities sold under repurchase agreements	42,971	42,971	—	—	42,971
Short-term borrowings	280,000	280,000	—	—	280,000
Long-term borrowings	117,613	118,646	—	—	118,646
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	14,184	14,184	—	14,184	—
Forward sale contracts	126	126	—	126	—

(1) As reported in the Consolidated Balance Sheets

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

NOTE 4. FAIR VALUE MEASUREMENTS – continued

(dollars in thousands)	Carrying Value[1]	Fair Value Measurements at December 31, 2014 Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$109,580	$109,580	$109,580	$—	$—
Securities available-for-sale	640,273	640,273	178	640,095	—
Loans held for sale	2,970	2,991	—	—	2,991
Portfolio loans, net of unearned income	3,868,746	3,827,634	—	—	3,827,634
Bank owned life insurance	62,252	62,252	—	62,252	—
FHLB and other restricted stock	15,135	15,135	—	—	15,135
Trading securities held in a Rabbi Trust	3,456	3,456	3,456	—	—
Mortgage servicing rights	2,817	2,934	—	—	2,934
Interest rate swaps	12,981	12,981	—	12,981	—
Interest rate lock commitments	235	235	—	235	—
LIABILITIES					
Deposits	$3,908,842	$3,910,342	$—	$—	$3,910,342
Securities sold under repurchase agreements	30,605	30,605	—	—	30,605
Short-term borrowings	290,000	290,000	—	—	290,000
Long-term borrowings	19,442	20,462	—	—	20,462
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	12,953	12,953	—	12,953	—
Forward sale contracts	57	57	—	57	—

[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, 2015				December 31, 2014			
(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	$14,903	$159	$—	$15,062	$14,873	$7	$—	$14,880
Obligations of U.S. government corporations and agencies	267,328	4,032	(28)	271,332	268,029	2,334	(1,078)	269,285
Collateralized mortgage obligations of U.S. government corporations and agencies	132,691	2,536	(11)	135,216	116,897	1,257	(148)	118,006
Residential mortgage-backed securities of U.S. government corporations and agencies	40,678	1,467	(80)	42,065	45,274	1,548	(154)	46,668
Commercial mortgage-backed securities of U.S. government corporations and agencies	49,596	669	(42)	50,223	39,834	232	(393)	39,673
Obligations of states and political subdivisions	132,139	5,249	(53)	137,335	136,977	5,789	(64)	142,702
Debt Securities	637,335	14,112	(214)	651,233	621,884	11,167	(1,837)	631,214
Marketable equity securities	7,579	1,234	—	8,813	7,579	1,480	—	9,059
Total	$644,914	$15,346	$(214)	$660,046	$629,463	$12,647	$(1,837)	$640,273

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014
Gross realized gains	$—	$—	$—	$41
Gross realized losses	—	—	(34)	—
Net Realized Gains	$—	$—	$(34)	$41

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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, 2015								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	—	$ —	$ —	2	$ 14,720	$ (28)	2	$ 14,720	$ (28)
Collateralized mortgage obligations of U.S. government corporations and agencies	1	10,694	(11)	—	—	—	1	10,694	(11)
Residential mortgage-backed securities of U.S. government corporations and agencies	1	8,377	(80)	—	—	—	1	8,377	(80)
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	—	—	1	9,709	(42)	1	9,709	(42)
Obligations of states and political subdivisions	2	10,666	(53)	—	—	—	2	10,666	(53)
Total Temporarily Impaired Securities	4	$ 29,737	$ (144)	3	$ 24,429	$ (70)	7	$ 54,166	$ (214)

	December 31, 2014								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	4	$ 39,745	$ (207)	8	$ 63,149	$ (871)	12	$ 102,894	$ (1,078)

Collateralized mortgage obligations of U.S. government corporations and agencies	1	9,323	(148)	—	—	—	1	9,323	(148)
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—	—	1	8,982	(154)	1	8,982	(154)
Commercial mortgage-backed securities of U.S. government corporations and agencies	1	9,998	(25)	2	20,640	(368)	3	30,638	(393)
Obligations of states and political subdivisions	1	263	(1)	2	10,756	(63)	3	11,019	(64)
Total Temporarily Impaired Securities	7	$ 59,329	$ (381)	13	$ 103,527	$ (1,456)	20	$ 162,856	$ (1,837)

