

S&T BANCORP INC
Form 10-Q
October 31, 2013
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

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)

Edgar Filing: S&T BANCORP INC - Form 10-Q

Pennsylvania (State or other jurisdiction of incorporation or organization)	25-1434426 (IRS Employer Identification No.)
800 Philadelphia Street, Indiana, PA (Address of principal executive offices)	15701 (zip code)
800-325-2265	

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, \$2.50 Par Value - 29,738,305 shares as of October 29, 2013

Table of Contents

INDEX

S&T BANCORP, INC. AND SUBSIDIARIES

	Page No.
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets – September 30, 2013 and December 31, 2012</u>	3
<u>Consolidated Statements of Comprehensive Income – Three and Nine Months Ended September 30, 2013 and 2012</u>	4
<u>Consolidated Statements of Changes in Shareholders' Equity – Nine Months Ended September 30, 2013 and 2012</u>	5
<u>Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2013 and 2012</u>	6
<u>Notes to Consolidated Financial Statements</u>	7-38
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39-57
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	57-58
Item 4. <u>Controls and Procedures</u>	58
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	59
Item 1A. <u>Risk Factors</u>	59
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
Item 3. <u>Defaults Upon Senior Securities</u>	59
Item 4. <u>Mine Safety Disclosures</u>	59
Item 5. <u>Other Information</u>	59
Item 6. <u>Exhibits</u>	59
<u>Signatures</u>	60

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

<i>(dollars in thousands, except share and per share data)</i>	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Cash and due from banks, including interest-bearing deposits of \$160,420 and \$257,116 at September 30, 2013 and December 31, 2012, respectively	\$ 234,928	\$ 337,711
Securities available-for-sale, at fair value	488,162	452,266
Loans held for sale	3,695	22,499
Portfolio loans, net of unearned income	3,511,335	3,346,622
Allowance for loan losses	(47,983)	(46,484)
Portfolio loans, net	3,463,352	3,300,138
Bank owned life insurance	60,001	58,619
Premises and equipment, net	37,792	38,676
Federal Home Loan Bank and other restricted stock, at cost	15,049	15,315
Goodwill	175,820	175,733
Other intangible assets, net	4,128	5,350
Other assets	105,201	120,395
Total Assets	\$ 4,588,128	\$ 4,526,702
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 974,262	\$ 960,980
Interest-bearing demand	324,291	316,760
Money market	308,445	361,233
Savings	1,039,115	965,571
Certificates of deposit	1,048,090	1,033,884
Total Deposits	3,694,203	3,638,428
Securities sold under repurchase agreements	33,290	62,582
Short-term borrowings	175,000	75,000
Long-term borrowings	22,390	34,101
Junior subordinated debt securities	45,619	90,619
Other liabilities	62,198	88,550
Total Liabilities	4,032,700	3,989,280
SHAREHOLDERS EQUITY		
Common stock (\$2.50 par value)	77,993	77,993
Authorized 50,000,000 shares		
Issued 31,197,365 shares at September 30, 2013 and December 31, 2012		

Edgar Filing: S&T BANCORP INC - Form 10-Q

Outstanding	29,738,305 shares at September 30, 2013 and 29,732,209 shares at December 31, 2012		
Additional paid-in capital		77,835	77,458
Retained earnings		461,044	436,039
Accumulated other comprehensive income (loss)		(21,168)	(13,582)
Treasury stock (1,459,060 shares at September 30, 2013 and 1,465,156 shares at December 31, 2012, at cost)		(40,276)	(40,486)
Total Shareholders Equity		555,428	537,422
Total Liabilities and Shareholders Equity		\$ 4,588,128	\$ 4,526,702

See Notes to Consolidated Financial Statements

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

<i>(dollars in thousands, except per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
INTEREST INCOME				
Loans, including fees	\$ 35,733	\$ 36,121	\$ 106,543	\$ 109,054
Investment securities:				
Taxable	1,889	1,829	5,631	5,660
Tax-exempt	865	788	2,513	2,319
Dividends	94	82	290	297
Total Interest Income	38,581	38,820	114,977	117,330
INTEREST EXPENSE				
Deposits	2,717	3,958	8,870	13,184
Borrowings and junior subordinated debt securities	590	1,067	2,568	3,211
Total Interest Expense	3,307	5,025	11,438	16,395
NET INTEREST INCOME	35,274	33,795	103,539	100,935
Provision for loan losses	3,419	2,305	6,749	18,600
Net Interest Income After Provision for Loan Losses	31,855	31,490	96,790	82,335
NONINTEREST INCOME				
Securities gains, net	3	2,170	5	3,016
Service charges on deposit accounts	2,801	2,567	7,744	7,407
Debit and credit card fees	2,764	2,966	8,365	8,472
Wealth management fees	2,747	2,397	8,143	7,393
Insurance fees	1,738	1,731	5,156	4,941
Mortgage banking	265	797	1,658	2,174
Gain on sale of merchant card servicing business			3,093	
Other	2,224	2,118	6,051	6,944
Total Noninterest Income	12,542	14,746	40,215	40,347
NONINTEREST EXPENSE				
Salaries and employee benefits	14,910	14,819	45,701	45,933
Data processing	2,137	2,012	6,938	7,448
Net occupancy	1,910	1,978	6,037	5,594
Furniture and equipment	1,084	1,414	3,623	3,861
Other taxes	1,039	982	2,953	2,533
Professional services and legal	996	1,440	3,141	4,548
FDIC insurance	629	838	2,112	2,164

Edgar Filing: S&T BANCORP INC - Form 10-Q

Marketing	607	759	2,088	2,156
Other	4,631	6,776	15,352	18,909
Total Noninterest Expense	27,943	31,018	87,945	93,146
Income Before Taxes	16,454	15,218	49,060	29,536
Provision for income taxes	4,207	2,623	10,380	4,861
Net Income	\$ 12,247	\$ 12,595	\$ 38,680	\$ 24,675
Earnings per share basic	\$ 0.41	\$ 0.43	\$ 1.30	\$ 0.85
Earnings per share diluted	\$ 0.41	\$ 0.43	\$ 1.30	\$ 0.85
Dividends declared per share	\$ 0.15	\$ 0.15	\$ 0.45	\$ 0.45
Comprehensive Income	\$ 12,874	\$ 14,514	\$ 31,094	\$ 27,313

See Notes to Consolidated Financial Statements

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY****(Unaudited)**

<i>(dollars in thousands, except share and per share data)</i>	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2012	\$ 74,285	\$ 52,637	\$ 421,468	\$ (14,108)	\$ (43,756)	\$ 490,526
Net income for nine months ended September 30, 2012			24,675			24,675
Other comprehensive income (loss), net of tax				2,638		2,638
Cash dividends declared (\$0.45 per share)			(12,897)			(12,897)
Common stock issued in acquisition (1,483,327 shares)	3,708	23,902				27,610
Treasury stock issued for restricted awards (122,879 shares, net of 3,863 forfeitures)			(2,310)		3,309	999
Recognition of restricted stock compensation expense		721				721
Tax expense from stock-based compensation		(30)				(30)
Balance at September 30, 2012	\$ 77,993	\$ 77,230	\$ 430,936	\$ (11,470)	\$ (40,447)	\$ 534,242
Balance at January 1, 2013	\$ 77,993	\$ 77,458	\$ 436,039	\$ (13,582)	\$ (40,486)	\$ 537,422
Net income for nine months ended September 30, 2013			38,680			38,680
Other comprehensive income (loss), net of tax				(7,586)		(7,586)
Cash dividends declared (\$0.45 per share)			(13,379)			(13,379)
Treasury stock issued for restricted awards (22,189 shares, net of 16,093 forfeitures)			(296)		210	(86)
Recognition of restricted stock compensation expense		424				424
Tax expense from stock-based compensation		(47)				(47)
Balance at September 30, 2013	\$ 77,993	\$ 77,835	\$ 461,044	\$ (21,168)	\$ (40,276)	\$ 555,428

See Notes to Consolidated Financial Statements

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

<i>(dollars in thousands)</i>	Nine Months Ended September 30,	
	2013	2012
OPERATING ACTIVITIES		
Net income	\$ 38,680	\$ 24,675
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	6,749	18,600
Provision for unfunded loan commitments	143	1,956
Depreciation and amortization	4,320	5,306
Net amortization of discounts and premiums	2,757	1,591
Stock-based compensation expense	508	683
Securities gains, net	(5)	(3,016)
Net gain on sale of merchant card servicing business	(3,093)	
Tax expense from stock-based compensation	47	30
Mortgage loans originated for sale	(55,702)	(62,920)
Proceeds from the sale of loans	77,540	63,661
Gain on the sale of loans, net	(776)	(1,079)
Net (increase) decrease in interest receivable	(21)	51
Net decrease in interest payable	(2,230)	(1,251)
Net decrease in other assets	21,543	10,677
Net (decrease) increase in other liabilities	(22,543)	19,537
Net Cash Provided by Operating Activities	67,917	78,501
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(102,419)	(118,857)
Proceeds from maturities, prepayments and calls of securities available-for-sale	50,177	79,122
Proceeds from sales of securities available-for-sale	94	66,575
Net proceeds from the redemption of Federal Home Loan Bank stock	265	3,557
Net (increase) decrease in loans	(177,433)	55,119
Purchases of premises and equipment	(2,599)	(1,779)
Proceeds from the sale of premises and equipment	625	142
Net cash acquired from bank acquisitions		18,639
Proceeds from the sale of merchant card servicing business	4,750	
Net Cash (Used in) Provided by Investing Activities	(226,540)	102,518
FINANCING ACTIVITIES		
Net increase in core deposits	41,570	119,088
Net increase (decrease) in certificates of deposit	13,785	(172,541)
Net (decrease) increase in securities sold under repurchase agreements	(29,292)	15,121
Net increase (decrease) in short-term borrowings	100,000	(50,000)
Proceeds from long-term borrowings		4,311
Repayments of long-term borrowings	(11,711)	(8,520)
Repayment of junior subordinated debt	(45,000)	
Purchase of treasury shares	(86)	(48)
Sale of treasury shares		1,047
Cash dividends paid to common shareholders	(13,379)	(12,897)
Tax expense from stock-based compensation	(47)	(30)

Net Cash Provided by (Used in) Financing Activities	55,840	(104,469)
Net (decrease) increase in cash and cash equivalents	(102,783)	76,550
Cash and cash equivalents at beginning of period	337,711	270,526

Cash and Cash Equivalents at End of Period	\$ 234,928	\$ 347,076
---	-------------------	-------------------

Supplemental Disclosures

Interest paid	\$ 13,668	\$ 17,575
Income taxes paid, net of refunds	8,130	1,394
Net assets (liabilities) from acquisitions, excluding cash and cash equivalents		(683)
Transfers to other real estate owned and other repossessed assets	\$ 493	\$ 864

See Notes to Consolidated Financial Statements

Table of Contents

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, 2012, filed with the Securities and Exchange Commission, or SEC, on February 25, 2013. 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

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

In February 2013, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU, No. 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income. ASU 2013-02 requires reporting the effect of significant reclassifications out of accumulated other comprehensive income by component on the respective line items in the income statement parenthetically or in the notes to the financial statements if the amounts being reclassified are required under GAAP to be reclassified in their entirety to net income. This ASU is effective for public companies prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2012 and early adoption is permitted. We have elected the option of reporting in the notes to the financial statements. The adoption of ASU 2013-02 impacted only our disclosures and did not have an impact on our results of operations or financial position.

Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities

In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities in order to clarify the scope of ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, issued in December 2011. ASU 2011-11 required entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This ASU was issued to allow investors to better

Edgar Filing: S&T BANCORP INC - Form 10-Q

compare financial statements prepared under GAAP with financial statements prepared under International Financial Reporting Standards, or IFRS. ASU 2013-01 clarified that ASU 2011-11 applies to derivatives, sale and repurchase agreements and reverse sale of repurchase agreements, and securities borrowing and securities lending arrangements, but does not apply to standard commercial contracts that permit either party to net in the event of default under the applicable contract or to broker-dealer unsettled regular-way trades. Both ASUs are effective for public companies retrospectively for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of ASU 2013-01 and ASU 2011-11 impacted only our disclosures and did not have an impact on our results of operations or financial position.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 1. BASIS OF PRESENTATION continued

Recently Issued Accounting Standards Updates not yet Adopted

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

In February 2013, the FASB issued ASU No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. The ASU requires the measurement of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors as well as any additional amount that the entity expects to pay on behalf of its co-obligors. The new standard is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2013, and early adoption is permitted. The adoption of this ASU is not expected to have a material impact on our results of operations or financial position.

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

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Tax Credit Carry forward Exists. The ASU requires that entities should present an unrecognized tax benefit as a reduction of the deferred tax asset for a net operating loss, or NOL, or similar tax loss or tax credit carry forward rather than as a liability when the uncertain tax position would reduce the NOL or other carry forward under the tax law. No new disclosures will be necessary. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this ASU is expected to impact the presentation of our statement of financial position, but is not expected to have any impact on our results of operations.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 2. EARNINGS PER SHARE**

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

<i>(dollars in thousands, except shares and per share data)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator for Earnings per Share Basic:				
Net income	\$ 12,247	\$ 12,595	\$ 38,680	\$ 24,675
Less: Income allocated to participating shares	33	50	114	107
Net Income Allocated to Shareholders	\$ 12,214	\$ 12,545	\$ 38,566	\$ 24,568
Numerator for Earnings per Share Diluted:				
Net income	\$ 12,247	\$ 12,595	\$ 38,680	\$ 24,675
Net Income Available to Shareholders	\$ 12,247	\$ 12,595	\$ 38,680	\$ 24,675
Denominators:				
Weighted Average Shares Outstanding Basic	29,658,065	29,244,588	29,644,646	28,740,582
Add: Dilutive potential shares	27,535	32,644	35,132	33,614
Denominator for Treasury Stock Method Diluted	29,685,600	29,277,232	29,679,778	28,774,196
Weighted Average Shares Outstanding Basic	29,658,065	29,244,588	29,644,646	28,740,582
Add: Average participating shares outstanding	80,240	116,402	87,725	125,240
Denominator for Two-Class Method Diluted	29,738,305	29,360,990	29,732,371	28,865,822
Earnings per share basic	\$ 0.41	\$ 0.43	\$ 1.30	\$ 0.85
Earnings per share diluted	\$ 0.41	\$ 0.43	\$ 1.30	\$ 0.85
Warrants considered anti-dilutive excluded from dilutive potential shares	517,012	517,012	517,012	517,012
Stock options considered anti-dilutive excluded from dilutive potential shares	612,768	748,964	632,481	751,492
Restricted stock considered anti-dilutive excluded from dilutive potential shares	52,705	48,717	52,593	56,585

NOTE 3. FAIR VALUE MEASUREMENTS

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.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

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

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

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

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

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

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

Recurring Basis

Securities Available-for-Sale

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

Derivative Financial Instruments

Edgar Filing: S&T BANCORP INC - Form 10-Q

We use derivative instruments including interest rate swaps for commercial loans with our customers and we sell mortgage loans in the secondary market and enter into interest rate lock commitments. We calculate the fair value for derivatives using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. Each valuation considers the contractual terms of the derivative, including the period to maturity and uses observable market based inputs, such as interest rate curves and implied volatilities. Accordingly, derivatives are classified as Level 2. We incorporate credit valuation adjustments into the valuation models to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in calculating fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements and collateral postings.

Nonrecurring Basis

Loans Held for Sale

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

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

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 are classified as Level 3.

Mortgage Servicing Rights

The fair value of MSR 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 within the fair value hierarchy.

Other Assets

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

Financial Instruments

In addition to financial instruments recorded at fair value in our financial statements, fair value accounting guidance requires disclosure of the fair value of all of an entity's assets and liabilities that are considered financial instruments. The majority of our assets and liabilities are considered financial instruments. Many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaged in an exchange transaction. Also, it is our general practice and intent to hold our financial instruments to maturity and to not engage in trading or sales activities with respect to such financial instruments. For fair value disclosure purposes, we substantially utilize the fair value measurement criteria as required and explained above. In cases where quoted fair values are not available, we use present value methods to determine the fair value of our financial instruments.

Cash and Cash Equivalents and Other Short-Term Assets

Edgar Filing: S&T BANCORP INC - Form 10-Q

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

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

Bank Owned Life Insurance

Fair value approximates net cash surrender value.

Deposits

The fair values disclosed for deposits without defined maturities (e.g., noninterest and interest-bearing demand, money market and savings accounts) are by definition equal to the amounts payable on demand. The carrying amounts for variable rate, fixed-term time deposits approximate their fair values. Estimated fair values for fixed rate and other time deposits are based on discounted cash flow analysis using interest rates currently offered for time deposits with similar terms. The carrying amount of accrued interest approximates fair value.

Short-Term Borrowings

The carrying amounts of securities sold under repurchase agreements, federal funds purchased and other short-term borrowings approximate their fair values.

Long-Term Borrowings

The fair values disclosed for fixed rate long-term borrowings are determined by discounting their contractual cash flows using current interest rates for long-term borrowings of similar remaining maturities. The carrying amounts of variable rate long-term borrowings approximate their fair values.

Junior Subordinated Debt Securities

The variable rate junior subordinated debt securities reprice quarterly; therefore, the fair values are based on the carrying values.

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.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 3. FAIR VALUE MEASUREMENTS continued**

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, 2013 and December 31, 2012. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

<i>(dollars in thousands)</i>	Level 1	September 30, 2013		Total
		Level 2	Level 3	
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	\$	\$ 237,398	\$	\$ 237,398
Collateralized mortgage obligations of U.S. government corporations and agencies		44,877		44,877
Residential mortgage-backed securities of U.S. government corporations and agencies		51,250		51,250
Commercial mortgage-backed securities of U.S. government corporations and agencies		30,680		30,680
Obligations of states and political subdivisions		114,817		114,817
Marketable equity securities	183	8,957		9,140
Total securities available-for-sale	183	487,979		488,162
Trading securities held in a Rabbi Trust	2,545			2,545
Total securities	2,728	487,979		490,707
Derivative financial assets:				
Interest rate swaps		16,084		16,084
Interest rate lock commitments		206		206
Total Assets	\$ 2,728	\$ 504,269	\$	\$ 506,997
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	\$	\$ 16,025	\$	\$ 16,025
Forward sale contracts		162		162
Total Liabilities	\$	\$ 16,187	\$	\$ 16,187

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 3. FAIR VALUE MEASUREMENTS continued**

<i>(dollars in thousands)</i>	December 31, 2012			Total
	Level 1	Level 2	Level 3	
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	\$	\$ 212,066	\$	\$ 212,066
Collateralized mortgage obligations of U.S. government corporations and agencies		57,896		57,896
Residential mortgage-backed securities of U.S. government corporations and agencies		50,623		50,623
Commercial mortgage-backed securities of U.S. government corporations and agencies		10,158		10,158
Obligations of states and political subdivisions		112,767		112,767
Marketable equity securities	140	8,316	300	8,756
Total securities available-for-sale	140	451,826	300	452,266
Trading securities held in a Rabbi Trust	2,223			2,223
Total securities	2,363	451,826	300	454,489
Derivative financial assets:				
Interest rate swaps		23,748		23,748
Interest rate lock commitments		467		467
Total Assets	\$ 2,363	\$ 476,041	\$ 300	\$ 478,704
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	\$	\$ 23,522	\$	\$ 23,522
Forward sale contracts		48		48
Total Liabilities	\$	\$ 23,570	\$	\$ 23,570

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

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$	\$ 556	\$ 300	\$ 462
Total gains included in other comprehensive income ⁽¹⁾		19	44	50
Net purchases, sales, issuances and settlements		(300)		(237)
Transfers out of Level 3			(344)	

Balance at end of period	\$	\$	275	\$	\$	275
---------------------------------	----	----	-----	----	----	-----

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

In the second quarter of 2013, \$0.3 million was transferred out of Level 3 into Level 2 as a result of a security becoming listed on a national exchange. There were no Level 3 liabilities measured at fair value on a recurring basis for any of the periods presented.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 3. FAIR VALUE MEASUREMENTS continued**

We may be required to measure certain assets and liabilities on a nonrecurring basis. The following table presents our assets that are measured at estimated fair value on a nonrecurring basis by the fair value hierarchy level at September 30, 2013 and December 31, 2012. There were no liabilities measured at estimated fair value on a nonrecurring basis during these periods. Loans held for sale are recorded at the lower of cost or fair value. We had no loans held for sale that were recorded at fair value at September 30, 2013 and December 31, 2012.