We do not believe any individual unrealized loss as of September 30, 2015 represents an other than temporary impairment. As of September 30, 2015, the unrealized losses on 7 debt securities were attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. There were no unrealized losses on marketable equity securities as of September 30, 2015. We do not intend to sell and it is not more likely than not that we will be required to sell any of the securities, referenced in the table above, in an unrealized loss position before recovery of their amortized cost.

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

NOTE 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, 2015			December 31, 2014		
(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	$15,346	$(214)	$15,132	$12,647	$(1,837)	$10,810
Income tax expense/(benefit)	5,371	(75)	5,296	4,426	(643)	3,783
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	$9,975	$(139)	$9,836	$8,221	$(1,194)	$7,027

The amortized cost and fair value of securities available-for-sale at September 30, 2015 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, 2015	
(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	$37,404	$37,767
Due after one year through five years	224,669	228,005
Due after five years through ten years	65,260	67,613
Due after ten years	87,037	90,344
	414,370	423,729
Collateralized mortgage obligations of U.S. government corporations and agencies	132,691	135,216
Residential mortgage-backed securities of U.S. government corporations and agencies	40,678	42,065
Commercial mortgage-backed securities of U.S. government corporations and agencies	49,596	50,223
Debt Securities	637,335	651,233
Marketable equity securities	7,579	8,813
Total	$644,914	$660,046

At September 30, 2015 and December 31, 2014, securities with carrying values of $296.1 million and $289.1 million were pledged for various regulatory and legal requirements.

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

NOTE 6. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of $2.7 million and $2.1 million at September 30, 2015 and December 31, 2014 and net of a discount related to purchase accounting fair value adjustments of $12.0 million and $2.0 million at September 30, 2015 and December 31, 2014. The following table indicates the composition of the loans as of the dates presented:

(dollars in thousands)	September 30, 2015	December 31, 2014
Commercial		
Commercial real estate	$2,111,585	$1,682,236
Commercial and industrial	1,237,915	994,138
Commercial construction	384,328	216,148
Total Commercial Loans	3,733,828	2,892,522
Consumer		
Residential mortgage	625,251	489,586
Home equity	467,698	418,563
Installment and other consumer	91,122	65,567
Consumer construction	8,064	2,508
Total Consumer Loans	1,192,135	976,224
Total Portfolio Loans	4,925,963	3,868,746
Loans held for sale	13,794	2,970
Total Loans	$4,939,757	$3,871,716

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, geography, collateral and industry and actively managing concentrations. When concentrations exist in certain segments, we mitigate this risk by monitoring the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 76 percent of total portfolio loans at September 30, 2015 and 75 percent of total portfolio loans at December 31, 2014. Within our commercial portfolio, the CRE and commercial construction portfolios combined comprised $2.5 billion or 67 percent of total commercial loans and 51 percent of total portfolio loans at September 30, 2015 and 66 percent of total commercial loans and 49 percent of total portfolio loans at December 31, 2014. Of the $2.5 billion of CRE and commercial construction loans, $424.0 million were added as a result of the Merger. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type reveal no concentration in excess of 7.0 percent of total loans at September 30, 2015 and December 31, 2014.

Our market area includes Pennsylvania and the contiguous states of Ohio, West Virginia, New York and Maryland. The majority of our commercial and consumer loans are made to businesses and individuals in this market area resulting in a geographic concentration. We believe our knowledge and familiarity with customers and conditions locally outweighs this geographic concentration risk. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Management believes underwriting guidelines, active monitoring of economic conditions and ongoing review by credit administration mitigates the concentration risk present in the loan portfolio. Our CRE and commercial construction portfolios had out-of-market exposure of 6.4 percent of the combined portfolio and 3.3 percent of total loans at September 30, 2015 and 8.0 percent of the combined portfolio and 3.9 percent of total loans at December 31, 2014.

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

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

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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

impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

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

	September 30, 2015			December 31, 2014		
(dollars in thousands)	Performing TDRs	Nonperforming TDRs	Total TDRs	Performing TDRs	Nonperforming TDRs	Total TDRs
Commercial real estate	$8,062	$ 3,552	$11,614	$16,939	$ 2,180	$19,119
Commercial and industrial	6,360	1,839	8,199	8,074	356	8,430
Commercial construction	5,627	1,610	7,237	5,736	1,869	7,605
Residential mortgage	2,609	591	3,200	2,839	459	3,298
Home equity	3,363	412	3,775	3,342	562	3,904
Installment and other consumer	28	88	116	53	10	63
Total	$26,049	$ 8,092	$34,141	$36,983	$ 5,436	$42,419

There were three TDRs that returned to accruing status totaling $0.2 million during the three months ended September 30, 2015 and nine TDRs that returned to accruing status totaling $0.5 million for the nine months ended September 30, 2015. There were five TDRs for $0.5 million returned to accruing status during the three months ended September 30, 2014 and ten TDRs for $2.0 million were returned to accruing status during the nine months ended September 30, 2014.

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

NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

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

	Three Months Ended September 30, 2015				Three Months Ended September 30, 2014			
(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment(1)	Post-Modification Outstanding Recorded Investment(1)	Total Difference in Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment(1)	Post-Modification Outstanding Recorded Investment(1)	Total Difference in Recorded Investment
Commercial real estate								
Principal deferral	—	$ —	$ —	$—	1	$ 487	$ 475	$(12)
Chapter 7 bankruptcy(2)	—	—	—	—	1	83	83	—
Maturity date extension	1	264	260	(4)	—	—	—	—
Commercial and industrial								
Principal deferral	—	—	—	—	2	381	366	(15)
Commercial Construction								
Maturity date extension	2	813	812	(1)	—	—	—	—
Residential mortgage								
Chapter 7 bankruptcy(2)	2	74	74	—	2	135	134	(1)
Maturity date extension	1	180	180	—	—	—	—	—
Home equity								
Chapter 7 bankruptcy(2)	5	115	110	(5)	2	14	14	—
Maturity date extension and interest rate reduction	2	138	138	—	2	96	96	—
Installment and other consumer								
Chapter 7 bankruptcy(2)	1	9	4	$(5)	2	14	11	$(3)
Total by Concession Type								
Principal deferral	—	—	—	—	3	868	841	(27)
Maturity date extension and interest rate	2	138	138	—	2	96	96	—

reduction								
Chapter 7 bankruptcy[2]	8	198	188	(10)	7	246	242	(4)
Maturity date extension	4	1,257	1,252	(5)	—	—	—	—
Total	14	$ 1,593	$ 1,578	$(15)	12	$ 1,210	$ 1,179	$(31)

[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, 2015 Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment	Nine Months Ended September 30, 2014 Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment
Commercial real estate								
Principal deferral	2	$ 2,851	$ 1,841	$(1,010)	2	$ 616	$ 602	$(14)
Chapter 7 bankruptcy[2]	—	—	—	—	1	83	83	—
Maturity date extension	1	264	260	(4)	—	—	—	—
Commercial and industrial								
Principal forgiveness	1	400	273	(127)	—	—	—	—
Principal deferral	6	661	363	(298)	2	381	366	(15)
Chapter 7 bankruptcy[2]	1	3	—	(3)	1	287	286	(1)
Maturity date extension	1	780	720	(60)	—	—	—	—
Commercial Construction								
Principal deferral	1	104	—	(104)	—	—	—	—
Maturity date extension	2	813	812	(1)	1	1,019	1,019	—
Residential mortgage								
Chapter 7 bankruptcy[2]	2	74	74	—	7	464	461	(3)
Maturity date extension	1	180	180	—	—	—	—	—
Maturity date extension and interest rate reduction	2	225	229	4	—	—	—	—
Home equity								
Chapter 7 bankruptcy[2]	17	428	389	(39)	12	283	265	(18)
Maturity date extension and interest rate reduction	2	138	138	—	2	96	96	—