<i>(dollars in thousands)</i>	September 30, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								
Impaired loans	\$	\$	\$ 23,482	\$ 23,482	\$	\$	\$ 44,059	\$ 44,059
Other real estate owned			221	221			585	585
Mortgage servicing rights			2,960	2,960			2,106	2,106
Total Assets	\$	\$	\$ 26,663	\$ 26,663	\$	\$	\$ 46,750	\$ 46,750

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 3. FAIR VALUE MEASUREMENTS continued**

The carrying values and fair values of our financial instruments at September 30, 2013 and December 31, 2012 are presented in the following tables:

<i>(dollars in thousands)</i>	Carrying Value(1)	Fair Value Measurements at September 30, 2013			
		Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	\$ 234,928	\$ 234,928	\$ 234,928	\$	\$
Securities available-for-sale	488,162	488,162	183	487,979	
Loans held for sale	3,695	3,829			3,829
Portfolio loans, net of unearned income	3,511,335	3,479,150			3,479,150
Bank owned life insurance	60,001	60,001		60,001	
FHLB and other restricted stock	15,049	15,049			15,049
Trading securities held in a Rabbi Trust	2,545	2,545	2,545		
Mortgage servicing rights	2,820	2,960			2,960
Interest rate swaps	16,084	16,084		16,084	
Interest rate lock commitments	206	206		206	
LIABILITIES					
Deposits	\$ 3,694,203	\$ 3,696,214	\$	\$	\$ 3,696,214
Securities sold under repurchase agreements	33,290	33,290			33,290
Short-term borrowings	175,000	175,000			175,000
Long-term borrowings	22,390	23,718			23,718
Junior subordinated debt securities	45,619	45,619			45,619
Interest rate swaps	16,025	16,025		16,025	
Forward sale contracts	162	162		162	

(1) As reported in the Consolidated Balance Sheets

<i>(dollars in thousands)</i>	Carrying Value(1)	Fair Value Measurements at December 31, 2012			
		Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	\$ 337,711	\$ 337,711	\$ 337,711	\$	\$
Securities available-for-sale	452,266	452,266	140	451,826	300
Loans held for sale	22,499	22,601			22,601
Portfolio loans, net of unearned income	3,346,622	3,347,602			3,347,602
Bank owned life insurance	58,619	58,619		58,619	
FHLB and other restricted stock	15,315	15,315			15,315
Trading securities held in a Rabbi Trust	2,223	2,223	2,223		

Edgar Filing: S&T BANCORP INC - Form 10-Q

Mortgage servicing rights	2,106	2,106		2,106
Interest rate swaps	23,748	23,748	23,748	
Interest rate lock commitments	467	467	467	

LIABILITIES

Deposits	\$ 3,638,428	\$ 3,643,683	\$	\$	\$ 3,643,683
Securities sold under repurchase agreements	62,582	62,582			62,582
Short-term borrowings	75,000	75,000			75,000
Long-term borrowings	34,101	36,235			36,235
Junior subordinated debt securities	90,619	90,619			90,619
Interest rate swaps	23,522	23,522		23,522	
Forward sale contracts	48	48			48

⁽¹⁾ As reported in the Consolidated Balance Sheets

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 4. SECURITIES AVAILABLE-FOR-SALE**

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

<i>(dollars in thousands)</i>	September 30, 2013				December 31, 2012			
	Amortized	Unrealized	Unrealized	Fair	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value
Obligations of U.S. government corporations and agencies	\$ 236,739	\$ 2,614	\$ (1,955)	\$ 237,398	\$ 207,229	\$ 4,890	\$ (53)	\$ 212,066
Collateralized mortgage obligations of U.S. government corporations and agencies	44,474	607	(204)	44,877	56,085	1,811		57,896
Residential mortgage-backed securities of U.S. government corporations and agencies	50,021	1,759	(530)	51,250	47,279	3,344		50,623
Commercial mortgage-backed securities of U.S. government corporations and agencies	31,524		(844)	30,680	10,129	29		10,158
Obligations of states and political subdivisions	115,362	1,705	(2,250)	114,817	107,911	4,908	(52)	112,767
Debt Securities	478,120	6,685	(5,783)	479,022	428,633	14,982	(105)	443,510
Marketable equity securities	7,580	1,560		9,140	7,672	1,095	(11)	8,756
Total	\$ 485,700	\$ 8,245	\$ (5,783)	\$ 488,162	\$ 436,305	\$ 16,077	\$ (116)	\$ 452,266

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:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Gross realized gains	\$ 3	\$ 2,170	\$ 5	\$ 3,027
Gross realized losses				11
Net Realized Gains	\$ 3	\$ 2,170	\$ 5	\$ 3,016

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 4. SECURITIES AVAILABLE-FOR-SALE continued**

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

<i>(dollars in thousands)</i>	September 30, 2013					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	\$ 115,358	\$ (1,955)	\$	\$	\$ 115,358	\$ (1,955)
Collateralized mortgage obligations of U.S. government corporations and agencies	19,414	(204)			19,414	(204)
Residential mortgage-backed securities of U.S. government corporations and agencies	23,386	(530)			23,386	(530)
Commercial mortgage-backed securities of U.S. government corporations and agencies	30,680	(844)			30,680	(844)
Obligations of states and political subdivisions	55,690	(2,250)			55,690	(2,250)
Debt Securities	244,528	(5,783)			244,528	(5,783)
Marketable equity securities						
Total Temporarily Impaired Securities	\$ 244,528	\$ (5,783)	\$	\$	\$ 244,528	\$ (5,783)

<i>(dollars in thousands)</i>	December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	\$ 11,370	\$ (53)	\$	\$	\$ 11,370	\$ (53)
Collateralized mortgage obligations of U.S. government corporations and agencies						
Residential mortgage-backed securities of U.S. government corporations and agencies						
Commercial mortgage-backed securities of U.S. government corporations and agencies						
Obligations of states and political subdivisions	11,285	(52)			11,285	(52)
Debt Securities	22,655	(105)			22,655	(105)
Marketable equity securities	228	(11)			228	(11)

Edgar Filing: S&T BANCORP INC - Form 10-Q

Total Temporarily Impaired Securities	\$ 22,883	\$ (116)	\$	\$	\$ 22,883	\$ (116)
--	------------------	-----------------	-----------	-----------	------------------	-----------------

We do not believe any individual unrealized loss as of September 30, 2013 represents an other than temporary impairment, or OTTI. As of September 30, 2013, the unrealized losses on thirty-seven 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, 2013. We do not intend to sell and it is not likely 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.

Net unrealized gains of \$1.6 million and \$10.4 million were included in accumulated other comprehensive loss, net of tax, at September 30, 2013 and December 31, 2012. Gross unrealized gains of \$5.4 million and \$10.5 million, net of tax, were netted against gross unrealized losses of \$3.8 million and \$0.1 million, for these same periods. There were no unrealized losses reclassified into earnings to record OTTI during the period ended September 30, 2013 and minimal losses were reclassified into earnings to record OTTI during the period ended September 30, 2012.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 4. SECURITIES AVAILABLE-FOR-SALE continued**

The amortized cost and fair value of securities available-for-sale at September 30, 2013, by contractual maturity, are included in the table below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<i>(dollars in thousands)</i>	September 30, 2013	
	Amortized Cost	Fair Value
Obligations of U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	\$ 34,297	\$ 34,537
Due after one year through five years	154,121	156,195
Due after five years through ten years	77,405	76,221
Due after ten years	86,278	85,262
	352,101	352,215
Collateralized mortgage obligations of U.S. government corporations and agencies	44,474	44,877
Residential mortgage-backed securities of U.S. government corporations and agencies	50,021	51,250
Commercial Mortgage-backed securities of U.S. government corporations and agencies	31,524	30,680
Debt Securities	478,120	479,022
Marketable equity securities	7,580	9,140
Total	\$ 485,700	\$ 488,162

At September 30, 2013 and December 31, 2012, securities with carrying values of \$314.3 million and \$307.5 million were pledged for various regulatory and legal requirements.

NOTE 5. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of \$1.0 million and \$0.2 million at September 30, 2013 and December 31, 2012. The following table indicates the composition of the loans as of the dates presented:

<i>(dollars in thousands)</i>	September 30, 2013	December 31, 2012
Commercial		
Commercial real estate	\$ 1,567,814	\$ 1,452,133
Commercial and industrial	827,699	791,396

Edgar Filing: S&T BANCORP INC - Form 10-Q

Commercial construction	152,206	168,143
Total Commercial Loans	2,547,719	2,411,672
Consumer		
Residential mortgage	477,141	427,303
Home equity	413,097	431,335
Installment and other consumer	69,043	73,875
Consumer construction	4,335	2,437
Total Consumer Loans	963,616	934,950
Total Portfolio Loans	3,511,335	3,346,622
Loans held for sale	3,695	22,499
Total Loans	\$ 3,515,030	\$ 3,369,121

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 5. LOANS AND LOANS HELD FOR SALE continued**

We attempt to limit our exposure to credit risk by diversifying our loan portfolio 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 73 percent of total portfolio loans at September 30, 2013 and 72 percent of total portfolio loans at December 31, 2012. Within our commercial portfolio, the commercial real estate, or CRE, and commercial construction portfolios combined comprise 68 percent of total commercial loans and 49 percent of total portfolio loans at September 30, 2013 and 67 percent of total commercial loans and 48 percent of total portfolio loans at December 31, 2012. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type reveal no concentration in excess of nine percent of total loans at either September 30, 2013 or December 31, 2012. The majority of both commercial and consumer loans are made to businesses and individuals in Western Pennsylvania resulting in a geographic concentration. 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. Only the CRE and commercial construction portfolios combined have any significant out-of-state exposure with 22 percent of the combined portfolio and 11 percent of total loans being out-of-state loans at September 30, 2013 and 19 percent of the combined portfolio and 9 percent of total loans being out-of-state loans at December 31, 2012. Our CRE and commercial construction portfolios combined out-of-state exposure, excluding the contiguous states of Ohio, West Virginia, New York and Maryland, was 8.2 percent of the combined portfolio and 4.0 percent of total loans at September 30, 2013 and 8.4 percent of the combined portfolio and 4.1 percent of total loans at December 31, 2012. Management has the knowledge and experience in these markets which are identified as in market lending opportunities for our organization.