Maturity date extension	1	71	70	(1)	—	—	—	—
Installment and other consumer								
Chapter 7 bankruptcy[(2)]	1	9	4	$(5)	3	23	20	$(3)
Total by Concession Type								
Principal forgiveness	1	$ 400	$ 273	$(127)	—	$ —	$ —	$—
Principal deferral	9	3,616	2,204	(1,412)	4	997	968	(29)
Chapter 7 bankruptcy[(2)]	21	514	467	(47)	24	1,140	1,115	(25)
Maturity date extension and interest rate reduction	4	363	367	4	2	96	96	—
Maturity date extension	6	2,108	2,042	(66)	1	1,019	1,019	—
Total	41	7,001	5,353	$(1,648)	31	$ 3,252	$ 3,198	$(54)

(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, 2015, we modified two C&I loans totaling $1.1 million, 11 commercial construction loans totaling $7.1 million, three CRE loans totaling $4.3 million, one home equity loan totaling $0.1 million and one residential real estate loan totaling $0.1 million that were not considered to be TDRs. For the nine months ended September 30, 2015 we modified eight C&I loans totaling $6.8 million, 13 commercial construction loans totaling $8.4 million, six CRE loans totaling $5.3 million, three home equity loans totaling $0.3 million and one residential real estate loan totaling $0.1 million that were not considered to be TDRs. The modifications primarily represented instances where we were adequately compensated through additional collateral or a higher interest rate or there was an insignificant delay in payment of three months or less. As of September 30, 2015 we have no commitments to lend additional funds on any 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, 2015		Three Months Ended September 30, 2014	
(dollars in thousands)	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate	—	$—	—	$—
Commercial and Industrial	—	—	—	—
Commercial construction	—	—	—	—
Residential mortgage	—	—	—	—
Home equity	—	$—	—	$—
Installment and other consumer	—	—	—	—
Consumer construction	—	—	—	—
Total	—	$—	—	$—

	Defaulted TDRs			
	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
(dollars in thousands)	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate	—	$—	—	$—
Commercial and Industrial	—	—	—	—
Commercial construction	—	—	—	—
Residential mortgage	1	$183	1	$72
Home equity	3	124	—	—
Installment and other consumer	—	—	—	—
Consumer construction	—	—	—	—
Total	4	$307	1	$72

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

	Nonperforming Assets	
(dollars in thousands)	September 30, 2015	December 31, 2014
Nonperforming Assets		
Nonaccrual loans	$15,716	$7,021
Nonaccrual TDRs	8,092	5,436
Total nonaccrual loans	23,808	12,457
OREO	472	166
Total Nonperforming Assets	$24,280	$12,623

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

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 do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt.

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

Consumer Real Estate—Loans secured by first and second liens such as home equity loans, home equity lines of credit and 1-4 family residences, 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. In general, the LEP will be shorter in an economic slowdown or recession and longer during times of economic stability or growth, as customers are better able to delay loss confirmation after a potential loss event has occurred.

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 September 30, 2015 and December 31, 2014:

	September 30, 2015						
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due[1]	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	$2,092,139	$8,987	$1,567	$973	$7,919	$19,446	$2,111,585
Commercial and industrial	1,228,571	2,183	1,791	—	5,370	9,344	1,237,915
Commercial construction	374,001	3,955	1,364	—	5,008	10,327	384,328
Residential mortgage	614,609	3,563	3,281	556	3,242	10,642	625,251
Home equity	463,145	2,144	262	—	2,147	4,553	467,698
Installment and other consumer	90,624	344	32	—	122	498	91,122
Consumer construction	8,064	—	—	—	—	—	8,064
Loans held for sale	13,794	—	—	—	—	—	13,794
Totals	$4,884,947	$21,176	$8,297	$1,529	$23,808	$54,810	$4,939,757

[1] Represents acquired loans that were recorded at fair value at the acquisition date.

	December 31, 2014						
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	$1,674,930	$2,548	$323	$—	$4,435	$7,306	$1,682,236
Commercial and industrial	991,136	1,227	153	—	1,622	3,002	994,138
Commercial construction	214,174	—	—	—	1,974	1,974	216,148
Residential mortgage	485,465	565	1,220	—	2,336	4,121	489,586
Home equity	414,303	1,756	445	—	2,059	4,260	418,563
Installment and other consumer	65,111	352	73	—	31	456	65,567
Consumer construction	2,508	—	—	—	—	—	2,508
Loans held for sale	2,970	—	—	—	—	—	2,970
Totals	$3,850,597	$6,448	$2,214	$—	$12,457	$21,119	$3,871,716

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.

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, 2015											
(dollars in thousands)	Commercial Real Estate	% of Total		Commercial and Industrial	% of Total		Commercial Construction	% of Total		Total	% of Total	
Pass	$2,036,905	96.5	%	$1,169,828	94.5	%	$344,513	89.6	%	$3,551,246	95.1	%
Special mention	32,371	1.5	%	45,750	3.7	%	18,771	4.9	%	96,892	2.6	%
Substandard	42,309	2.0	%	22,337	1.8	%	21,044	5.5	%	85,690	2.3	%
Total	$2,111,585	100	%	$1,237,915	100.0	%	$384,328	100.0	%	$3,733,828	100.0	%

	December 31, 2014											
(dollars in thousands)	Commercial Real Estate	% of Total		Commercial and Industrial	% of Total		Commercial Construction	% of Total		Total	% of Total	
Pass	$1,635,132	97.2	%	$948,663	95.4	%	$196,520	90.9	%	$2,780,315	96.1	%
Special mention	23,597	1.4	%	30,357	3.1	%	12,014	5.6	%	65,968	2.3	%
Substandard	23,507	1.4	%	15,118	1.5	%	7,614	3.5	%	46,239	1.6	%
Total	$1,682,236	100.0	%	$994,138	100.0	%	$216,148	100.0	%	$2,892,522	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, 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	$622,009	99.5	%	$465,551	99.5	%	$91,000	99.9	%	$8,064	100.0	%	$1,186,624	99.5	%
Nonperforming	3,242	0.5	%	2,147	0.5	%	122	0.1	%	—	—	%	5,511	0.5	%
Total	$625,251	100.0	%	$467,698	100.0	%	$91,122	100.0	%	$8,064	100.0	%	$1,192,135	100.0	%

	December 31, 2014														
(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	$487,250	99.5	%	$416,504	99.5	%	$65,536	99.9	%	$2,508	100.0	%	$971,798	99.5	%
Nonperforming	2,336	0.5	%	2,059	0.5	%	31	0.1	%	—	—	%	4,426	0.5	%
Total	$489,586	100.0	%	$418,563	100.0	%	$65,567	100.0	%	$2,508	100.0	%	$976,224	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 the related information on those impaired loans as of the dates presented:

	September 30, 2015			December 31, 2014		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Without a related allowance recorded:						
Commercial real estate	$14,080	$14,576	$—	$19,890	$25,262	$—
Commercial and industrial	8,746	10,918	—	9,218	9,449	—
Commercial construction	9,315	12,977	—	7,605	11,293	—
Consumer real estate	6,852	7,401	—	7,159	7,733	—
Other consumer	119	191	—	42	48	—
Total without a Related Allowance Recorded	39,112	46,063	—	43,914	53,785	—
With a related allowance recorded:						
Commercial real estate	—	—	—	—	—	—
Commercial and industrial	1,969	1,969	1,224	—	—	—
Commercial construction	—	—	—	—	—	—
Consumer real estate	118	118	34	43	43	43
Other consumer	2	2	2	20	20	11
Total with a Related Allowance Recorded	2,089	2,089	1,260	63	63	54
Total:						
Commercial real estate	14,080	14,576	—	19,890	25,262	—
Commercial and industrial	10,715	12,887	1,224	9,218	9,449	—
Commercial construction	9,315	12,977	—	7,605	11,293	—
Consumer real estate	6,970	7,519	34	7,202	7,776	43
Other consumer	121	193	2	62	68	11
Total	$41,201	$48,152	$1,260	$43,977	$53,848	$54