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 experienced a forbearance or change in terms agreement, as well as all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan to determine if they should be designated as TDRs. All TDRs are considered to be impaired loans and will be reported as impaired loans for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal and interest will be collected according to the restructured agreement. Further, all impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to 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, 2013			December 31, 2012		
	Accruing	Nonaccruing	Total	Accruing	Nonaccruing	Total
<i>(dollars in thousands)</i>	TDRs	TDRs	TDRs	TDRs	TDRs	TDRs

Edgar Filing: S&T BANCORP INC - Form 10-Q

Commercial real estate	\$ 15,619	\$ 7,150	\$ 22,769	\$ 14,220	\$ 9,584	\$ 23,804
Commercial and industrial	7,595	1,926	9,521	8,270	939	9,209
Commercial construction	5,574	9,652	15,226	11,734	5,324	17,058
Residential mortgage	2,689	1,054	3,743	3,078	2,752	5,830
Home equity	3,999	612	4,611	4,195	341	4,536
Installment and other consumer	148		148	24		24
Total	\$ 35,624	\$ 20,394	\$ 56,018	\$ 41,521	\$ 18,940	\$ 60,461

We returned three TDRs to accruing status during the three months ended September 30, 2013 totaling \$1.7 million and four TDRs totaling \$1.9 million to accruing status during the nine months ended September 30, 2013. We did not return any TDRs to accruing status during the three months or nine months ended September 30, 2012.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 5. LOANS AND LOANS HELD FOR SALE continued**

The following tables present the restructured loans for the three and nine month periods ended September 30, 2013 and September 30, 2012:

	Number of Loans	Three Months Ended September 30, 2013		Total Difference in Recorded Investment
		Pre-Modification Outstanding Recorded Investment ⁽¹⁾	Post-Modification Outstanding Recorded Investment ⁽¹⁾	
<i>(dollars in thousands)</i>				
Commercial real estate				
Interest rate reduction and maturity date extension	2	\$ 664	\$ 644	\$ (20)
Commercial and industrial				
Principal deferral	1	278	278	
Residential mortgage				
Interest rate reduction	1	54	54	
Home equity				
Chapter 7 bankruptcy ⁽²⁾	8	772	767	(5)
Installment and other consumer				
Chapter 7 bankruptcy ⁽²⁾	3	17	15	(2)
Total by Concession Type				
Principal deferral	1	278	278	
Interest rate reduction	1	54	54	
Interest rate reduction and maturity date extension	2	664	644	(20)
Chapter 7 bankruptcy ⁽²⁾	11	789	782	(7)
Total	15	\$ 1,785	\$ 1,758	\$ (27)

⁽¹⁾ Excludes loans that were fully paid off or fully charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.

⁽²⁾ Chapter 7 bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not reaffirmed.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 5. LOANS AND LOANS HELD FOR SALE continued**

	Number of Loans	Nine Months Ended September 30, 2013		Total Difference in Recorded Investment
		Pre-Modification	Post-Modification	
		Outstanding	Outstanding	
		Recorded Investment ⁽¹⁾	Recorded Investment ⁽¹⁾	
<i>(dollars in thousands)</i>				
Commercial real estate				
Principal deferral	3	\$ 1,541	\$ 1,288	\$ (253)
Interest rate reduction and maturity date extension	2	664	644	(20)
Principal forgiveness ⁽²⁾	1	4,339	4,339	
Chapter 7 bankruptcy ⁽³⁾	7	258	255	(3)
Commercial and industrial				
Principal deferral	2	670	665	(5)
Maturity date extension	1	751	751	
Chapter 7 bankruptcy ⁽³⁾	1	3	3	
Residential mortgage				
Principal deferral	2	153	153	
Interest rate reduction	1	54	54	
Chapter 7 bankruptcy ⁽³⁾	8	353	344	(9)
Home equity				
Principal deferral	1	174	45	(129)
Chapter 7 bankruptcy ⁽³⁾	31	1,420	1,407	(13)
Installment and other consumer				
Chapter 7 bankruptcy ⁽³⁾	9	90	88	(2)
Total by Concession Type				
Principal Deferral	8	2,538	2,151	(387)
Interest rate reduction	1	54	54	
Interest rate reduction and maturity date extension	2	664	644	(20)
Principal forgiveness ⁽²⁾	1	4,339	4,339	
Maturity date extension	1	751	751	
Chapter 7 bankruptcy ⁽³⁾	56	2,124	2,097	(27)
Total	69	\$ 10,470	\$ 10,036	\$ (434)

⁽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⁾ This loan had debt forgiveness of \$0.1 million to the customer; however, the loan was previously charged off to a balance below the actual contractual balance.

⁽³⁾ *Chapter 7 bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not reaffirmed.*

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 5. LOANS AND LOANS HELD FOR SALE continued**

<i>(dollars in thousands)</i>	Number of Loans	Three Months Ended September 30, 2012		Total Difference in Recorded Investment
		Pre-Modification	Post-Modification	
		Outstanding	Outstanding	
		Recorded Investment ⁽¹⁾	Recorded Investment ⁽¹⁾	
Commercial construction				
Maturity date extension	7	\$ 2,905	\$ 2,257	\$ (648)
Residential mortgage				
Maturity date extension	1	35	35	
Interest rate reduction	1	32	32	
Total by Concession Type				
Maturity date extension	8	2,940	2,292	(648)
Interest rate reduction	1	32	32	
Total	9	\$ 2,972	\$ 2,324	\$ (648)

⁽¹⁾ Excludes loans that were fully paid off or fully charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.

<i>(dollars in thousands)</i>	Number of Loans	Nine Months Ended September 30, 2012		Total Difference in Recorded Investment
		Pre-Modification	Post-Modification	
		Outstanding	Outstanding	
		Recorded Investment ⁽¹⁾	Recorded Investment ⁽¹⁾	
Commercial real estate				
Maturity date extension	1	\$ 160	\$ 157	\$ (3)
Interest rate reduction	1	575	565	(10)
Commercial and industrial				
Maturity date extension	2	2,576	2,430	(146)
Commercial construction				
Maturity date extension	7	2,905	2,257	(648)

Edgar Filing: S&T BANCORP INC - Form 10-Q

Residential mortgage				
Maturity date extension	1	475	460	(15)
Interest rate reduction	2	67	67	
Total by Concession Type				
Maturity date extension	11	6,116	5,304	(812)
Interest rate reduction	3	642	632	(10)
Total	14	\$ 6,758	\$ 5,936	\$ (822)

⁽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.

For the three months ended September 30, 2013, we modified three loans that were not considered to be TDRs, including two commercial and industrial, or C&I, loans totaling \$0.8 million and a \$0.9 million residential mortgage loan. For the nine months ended September 30, 2013, we modified eight loans that were not considered to be TDRs, including five C&I loans totaling \$6.1 million, two commercial construction loans totaling \$0.6 million and a \$0.9 million residential mortgage loan. Modifications primarily represented insignificant delays in the timing of payments, concessions where we were adequately compensated through principal pay downs, fees or additional collateral or we concluded that no concession was granted. As of September 30, 2013 we have no commitments to lend additional funds on any TDRs.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. 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 table is a summary of TDRs which defaulted during the three and nine month periods ended September 30, 2013 and 2012 that had been restructured within the last twelve months prior to defaulting:

	Defaulted TDRs							
	For the		For the		For the		For the	
	Three		Three		Nine		Nine	
	Months Ended		Months Ended		Months Ended		Months Ended	
September 30, 2013		September 30,		September 30, 2013		September 30, 2012		
Number of	Recorded	Number of	Recorded	Number of	Recorded	Number of	Recorded	
Defaults	Investment	Defaults	Investment	Defaults	Investment	Defaults	Investment	
<i>(dollars in thousands)</i>								
Commercial real estate	1	\$ 75	1	\$ 270	1	\$ 75	2	\$ 329
Commercial and Industrial	1	435			1	435		
Commercial construction							3	2,659
Residential real estate	4	450			7	514	3	2,359
Home equity	1	42			5	193		
Total	7	\$ 1,002	1	\$ 270	14	\$ 1,217	8	\$ 5,347

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

<i>(dollars in thousands)</i>	September 30, 2013	December 31, 2012
Nonperforming Assets		
Nonaccrual loans	\$ 16,005	\$ 36,018
Nonaccrual TDRs	20,394	18,940
Total nonaccrual loans	36,399	54,958
OREO	460	911
Total Nonperforming Assets	\$ 36,859	\$ 55,869

Edgar Filing: S&T BANCORP INC - Form 10-Q

OREO consists of 8 properties and is included in other assets in the Consolidated Balance Sheets. It is our policy to obtain OREO appraisals on an annual basis.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. 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 and first or second lien positions for consumer real estate loans. Historical loss rates are applied to these loan pools to determine the reserve for loans collectively evaluated for impairment. Management continuously 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.

We continuously monitor our ALL methodology to ensure that it is responsive to the current economic environment. Over the past year, the economic conditions within our markets have stabilized, and we have experienced significant improvement in our credit quality, including lower net charge-offs, lower delinquency, lower non-performing loans and lower special mention and substandard loans compared to December 31, 2012. Accordingly, the assumptions used within the ALL were reevaluated in the third quarter of 2013 to be responsive to the improved economic environment and the changes in our credit quality.

Edgar Filing: S&T BANCORP INC - Form 10-Q

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. Due to the recent improvement in economic conditions, we completed an internal study utilizing our loan charge-off history to recalibrate the LEPs of the commercial portfolio segments. Consistent with the improved economic conditions, the LEPs have lengthened, and as a result, we lengthened our LEP assumption for each of the commercial portfolio segments. We believe that the consumer portfolio segment LEPs have also lengthened as they are influenced by the same improvement in economic conditions that impacted the commercial portfolio segments. We therefore also lengthened the LEP assumption for the consumer portfolio segments in the third quarter of 2013.

The changes made to the ALL assumptions were applied prospectively and did not result in a material change to the total ALL at September 30, 2013. Lengthening the LEP does increase the historical loss rates and therefore the quantitative component of the ALL. We believe this makes the quantitative component of the ALL more reflective of inherent losses that exist within the loan portfolio, which resulted in a decrease in the qualitative component of the ALL. The changes to the LEPs also improved our insight into the inherent risk of the individual commercial portfolio segments. As the economic conditions have improved, our data indicates that the CRE segment has less inherent loss and that the C&I segment contains greater inherent loss. The ALL at September 30, 2013 reflects these changes within the CRE and C&I portfolio segments.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 6. 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, 2013 and December 31, 2012:

<i>(dollars in thousands)</i>	September 30, 2013					Total Past Due	Total Loans
	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual			
Commercial real estate	\$ 1,549,998	\$ 1,095	\$ 242	\$ 16,479	\$ 17,816	\$ 1,567,814	
Commercial and industrial	820,425	3,100	277	3,897	7,274	827,699	
Commercial construction	140,551	1,971		9,684	11,655	152,206	
Residential mortgage	471,639	715	1,766	3,021	5,502	477,141	
Home equity	407,072	2,291	443	3,291	6,025	413,097	
Installment and other consumer	68,740	221	55	27	303	69,043	
Consumer construction	4,335					4,335	
Totals	\$ 3,462,760	\$ 9,393	\$ 2,783	\$ 36,399	\$ 48,575	\$ 3,511,335	