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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:

	Three Months Ended			
	September 30, 2015		September 30, 2014	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	$14,101	$352	$21,110	$159
Commercial and industrial	8,993	44	9,702	63
Commercial construction	11,034	67	8,160	58
Consumer real estate	6,829	92	7,034	100
Other consumer	183	—	115	1
Total without a Related Allowance Recorded	41,140	555	46,121	381
With a related allowance recorded:				
Commercial real estate	—	—	—	—
Commercial and industrial	1,977	7	—	—
Commercial construction	—	—	—	—
Consumer real estate	119	2	47	1
Other consumer	2	—	23	—
Total with a Related Allowance Recorded	2,098	9	70	1
Total:				
Commercial real estate	14,101	352	21,110	159
Commercial and industrial	10,970	51	9,702	63
Commercial construction	11,034	67	8,160	58
Consumer real estate	6,948	94	7,081	101
Other consumer	185	—	138	1
Total	$43,238	$564	$46,191	$382

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

NOTE 7. ALLOWANCE FOR LOAN LOSSES – continued

	Nine Months Ended			
	September 30, 2015		September 30, 2014	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	$14,994	$731	$21,593	$512
Commercial and industrial	9,742	131	9,477	177
Commercial construction	8,920	200	8,254	172
Consumer real estate	6,856	279	7,181	306
Other consumer	119	1	122	3
Total without a Related Allowance Recorded	40,631	1,342	46,627	1,170
With a related allowance recorded:				
Commercial real estate	$—	$—	$—	$—
Commercial and industrial	1,980	42	—	—
Commercial construction	—	—	—	—
Consumer real estate	121	5	49	2
Other consumer	2	—	24	2
Total with a Related Allowance Recorded	2,103	47	73	4
Total:				
Commercial real estate	14,994	731	21,593	512
Commercial and industrial	11,722	173	9,477	177
Commercial construction	8,920	200	8,254	172
Consumer real estate	6,977	284	7,230	308
Other consumer	121	1	146	5
Total	$42,734	$1,389	$46,700	$1,174

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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, 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

	Three Months Ended September 30, 2014					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$20,733	$ 13,004	$4,759	$6,705	$1,379	$46,580
Charge-offs	—	(37)	(234)	(436)	(295)	(1,002)
Recoveries	(154)	315	—	48	75	284
Net (Charge-offs)/ Recoveries	(154)	278	(234)	(388)	(220)	(718)
Provision for loan losses	(602)	616	653	446	341	1,454
Balance at End of Period	$19,977	$ 13,898	$5,178	$6,763	$1,500	$47,316

	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

	Nine Months Ended September 30, 2014					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
	$18,921	$ 14,433	$5,374	$6,362	$1,165	$46,255

Balance at beginning of period						
Charge-offs	(2,002)	(1,070)	(693)	(983)	(740)	(5,488)
Recoveries	1,681	3,564	140	272	284	5,941
Net (Charge-offs)/Recoveries	(321)	2,494	(553)	(711)	(456)	453
Provision for loan losses	1,377	(3,029)	357	1,112	791	608
Balance at End of Period	$19,977	$ 13,898	$5,178	$6,763	$1,500	$47,316

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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, 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[(1)]
Commercial real estate	$—	$ 16,978	$16,978	$14,080	$ 2,097,505	$2,111,585
Commercial and industrial	1,224	11,247	12,471	10,715	1,227,200	1,237,915
Commercial construction	—	11,536	11,536	9,315	375,013	384,328
Consumer real estate	34	6,982	7,016	6,970	1,094,043	1,101,013
Other consumer	2	1,904	1,906	121	91,001	91,122
Total	$1,260	$ 48,647	$49,907	$41,201	$ 4,884,762	$4,925,963

(1)Includes acquired loans.