<i>(dollars in thousands)</i>	December 31, 2012					Total Past Due	Total Loans
	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual			
Commercial real estate	\$ 1,418,934	\$ 2,230	\$ 413	\$ 30,556	\$ 33,199	\$ 1,452,133	
Commercial and industrial	780,315	4,409	237	6,435	11,081	791,396	
Commercial construction	150,823	10,542		6,778	17,320	168,143	
Residential mortgage	416,364	1,713	1,948	7,278	10,939	427,303	
Home equity	424,485	2,332	865	3,653	6,850	431,335	
Installment and other consumer	73,334	406	95	40	541	73,875	
Consumer construction	2,219			218	218	2,437	
Totals	\$ 3,266,474	\$ 21,632	\$ 3,558	\$ 54,958	\$ 80,148	\$ 3,346,622	

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 and 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.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 6. ALLOWANCE FOR LOAN LOSSES continued**

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

<i>(dollars in thousands)</i>			September 30, 2013				Total	% of Total
	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total		
Pass	\$ 1,458,589	93.0%	\$ 771,597	93.2%	\$ 119,120	78.3%	\$ 2,349,306	92.2%
Special mention	51,849	3.3%	34,238	4.1%	16,755	11.0%	102,842	4.0%
Substandard	57,376	3.7%	21,864	2.7%	16,331	10.7%	95,571	3.8%
Total	\$ 1,567,814	100.0%	\$ 827,699	100.0%	\$ 152,206	100.0%	\$ 2,547,719	100.0%

<i>(dollars in thousands)</i>			December 31, 2012				Total	% of Total
	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total		
Pass	\$ 1,265,810	87.2%	\$ 718,070	90.7%	\$ 118,841	70.7%	\$ 2,102,721	87.2%
Special mention	96,156	6.6%	42,016	5.3%	30,748	18.3%	168,920	7.0%
Substandard	90,167	6.2%	31,310	4.0%	18,554	11.0%	140,031	5.8%
Total	\$ 1,452,133	100.0%	\$ 791,396	100.0%	\$ 168,143	100.0%	\$ 2,411,672	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 indicate the recorded investment in consumer loan classes by performing and nonperforming status as of the dates presented:

<i>(dollars in thousands)</i>					September 30, 2013				Total	% of Total
	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total		
Performing	\$ 474,120	99.4%	\$ 409,806	99.2%	\$ 69,016	99.9%	\$ 4,335	100.0%	\$ 957,277	99.3%
Nonperforming	3,021	0.6%	3,291	0.8%	27	0.1%			6,339	0.7%

Edgar Filing: S&T BANCORP INC - Form 10-Q

Total	\$ 477,141	100.0%	\$ 413,097	100.0%	\$ 69,043	100.0%	\$ 4,335	100.0%	\$ 963,616	100.0%
--------------	-------------------	---------------	-------------------	---------------	------------------	---------------	-----------------	---------------	-------------------	---------------

<i>(dollars in thousands)</i>	December 31, 2012									
	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	\$ 420,025	98.3%	\$ 427,682	99.2%	\$ 73,835	99.9%	\$ 2,219	91.1%	\$ 923,761	98.8%
Nonperforming	7,278	1.7%	3,653	0.8%	40	0.1%	218	8.9%	11,189	1.2%
Total	\$ 427,303	100.0%	\$ 431,335	100.0%	\$ 73,875	100.0%	\$ 2,437	100.0%	\$ 934,950	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 are considered to be impaired

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 6. ALLOWANCE FOR LOAN LOSSES continued**

loans and 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.

The following table presents investments in loans considered to be impaired and related information on those impaired loans as of September 30, 2013 and December 31, 2012:

<i>(dollars in thousands)</i>	September 30, 2013			December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With a related allowance recorded:						
Commercial real estate	\$ 1,014	\$ 2,291	\$ 64	\$ 6,138	\$ 6,864	\$ 1,226
Commercial and industrial				1,864	2,790	1,002
Commercial construction	5,929	5,929	3,139	799	896	3
Consumer real estate	98	98	56			
Other consumer	34	34	19			
Total with a Related Allowance Recorded	7,075	8,352	3,278	8,801	10,550	2,231
Without a related allowance recorded:						
Commercial real estate	27,309	38,351		33,856	45,953	
Commercial and industrial	10,128	12,406		11,419	12,227	
Commercial construction	9,329	17,873		17,713	27,486	
Consumer real estate	8,256	9,267		10,827	12,025	
Other consumer	114	119		25	25	
Total without a Related Allowance Recorded	55,136	78,016		73,840	97,716	
Total:						
Commercial real estate	28,323	40,642	64	39,994	52,817	1,226
Commercial and industrial	10,128	12,406		13,283	15,017	1,002
Commercial construction	15,258	23,802	3,139	18,512	28,382	3
Consumer real estate	8,354	9,365	56	10,827	12,025	
Other consumer	148	153	19	25	25	
Total	\$ 62,211	\$ 86,368	\$ 3,278	\$ 82,641	\$ 108,266	\$ 2,231

Edgar Filing: S&T BANCORP INC - Form 10-Q

As of September 30, 2013, CRE loans of \$28.3 million comprised 46 percent of the total impaired loans of \$62.2 million. These impaired loans are collateralized primarily by commercial real estate properties such as retail or strip malls, office buildings and various other types of commercial purpose properties. These loans are generally considered collateral dependent and charge-offs are recorded when a confirmed loss exists. Approximately \$13.5 million of charge-offs have been recorded relating to these CRE loans over the life of these loans. It is our policy to order appraisals on an annual basis on impaired loans or sooner if facts and circumstances warrant. As of September 30, 2013, an estimated fair value less cost to sell of approximately \$41.6 million existed for CRE impaired loans. We have current appraisals on all but \$0.3 million of the \$28.3 million of impaired CRE loans.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 6. 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:

<i>(dollars in thousands)</i>	For the Three Months Ended			
	September 30, 2013		September 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:				
Commercial real estate	\$ 1,014	\$	\$ 6,430	\$ 15
Commercial and industrial			784	(9)
Commercial construction	5,929	49	4,236	19
Consumer real estate	100	2		
Other consumer	35	1		
Total with a Related Allowance Recorded	7,078	52	11,450	25
Without a related allowance recorded:				
Commercial real estate	27,489	271	38,962	268
Commercial and industrial	10,995	68	13,238	101
Commercial construction	9,768	46	23,349	113
Consumer real estate	8,349	114	5,729	9
Other consumer	119	1		
Total without a Related Allowance Recorded	56,720	500	81,278	491
Total:				
Commercial real estate	28,503	271	45,392	283
Commercial and industrial	10,995	68	14,022	92
Commercial construction	15,697	95	27,585	132
Consumer real estate	8,449	116	5,729	9
Other consumer	154	2		
Total	\$ 63,798	\$ 552	\$ 92,728	\$ 516

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 6. ALLOWANCE FOR LOAN LOSSES continued**

	For the Nine Months Ended			
	September 30, 2013		September 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>(dollars in thousands)</i>				
With a related allowance recorded:				
Commercial real estate	\$ 2,526	\$ 5	\$ 5,629	\$ 209
Commercial and industrial			1,813	
Commercial construction	1,976	49	5,661	49
Consumer real estate	62			
Other consumer	21	3		
Total with a Related Allowance Recorded	4,585	57	13,103	258
Without a related allowance recorded:				
Commercial real estate	29,951	330	43,332	915
Commercial and industrial	11,964	203	11,725	265
Commercial construction	14,492	271	22,926	450
Consumer real estate	8,912	693	6,489	70
Other consumer	110	4		
Total without a Related Allowance Recorded	65,429	1,501	84,472	1,700
Total:				
Commercial real estate	32,477	335	48,961	1,124
Commercial and industrial	11,964	203	13,538	265
Commercial construction	16,468	320	28,587	499
Consumer real estate	8,974	693	6,489	70
Other consumer	131	7		
Total	\$ 70,014	\$ 1,558	\$ 97,575	\$ 1,958

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 6. ALLOWANCE FOR LOAN LOSSES continued**

The following tables detail activity in the ALL for the periods presented:

Three Months Ended September 30, 2013

<i>(dollars in thousands)</i>	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$ 23,484	\$ 9,123	\$ 5,812	\$ 6,655	\$ 1,031	\$ 46,105
Charge-offs	(840)	(759)	(480)	(585)	(327)	(2,991)
Recoveries	617	167	481	122	63	1,450
Net (Charge-offs)/ Recoveries	(223)	(592)	1	(463)	(264)	(1,541)
Provision for loan losses	(5,572)	6,268	2,186	185	352	3,419
Balance at End of Period	\$ 17,689	\$ 14,799	\$ 7,999	\$ 6,377	\$ 1,119	\$ 47,983

Three Months Ended September 30, 2012

<i>(dollars in thousands)</i>	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$ 24,696	\$ 11,874	\$ 5,938	\$ 3,401	\$ 780	\$ 46,689
Charge-offs	(2,344)	(520)	(970)	(268)	(278)	(4,380)
Recoveries	570	609	395	18	73	1,665
Net (Charge-offs)/ Recoveries	(1,774)	89	(575)	(250)	(205)	(2,715)
Provision for loan losses	1,283	(3,216)	3,162	752	324	2,305
Balance at End of Period	\$ 24,205	\$ 8,747	\$ 8,525	\$ 3,903	\$ 899	\$ 46,279

Nine Months Ended September 30, 2013

<i>(dollars in thousands)</i>	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$ 25,246	\$ 7,759	\$ 7,500	\$ 5,058	\$ 921	\$ 46,484
Charge-offs	(3,649)	(2,682)	(923)	(1,822)	(978)	(10,054)

Edgar Filing: S&T BANCORP INC - Form 10-Q

Recoveries	2,939	457	536	630	242	4,804
Net (Charge-offs)/ Recoveries	(710)	(2,225)	(387)	(1,192)	(736)	(5,250)
Provision for loan losses	(6,847)	9,265	886	2,511	934	6,749
Balance at End of Period	\$ 17,689	\$ 14,799	\$ 7,999	\$ 6,377	\$ 1,119	\$ 47,983

Nine Months Ended September 30, 2012

<i>(dollars in thousands)</i>	Commercial	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
	Real Estate					
Balance at beginning of period	\$ 29,804	\$ 11,274	\$ 3,703	\$ 3,166	\$ 894	\$ 48,841
Charge-offs	(7,918)	(4,488)	(9,261)	(1,228)	(756)	(23,651)
Recoveries	748	857	494	127	263	2,489
Net (Charge-offs)/ Recoveries	(7,170)	(3,631)	(8,767)	(1,101)	(493)	(21,162)
Provision for loan losses	1,571	1,104	13,589	1,838	498	18,600
Balance at End of Period	\$ 24,205	\$ 8,747	\$ 8,525	\$ 3,903	\$ 899	\$ 46,279

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 6. ALLOWANCE FOR LOAN LOSSES continued**

The following tables present the ALL and recorded investments in loans by category as of September 30, 2013 and December 31, 2012:

<i>(dollars in thousands)</i>	September 30, 2013					
	Allowance for Loan Losses			Portfolio Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	\$ 64	\$ 17,625	\$ 17,689	\$ 28,323	\$ 1,539,491	\$ 1,567,814
Commercial and industrial		14,799	14,799	10,128	817,571	827,699
Commercial construction	3,139	4,860	7,999	15,258	136,948	152,206
Consumer real estate	56	6,321	6,377	8,354	886,219	894,573
Other consumer	19	1,100	1,119	148	68,895	69,043
Total	\$ 3,278	\$ 44,705	\$ 47,983	\$ 62,211	\$ 3,449,124	\$ 3,511,335

<i>(dollars in thousands)</i>	December 31, 2012					
	Allowance for Loan Losses			Portfolio Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	\$ 1,226	\$ 24,020	\$ 25,246	\$ 39,994	\$ 1,412,139	\$ 1,452,133
Commercial and industrial	1,002	6,757	7,759	13,283	778,113	791,396
Commercial construction	3	7,497	7,500	18,512	149,631	168,143
Consumer real estate		5,058	5,058	10,827	850,248	861,075
Other consumer		921	921	25	73,850	73,875
Total	\$ 2,231	\$ 44,253	\$ 46,484	\$ 82,641	\$ 3,263,981	\$ 3,346,622

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**Interest Rate Swaps**

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. In some cases, we utilize interest rate swaps for commercial loans. These derivative positions relate to transactions in which we enter into an interest rate swap with a 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 a 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 while we receive a variable yield. These agreements could have floors or caps on the contracted interest rates.

Edgar Filing: S&T BANCORP INC - Form 10-Q

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 swap transactions. Based upon our current positions and related future collateral requirements relating to them, we believe any effect on its cash flow or liquidity position to be immaterial.

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

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES continued****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 offer interest rate lock commitments to potential borrowers. Whenever a customer requests these products, a mortgage originator quotes a secondary market rate guaranteed for that day by the investor. 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. However, if the borrower accepts the guaranteed rate, we can encounter pricing risk 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. The rate lock is executed between the mortgagee and us, and generally these rate locks are bundled. A forward sale contract is then executed between us and the investor. Both the interest rate lock commitment bundle and the corresponding forward sale contract are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the 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.

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

<i>(dollars in thousands)</i>	Derivatives		Derivatives	
	(included in Other Assets)		(included in Other Liabilities)	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Derivatives not Designated as Hedging Instruments				
Interest Rate Swap Contracts Commercial Loans				
Fair value	\$ 16,084	\$ 23,748	\$ 16,025	\$ 23,522
Notional amount	257,678	227,532	257,678	227,532
Collateral posted			12,978	19,595
Interest Rate Lock Commitments Mortgage Loans				
Fair value	206	467		
Notional amount	4,670	14,287		
Forward Sale Contracts Mortgage Loans				
Fair value			162	48
Notional amount			7,425	14,100

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 derivative assets and derivative liabilities, the amounts offset, and the carrying values in the Consolidated Balance Sheets as of the dates presented:

Derivatives	Derivatives
-------------	-------------

Edgar Filing: S&T BANCORP INC - Form 10-Q

<i>(dollars in thousands)</i>	<i>(included in Other Assets)</i>		<i>(included in Other Liabilities)</i>	
	September 30, 2013	December 31, 2012	September 30, 2013	December 31, 2012
Derivatives not Designated as Hedging Instruments				
Gross amounts recognized	\$ 16,445	\$ 24,262	\$ 16,386	\$ 24,036
Gross amounts offset	(361)	(514)	(361)	(514)
Net amounts presented in the Consolidated Balance				
Sheets	16,084	23,748	16,025	23,522
Gross amounts not offset ⁽¹⁾			(12,978)	(19,595)
Net Amount	\$ 16,084	\$ 23,748	\$ 3,047	\$ 3,927

⁽¹⁾ Amounts represent posted collateral.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES continued**

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

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Derivatives not Designated as Hedging Instruments				
Interest rate swap contracts commercial loans	\$ (10)	\$ (19)	\$ (166)	\$ 164
Interest rate lock commitments mortgage loans	231	257	(261)	629
Forward sale contracts mortgage loans	(519)	(101)	(114)	(212)
Total Derivative (Loss) Gain	\$ (298)	\$ 137	\$ (541)	\$ 581

NOTE 8. BORROWINGS

Short-term borrowings are for terms under one year and were comprised of retail repurchase agreements, or REPOs, and Federal Home Loan Bank, or FHLB, advances. We define repurchase agreements with our local retail customers as retail REPOs. 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. FHLB advances are for various terms secured by a blanket lien on residential mortgages and other loans secured by real estate.

Long-term borrowings are for original terms greater than one year and are comprised of FHLB advances and junior subordinated debt securities. Long-term FHLB advances have the same collateral requirements as their short-term equivalents.

We had total long-term borrowings outstanding of \$19.1 million at a fixed rate and \$48.7 million at a variable rate at September 30, 2013, excluding a capital lease of \$0.2 million which is classified as long-term borrowings.

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

<i>(dollars in thousands)</i>	September 30, 2013		December 31, 2012	
	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Short-term borrowings				
Securities sold under repurchase agreements	\$ 33,290	0.01%	\$ 62,582	0.20%
Short-term borrowings	175,000	0.28%	75,000	0.19%
Total short-term borrowings	208,290	0.24%	137,582	0.19%
Long-term borrowings				

Edgar Filing: S&T BANCORP INC - Form 10-Q

Junior subordinated debt securities	45,619	2.71%	90,619	3.01%
Other long-term borrowings	22,390	3.01%	34,101	3.17%
Total long-term borrowings	68,009	2.81%	124,720	3.05%
Total Borrowings	\$ 276,299	0.87%	\$ 262,302	1.55%

We had total borrowings at September 30, 2013 and December 31, 2012 at the FHLB of Pittsburgh of \$197.2 million and \$108.9 million. This consisted of \$22.2 in long-term borrowings and \$175.0 in short-term borrowings at September 30, 2013. At September 30, 2013, we had a maximum borrowing capacity of \$1.5 billion with a remaining borrowing availability of \$1.3 billion with the FHLB of Pittsburgh.

NOTE 9. 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 their 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. Since many of the commitments are expected to

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 9. COMMITMENTS AND CONTINGENCIES continued**

expire without being drawn upon; the total commitment amounts do not necessarily represent future cash requirements. Our allowance for unfunded commitments totaled \$3.1 million at September 30, 2013 and \$3.0 million at December 31, 2012. The increase in the allowance for unfunded commitments is due to an increase in lending commitments. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets.

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:

<i>(dollars in thousands)</i>	September 30, 2013	December 31, 2012
Commitments to extend credit	\$ 1,042,572	\$ 874,137
Standby letters of credit	80,653	95,399
Total	\$ 1,123,225	\$ 969,536

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 will not have a material adverse effect on our consolidated financial position.

NOTE 10. OTHER COMPREHENSIVE INCOME

The following tables show the tax effects of the components of other comprehensive income for the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in unrealized gains/losses on securities available-for-sale	\$ 335	\$ (117)	\$ 218	\$ 4,373	\$ (1,530)	\$ 2,843
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income ⁽¹⁾	(3)	1	(2)	(2,170)	760	(1,410)
Adjustment to funded status of employee benefit plans	631	(220)	411	750	(264)	486

Other Comprehensive Income (Loss)	\$ 963	\$ (336)	\$ 627	\$ 2,953	\$ (1,034)	\$ 1,919
--	---------------	-----------------	---------------	-----------------	-------------------	-----------------

(1) Reclassification adjustments are comprised of realized security gains. The gains 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-net, the tax expense amount is included in the provision for income taxes and the net of tax amount is included in net income.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 10. OTHER COMPREHENSIVE INCOME continued**

<i>(dollars in thousands)</i>	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in unrealized gains/losses on securities available-for-sale	\$ (13,494)	\$ 4,723	\$ (8,771)	\$ 5,188	\$ (1,815)	\$ 3,373
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income ⁽¹⁾	(5)	2	(3)	(3,016)	1,056	(1,960)
Adjustment to funded status of employee benefit plans	1,827	(639)	1,188	1,887	(662)	1,225
Other Comprehensive Income (Loss)	\$ (11,672)	\$ 4,086	\$ (7,586)	\$ 4,059	\$ (1,421)	\$ 2,638

⁽¹⁾ Reclassification adjustments are comprised of realized security gains. The gains 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-net, the tax expense amount is included in the provision for income taxes and the net of tax amount is included in net income.

NOTE 11. EMPLOYEE BENEFITS

We maintain a defined benefit pension plan, or Plan, covering substantially 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 2013. We contributed \$3.1 million to the Plan in December 2012. The expected long-term rate of return on plan assets is 8.00 percent. For the current year there are no changes to the Plan.

The following table summarizes the components of net periodic pension cost and other changes in plan assets and benefit obligation recognized in other comprehensive gain/loss for the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Components of Net Periodic Pension Cost				
Service cost - benefits earned during the period	\$ 659	\$ 636	\$ 2,075	\$ 2,090
Interest cost on projected benefit obligation	997	1,117	2,989	3,269
Expected return on plan assets	(1,526)	(1,364)	(4,656)	(4,172)
Amortization of prior service cost (credit)	(34)	(34)	(102)	(99)
Recognized net actuarial loss	642	711	1,818	1,852
Net Periodic Pension Expense	\$ 738	\$ 1,066	\$ 2,124	\$ 2,940

NOTE 12. SEGMENTS

We manage three reportable operating segments including Community Banking, Insurance and Wealth Management.

Our Community Banking segment offers services which include accepting time and demand deposit accounts, 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 discount brokerage services, services as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisor that manages private investment accounts for individuals and institutions.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 12. SEGMENTS continued**

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

<i>(dollars in thousands)</i>	September 30, 2013	December 31, 2012
Community Banking	\$ 4,579,528	\$ 4,518,799
Insurance	7,358	6,697
Wealth Management	1,242	1,206
Total Assets	\$ 4,588,128	\$ 4,526,702

The following tables provide financial information for our three segments for the three and nine month periods ended September 30, 2013 and 2012. The financial results of the business segments include allocations for shared services based on an internal analysis that supports line of business performance measurement. Shared services include expenses such as employee benefits, occupancy expense, computer support and corporate overhead. Even with these allocations, the financial results are not necessarily indicative of the business segments' financial condition and results of operations 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.