	December 31, 2014					
	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[(1)]
Commercial real estate	$—	$ 20,164	$20,164	$19,890	$ 1,662,346	$1,682,236
Commercial and industrial	—	13,668	13,668	9,218	984,920	994,138
Commercial construction	—	6,093	6,093	7,605	208,543	216,148
Consumer real estate	43	6,290	6,333	7,202	903,455	910,657
Other consumer	11	1,642	1,653	62	65,505	65,567
Total	$54	$ 47,857	$47,911	$43,977	$ 3,824,769	$3,868,746

(1)Includes acquired loans.

Acquired loans are recorded at fair value with no carryover of the ALL. Credit deterioration on acquired loans incurred subsequent to the acquisition date was recognized in the ALL through the provision.

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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, including 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 and derivatives with customers may only be executed with customers within credit exposure limits approved by our Senior Loan Committee. Interest rate swaps are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives are recorded in current earnings and included in other noninterest income in the Consolidated Statements of Comprehensive Income.

Interest Rate Lock Commitments and Forward Sale Contracts

In the normal course of business, we sell originated mortgage loans into the secondary mortgage loan market. We also offer interest rate lock commitments to potential borrowers. The commitments are generally for 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 interest rate lock commitment and the corresponding forward sale contract for each customer are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives during the commitment period are recorded in current earnings and included in mortgage banking in the Consolidated Statements of Comprehensive Income.

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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:

	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
(dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Derivatives not Designated as Hedging Instruments:				
Interest Rate Swap Contracts- Commercial Loans				
Fair value	$14,232	$12,981	$14,184	$12,953
Notional amount	239,277	245,152	239,277	245,152
Collateral posted	—	—	12,548	12,059
Interest Rate Lock Commitments- Mortgage Loans				
Fair value	574	235	—	—
Notional amount	16,969	8,822	—	—
Forward Sale Contracts- Mortgage Loans				
Fair value	—	—	126	57
Notional amount	$—	$—	$14,320	$7,789

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

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

	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
(dollars in thousands)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Derivatives not Designated as Hedging Instruments:				
Gross amounts recognized	$14,232	$13,203	$14,184	$13,175
Gross amounts offset	—	(222)	—	(222)
Net amounts presented in the Consolidated Balance Sheets	14,232	12,981	14,184	12,953
Gross amounts not offset[(1)]	—	—	(12,548)	(12,059)
Net Amount	$14,232	$12,981	$1,636	$894

[(1)] Amounts represent posted collateral.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2015	2014	2015	2014

Derivatives not Designated as Hedging Instruments				
Interest rate swap contracts—commercial loans	$29	$(10)	$20	$(29)
Interest rate lock commitments—mortgage loans	208	(105)	339	102
Forward sale contracts—mortgage loans	(143)	49	(69)	(43)
Total Derivatives Gain (Loss)	$94	$(66)	$290	$30

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NOTE 9. BORROWINGS

Short-term borrowings are for terms under one year and were comprised of retail repurchase agreements, or REPOs, and FHLB advances. FHLB advances are for various terms and are secured by a blanket lien on residential mortgages and other real estate secured loans. 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 $46.2 million at September 30, 2015 and $35.6 million at December 31, 2014 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.

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 $14.4 million at a fixed rate and $148.9 million at a variable rate at September 30, 2015, excluding our capital lease of $0.2 million. On March 5, 2015, we paid off $8.5 million and on June 18, 2015, we paid off the remaining $5.0 million of the $13.5 million junior subordinated debt assumed in the Merger.

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

	September 30, 2015			December 31, 2014		
(dollars in thousands)	Balance	Weighted Average Rate		Balance	Weighted Average Rate	
Short-term borrowings						
Securities sold under repurchase agreements	$42,971	0.01	%	$30,605	0.01	%
Short-term borrowings	280,000	0.37	%	290,000	0.31	%
Total short-term borrowings	322,971	0.32	%	320,605	0.27	%
Long-term borrowings						
Other long-term borrowings	117,613	0.76	%	19,442	3.00	%
Junior subordinated debt securities	45,619	2.80	%	45,619	2.70	%
Total long-term borrowings	163,232	1.33	%	65,061	2.79	%
Total Borrowings	$486,203	0.66	%	$385,666	0.70	%

We had total borrowings at September 30, 2015 and December 31, 2014 at the FHLB of Pittsburgh of $397.5 million and $309.3 million. The $397.5 million at September 30, 2015 consisted of $280.0 million in short-term borrowings and $117.6 million in long-term borrowings. Our maximum borrowing capacity with the FHLB of Pittsburgh was $1.9 billion at September 30, 2015. Our remaining borrowing availability is $1.4 billion. We utilized $0.5 billion of our borrowing capacity at September 30, 2015 consisting of $397.5 million for borrowings and $152.8 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 a 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 $3.0 million at September 30, 2015 and $2.3 million at December 31, 2014. 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. 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 the commitments and letters of credit as of the dates presented:

(dollars in thousands)	September 30, 2015	December 31, 2014
Commitments to extend credit	$1,538,397	$1,158,628
Standby letters of credit	96,612	73,584
Total	$1,635,009	$1,232,212

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 the outcome of such proceedings or claims pending will not have a material adverse effect on our consolidated financial position or results of operations.

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

NOTE 11. OTHER COMPREHENSIVE INCOME

The following table presents the tax effects of the components of other comprehensive income (loss) for the periods presented:

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
(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	$5,177	$(1,812)	$3,365	$(2,032)	$712	$(1,320)
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income (1)	—	—	—	—	—	—
Adjustment to funded status of employee benefit plans	647	(227)	420	269	(94)	175
Other Comprehensive Income/(Loss)	$5,824	$(2,039)	$3,785	$(1,763)	$618	$(1,145)

(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, 2015			Nine Months Ended September 30, 2014		
(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	$4,288	$(1,501)	$2,787	$7,844	$(2,746)	$5,098
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income (1)	34	(12)	22	(41)	15	(26)
Adjustment to funded status of employee benefit plans	1,839	(551)	1,288	692	(242)	450
Other Comprehensive Income	$6,161	$(2,064)	$4,097	$8,495	$(2,973)	$5,522

(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

We maintain a defined benefit pension plan, or Plan, covering all employees hired prior to January 1, 2008. The benefits are based on years of service and the employee's compensation for the highest five consecutive years in the last ten years. Contributions are intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future. At this time, we are not required to make a cash contribution to the Plan in 2015. The expected long-term rate of return on plan assets is 8.00 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 80.00 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)	2015	2014	2015	2014
Components of Net Periodic Pension Cost				
Service cost—benefits earned during the period	$606	$516	$1,951	$1,778
Interest cost on projected benefit obligation	1,120	1,141	3,319	3,353
Expected return on plan assets	(1,772)	(1,710)	(5,385)	(5,180)
Amortization of prior service (credit) cost	(34)	(34)	(104)	(104)
Recognized net actuarial loss	586	287	1,521	705
Net Periodic Pension Expense	$506	$200	$1,302	$552

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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, originating commercial and consumer loans and providing letters of credit and credit card services.
- 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 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 institutional accounts.

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

(dollars in thousands)	September 30, 2015	December 31, 2014
Community Banking	$6,203,446	$4,954,728
Insurance	8,255	7,468
Wealth Management	3,637	2,490
Total Assets	$6,215,338	$4,964,686

The following tables provide financial information for our three operating segments for the three and nine month periods ended September 30, 2015 and 2014. 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 measurement. 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, 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

	Three Months Ended September 30, 2014				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$40,581	$—	$109	$(85)	$40,605
Interest expense	3,435	—	—	(359)	3,076
Net interest income	37,146	—	109	274	37,529
Provision for loan losses	1,454	—	—	—	1,454
Noninterest income	7,742	1,496	2,748	(55)	11,931

Noninterest expense	23,691	1,127	2,245	219	27,282
Depreciation expense	878	13	7	—	898
Amortization of intangible assets	238	13	9	—	260
Provision for income taxes	4,577	120	209	—	4,906
Net Income	$14,050	$223	$387	$—	$14,660

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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, 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