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2013				Consolidated
	Community Banking	Insurance	Wealth Management	Eliminations	
Interest income	\$ 38,540	\$	\$ 137	\$ (96)	\$ 38,581
Interest expense	3,949			(642)	3,307
Net interest income (expense)	34,591		137	546	35,274
Provision for loan losses	3,419				3,419
Noninterest income	8,321	1,459	2,744	18	12,542
Noninterest expense	22,252	1,357	2,379	741	26,729
Depreciation expense	816	12	7		835
Amortization of intangible assets	355	13	11		379
Provision (benefit) for income taxes	4,179	27	178	(177)	4,207
Net Income	\$ 11,891	\$ 50	\$ 306	\$	\$ 12,247

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2012		Consolidated
	Insurance	Eliminations	

Edgar Filing: S&T BANCORP INC - Form 10-Q

	Community Banking		Wealth Management		
Interest income	\$ 38,715	\$	\$ 119	\$	\$ 38,820
Interest expense	5,340			(315)	5,025
Net interest income (expense)	33,375		119	301	33,795
Provision for loan losses	2,305				2,305
Noninterest income	10,731	1,481	2,394	140	14,746
Noninterest expense	24,586	1,398	2,401	1,228	29,613
Depreciation expense	968	12	8		988
Amortization of intangible assets	391	13	13		417
Provision (benefit) for income taxes	3,333	21	56	(787)	2,623
Net Income	\$ 12,523	\$	37	\$	\$ 12,595

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****NOTE 12. SEGMENTS continued**

<i>(dollars in thousands)</i>	Nine Months Ended September 30, 2013				Consolidated
	Community Banking	Insurance	Management	Eliminations	
Interest income	\$ 114,733	\$ 1	\$ 411	\$ (168)	\$ 114,977
Interest expense	13,403			(1,965)	11,438
Net interest income (expense)	101,330	1	411	1,797	103,539
Provision for loan losses	6,749				6,749
Noninterest income	27,144	4,406	8,130	535	40,215
Noninterest expense	68,680	3,910	7,257	4,208	84,055
Depreciation expense	2,609	35	23		2,667
Amortization of intangible assets	1,148	38	37		1,223
Provision (benefit) for income taxes	11,617	148	491	(1,876)	10,380
Net Income	\$ 37,671	\$ 276	\$ 733	\$	\$ 38,680

<i>(dollars in thousands)</i>	Nine Months Ended September 30, 2012				Consolidated
	Community Banking	Insurance	Management	Eliminations	
Interest income	\$ 116,968	\$ 1	\$ 325	\$ 36	\$ 117,330
Interest expense	17,244			(849)	16,395
Net interest income (expense)	99,724	1	325	885	100,935
Provision for loan losses	18,600				18,600
Noninterest income	28,230	4,196	7,375	546	40,347
Noninterest expense	73,850	4,119	7,037	3,917	88,923
Depreciation expense	2,887	37	23		2,947
Amortization of intangible assets	1,193	39	44		1,276
Provision (benefit) for income taxes	7,057	1	289	(2,486)	4,861
Net Income	\$ 24,367	\$ 1	\$ 307	\$	\$ 24,675

NOTE 13. SALE OF MERCHANT CARD SERVICING BUSINESS

Edgar Filing: S&T BANCORP INC - Form 10-Q

We sold our merchant card servicing business for \$4.8 million during the first quarter of 2013. Consequently, we terminated an agreement with our existing merchant processor and incurred deconversion and termination fees of \$1.7 million. As a result of this transaction, we recognized a gain of \$3.1 million in the first quarter of 2013. In conjunction with the sale of the merchant card servicing business, we entered into a marketing and sales alliance agreement with the purchaser for an initial term of ten years. The agreement provides that we will actively market and refer our customers to the purchaser and in return will receive a share of the future revenue. Future revenue is dependent on the number of referrals, number of new merchant accounts and volume of activity.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

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

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, represents an overview of our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations as of and for the three and nine month periods ended September 30, 2013 and 2012. Our MD&A should be read in conjunction with our Consolidated Financial Statements and notes thereto. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

Important Note Regarding Forward-Looking Statements

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

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

Future Factors include:

- changes in interest rates, spreads on interest-earning assets and interest-bearing liabilities, the shape of the yield curve and interest rate sensitivity;
- a prolonged period of low interest rates;
- a rapid increase in interest rates;
- credit losses;
- an interruption or breach in security of our information systems;
- rapid technological developments and changes;
- access to capital in the amounts, at the times and on the terms required to support our future businesses;
- legislation affecting the financial services industry as a whole, and/or S&T Bancorp, Inc., or S&T, in particular, including the effects of the Dodd-Frank Act;
- regulatory supervision and oversight, including Basel III required capital levels, and public policy changes, including environmental regulations;
- increasing price and product/service competition, including new entrants;
- the ability to continue to introduce competitive new products and services on a timely, cost-effective basis;
- deterioration of the housing market and reduced demand for mortgages;
- containing costs and expenses;
- reliance on significant customer relationships;
- the outcome of pending and future litigation and governmental proceedings;
- managing our internal growth and acquisitions;
- the possibility that the anticipated benefits from our acquisitions cannot be fully realized in a timely manner or at all, or that integrating future acquired operations will be more difficult, disruptive or costly than anticipated;
- general economic or business conditions, either nationally or regionally in western Pennsylvania and northeast Ohio, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other services;
- a deterioration in the overall macroeconomic conditions or the state of the banking industry may warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income; and

Edgar Filing: S&T BANCORP INC - Form 10-Q

a reemergence of turbulence in significant portions of the global financial and real estate markets could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities and indirectly, by affecting the economy generally.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

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

These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general economic conditions, including interest rate fluctuations and other Future Factors.

Critical Accounting Policies and Estimates

Our critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of September 30, 2013 have remained unchanged from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2012 under the section Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are a bank holding company headquartered in Indiana, Pennsylvania with assets of \$4.6 billion at September 30, 2013. We provide a full range of financial services through offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, Washington and Westmoreland counties of Pennsylvania and one loan production office, or LPO, in northeast Ohio. We provide full service retail and commercial banking products as well as cash management services, insurance, estate planning and administration, employee benefit plan investment management and administration, corporate services and other fiduciary services. Our common stock trades on the NASDAQ Global Select Market under the symbol STBA.

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

Our mission is to become the financial services provider of choice within the markets that we serve. We plan to do this by delivering exceptional service and value, one customer at a time. Our strategic plan focuses on growth through expansion, acquisition and organic growth. Our strategic plan includes a collaborative model that combines expertise from all of our business segments and focuses on satisfying each customer's individual financial objectives.

During the nine months ended September 30, 2013, we successfully executed on our key strategic initiatives of loan growth and improving asset quality. Loan growth was strong in the first nine months of 2013 with portfolio loans increasing \$164.7 million, or 4.9 percent, compared to December 31, 2012. This growth was primarily in our commercial real estate, or CRE, commercial and industrial, or C&I, and residential mortgage loan portfolios. Asset quality improved during the first nine months of 2013 with nonperforming assets, or NPAs, decreasing \$19.0 million, or 34 percent compared to December 31, 2012.

During the nine months ended September 30, 2013, we repaid \$45.0 million of subordinated debt due to its diminishing regulatory capital benefit and the future positive impact on net interest income. Our total risk-based capital ratio decreased by 112 basis points to 14.27 percent at September 30, 2013 from 15.39 percent at December 31, 2012, due primarily to the repayment of subordinated debt. Our other capital ratios improved and all remain significantly above the well capitalized thresholds of federal bank regulatory agencies, with a leverage ratio of 9.61 percent and a tier 1 risk-based capital ratio of 12.26 percent at September 30, 2013.

Our focus throughout the remainder of 2013 will be on loan growth to increase our net interest income, implementing opportunities to increase fee income, improving asset quality and closely monitoring operating expenses. We strive to be well positioned for changes in both the economy and interest rates, regardless of the timing or direction of these changes. Management regularly assesses our balance sheet, capital, liquidity and operational infrastructure in order to be positioned to take advantage of internal or acquisition growth opportunities.

Earnings Summary

Edgar Filing: S&T BANCORP INC - Form 10-Q

Net income for the three months ended September 30, 2013 was \$12.2 million, or diluted earnings per share of \$0.41, compared to \$12.6 million, or \$0.43, for the same period in 2012. Net income for the nine months ended September 30, 2013 was \$38.7 million, or diluted earnings per share of \$1.30, compared to \$24.7 million, or \$0.85, for the same period in 2012.

Net interest income increased \$1.5 million, or 4.4 percent, and \$2.6 million, or 2.6 percent, for the three and nine month periods ended September 30, 2013 compared to the same periods in 2012. The increase in net interest income for the three and nine month periods ended September 30, 2013 is mainly due to interest earning asset growth. Total average interest earning assets increased \$179.8 million, or 4.5 percent, and \$215.8 million, or 5.6 percent, for the three and nine month periods ended September 30, 2013 compared to the same periods in the prior year. The increase was driven by higher average loans which is due to our two acquisitions in 2012 and organic loan growth.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

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

The provision for loan losses increased \$1.1 million for the three month period ended September 30, 2013 and decreased \$11.9 million for the nine month period ended September 30, 2013 compared to the same periods in 2012. The \$1.1 million increase in provision for loan losses is due to an increase in specific reserves in the third quarter of 2013, primarily related to a \$3.1 million specific reserve on a commercial construction loan. The decrease in the provision for loan losses for the nine month period is a result of the improving economic conditions which have positively impacted our asset quality metrics in all categories, including decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio. Net loan charge-offs decreased \$1.2 million for the three months ended September 30, 2013 and \$15.9 million for the nine months ended September 30, 2013 compared to the same periods in 2012. Total special mention and substandard loans have decreased 34 percent over the last twelve months to \$222.3 million at September 30, 2013.

Total noninterest income decreased \$2.2 million to \$12.5 million for the three month period ended September 30, 2013 and \$0.1 million to \$40.2 million for the nine month period ended September 30, 2013 compared to the same periods in 2012. The decreases for both periods are in gains on the sale of securities, mortgage banking and debit and credit card fees. Almost all other categories of noninterest income increased for the three and nine month periods ended September 30, 2013 compared to the same periods in the prior year. The sale of our merchant card servicing business in the first quarter of 2013 resulted in a net gain of \$3.1 million.

Total noninterest expenses decreased \$3.1 million to \$27.9 million for the three month period and \$5.2 million to \$87.9 million for the nine month period ended September 30, 2013 compared to the same periods in 2012. The decrease in noninterest expense was primarily due to decreases in merger related expenses of \$0.8 million and \$4.4 million in the three and nine month periods ended September 30, 2013 compared to the same periods in 2012. Other noninterest expense decreased \$2.1 million and \$3.4 million for the three and nine month periods ended September 30, 2013. The decrease primarily relates to a decline in the reserve for unfunded loan commitments of \$1.2 million and \$1.8 million for the three and nine months ended September 30, 2013. Adding to the decline in other noninterest expense was a reversal of a contingent liability of an Internal Revenue Service, or IRS, proposed penalty for tax year 2010. The contingent liability was assumed with the acquisition of Mainline Bancorp in 2012 and was reversed when we received notice during the current period that the IRS had waived the \$0.5 million penalty.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with GAAP, management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent, or FTE, basis and operating revenue. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance and its business and performance trends as they facilitate comparisons with the performance of others in the financial services industry. Although management believes that these non-GAAP financial measures enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP.

We believe the presentation of net interest income on a FTE basis ensures the comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Consolidated Statements of Comprehensive Income is reconciled to net interest income adjusted to a FTE basis in the next section for the three and nine months ended September 30, 2013 and 2012.

Operating revenue is the sum of net interest income and noninterest income less non-recurring income and expenses. In order to understand the significance of net interest income to our business and operating results, we believe it is appropriate to evaluate the significance of net interest income as a component of operating revenue.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**RESULTS OF OPERATIONS****Three and Nine Months Ended September 30, 2013 Compared to****Three and Nine Months Ended September 30, 2012****Net Interest Income**

Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 74 percent of operating revenue (net interest income plus noninterest income, excluding non-recurring income and expenses) for both the three and nine month periods ended September 30, 2013 and 73 percent of operating revenue for both the three and nine month periods ended September 30, 2012. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our Asset and Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to maintain an acceptable net interest margin on interest-earning assets given the challenges of the current interest rate environment.

The interest income on interest-earning assets and the net interest margin are presented on a FTE basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and securities using the federal statutory tax rate of 35 percent for each period and the dividend-received deduction for equity securities. We believe this measure to be the preferred industry measurement of net interest income that provides a relevant comparison between taxable and non-taxable amounts.

The following table reconciles interest income and interest rates per the Consolidated Statements of Comprehensive Income to net interest income and rates adjusted to a FTE basis for the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total interest income	\$ 38,581	\$ 38,820	\$ 114,977	\$ 117,330
Total interest expense	3,307	5,025	11,438	16,395
Net interest income per consolidated statements of comprehensive income	35,274	33,795	103,539	100,935
Adjustment to FTE basis	1,229	1,119	3,570	3,378
Net Interest Income (FTE) (non-GAAP)	\$ 36,503	\$ 34,914	\$ 107,109	\$ 104,313
Net interest margin	3.38%	3.38%	3.38%	3.47%
Adjustment to FTE basis	0.12	0.12	0.12	0.11
Net Interest Margin (FTE) (non-GAAP)	3.50%	3.50%	3.50%	3.58%

Income amounts are annualized for rate calculations.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**Average Balance Sheet and Net Interest Income Analysis**

The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the periods presented:

<i>(dollars in thousands)</i>	Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Balance	Interest	Rate	Balance	Interest	Rate
ASSETS						
Loans ^{(1) (2)}	\$ 3,476,914	\$ 36,461	4.16%	\$ 3,226,219	\$ 36,783	4.52%
Interest-bearing deposits with banks	162,381	110	0.27%	329,985	229	0.28%
Taxable investment securities ⁽³⁾	378,678	1,879	1.98%	289,519	1,709	2.36%
Tax-exempt investment securities ⁽²⁾	108,982	1,331	4.88%	97,624	1,213	4.97%
Federal Home Loan Bank and other restricted stock	13,910	29	0.83%	17,738	5	0.10%
Total Interest-earning Assets	4,140,865	39,810	3.82%	3,961,085	39,939	4.00%
Noninterest-earning assets	391,001			411,528		
Total Assets	\$ 4,531,866			\$ 4,372,613		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing demand	\$ 311,369	\$ 19	0.02%	\$ 314,013	\$ 30	0.04%
Money market	323,671	111	0.14%	321,312	138	0.17%
Savings	1,019,647	396	0.15%	931,680	663	0.28%
Certificates of deposit	1,050,954	2,191	0.83%	1,079,894	3,127	1.15%
Total Interest-bearing deposits	2,705,641	2,717	0.40%	2,646,899	3,958	0.60%
Securities sold under repurchase agreements	59,390	14	0.09%	54,090	25	0.18%
Short-term borrowings	127,174	91	0.28%	40,699	30	0.29%
Long-term borrowings	22,625	172	3.01%	34,892	280	3.18%
Junior subordinated debt securities	45,619	313	2.72%	90,619	732	3.20%
Total Interest-bearing Liabilities	2,960,449	3,307	0.44%	2,867,199	5,025	0.70%
Noninterest-bearing liabilities:						
Demand deposits	955,337			903,949		
Other liabilities	67,639			77,354		
Shareholders' equity	548,441			524,111		
Total Liabilities and Shareholders' Equity	\$ 4,531,866			\$ 4,372,613		

Edgar Filing: S&T BANCORP INC - Form 10-Q

Net Interest Income ^{(2) (3)}	\$ 36,503	\$ 34,914
Net Interest Margin ^{(2) (3)}	3.50%	3.50%

⁽¹⁾ Nonaccruing loans are included in the daily average loan amounts outstanding.

⁽²⁾ Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2013 and 2012.

⁽³⁾ Taxable investment income is adjusted for the dividend-received deduction for equity securities.

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

<i>(dollars in thousands)</i>	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012		
	Balance	Interest	Rate	Balance	Interest	Rate
ASSETS						
Loans ^{(1) (2)}	\$ 3,418,571	\$ 108,651	4.25%	\$ 3,188,500	\$ 111,071	4.64%
Interest-bearing deposits with banks	186,248	363	0.26%	297,410	526	0.24%
Taxable investment securities ⁽³⁾	366,025	5,609	2.04%	280,781	5,524	2.62%
Tax-exempt investment securities ⁽²⁾	108,556	3,867	4.75%	91,930	3,568	5.18%
Federal Home Loan Bank and other restricted stock	13,582	57	0.56%	18,584	19	0.14%
Total Interest-earning Assets	4,092,982	118,547	3.87%	3,877,205	120,708	4.15%
Noninterest-earning assets	397,563			403,034		
Total Assets	\$ 4,490,545			\$ 4,280,239		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing demand	\$ 308,335	\$ 56	0.02%	\$ 303,550	\$ 122	0.05%
Money market	329,830	348	0.14%	299,242	386	0.17%
Savings	998,410	1,342	0.18%	883,629	1,744	0.26%
Certificates of deposit	1,047,351	7,124	0.91%	1,119,692	10,932	1.30%
Total Interest-bearing deposits	2,683,926	8,870	0.44%	2,606,113	13,184	0.67%
Securities sold under repurchase agreements	63,382	61	0.13%	47,377	58	0.16%
Short-term borrowings	86,813	169	0.26%	62,315	122	0.26%
Long-term borrowings	25,077	580	3.09%	33,678	830	3.28%
Junior subordinated debt securities	72,853	1,758	3.23%	90,619	2,201	3.24%
Total Interest-bearing Liabilities	2,932,051	11,438	0.52%	2,840,102	16,395	0.77%
Noninterest-bearing liabilities:						
Demand deposits	942,610			859,446		
Other liabilities	70,829			70,732		
Shareholders' equity/other	545,055			509,959		
Total Liabilities and Shareholders' Equity	\$ 4,490,545			\$ 4,280,239		
Net Interest Income ^{(2) (3)}	\$ 107,109			\$ 104,313		
Net Interest Margin ^{(2) (3)}	3.50%			3.58%		

⁽¹⁾ Nonaccruing loans are included in the daily average loan amounts outstanding.

⁽²⁾ Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2013 and 2012.

Edgar Filing: S&T BANCORP INC - Form 10-Q

⁽³⁾ *Taxable investment income is adjusted for the dividend-received deduction for equity securities.*

Net interest income on a FTE basis increased \$1.6 million, or 4.6 percent, for the three months ended September 30, 2013 and \$2.8 million, or 2.7 percent, for the nine months ended September 30, 2013 compared to the same periods in 2012. The net interest margin on a FTE basis was unchanged for the three months ended September 30, 2013 and 2012 and declined 8 basis points for the nine months ended September 30, 2013 compared to the same period in 2012. The increase in net interest income is mainly due to interest earning asset growth.

Interest income on a FTE basis decreased \$0.1 million and \$2.2 million to \$39.8 million and \$118.5 million for the three and nine months ended September 30, 2013 compared to \$39.9 million and \$120.7 million for the same periods in 2012. The decrease in interest income is primarily driven by declining loan rates with a 36 basis point decrease for the three months ended September 30, 2013 and a 39 basis point decrease for the nine months ended September 30, 2013 compared to the same periods in 2012. The impact of lower loan rates on interest income was mitigated by an increase in average loan balances of \$250.7 million, or 7.8 percent, for the three months ended September 30, 2013 and an increase in average loan balances of \$230.1 million, or 7.2 percent, for the nine months ended September 30, 2013 compared to the three and nine months ended September 30, 2012. Average loan balances increased as a result of the effect of our two acquisitions that occurred in 2012 and organic loan growth, primarily in our commercial loan portfolio. Average securities increased \$100.5 million and \$101.9 million, while the average rates on securities decreased 39 basis points and

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

59 basis points for the three and nine months ended September 30, 2013 compared to the same periods in 2012. The increased securities balance is a result of investing interest bearing balances with the Federal Reserve into higher rate investment securities. The rate on investment securities has decreased as a result of reinvestment of funds into lower yielding securities. Overall, the FTE rate on total interest-earning assets decreased 18 basis points to 3.82 percent for the three months ended September 30, 2013 and decreased 28 basis points to 3.87 percent for the nine months ended September 30, 2013 as compared to 4.00 percent and 4.15 percent for the same periods in 2012.

Interest expense decreased \$1.7 million to \$3.3 million for the three months ended September 30, 2013 compared to \$5.0 million for the three months ended September 30, 2012 and decreased \$5.0 million to \$11.4 million for the nine months ended September 30, 2013 compared to \$16.4 million for the nine months ended September 30, 2012. The decrease in interest expense was primarily due to the replacement of higher rate CD maturities with lower costing deposits and borrowings. Average CDs decreased by \$28.9 million and \$72.3 million for the three and nine month periods ended September 30, 2013 and the average of other interest-bearing deposits increased by \$87.7 million and \$150.2 million for the same periods. Average savings deposits increased \$88.0 million and \$114.8 million with a decline in the average interest rate of 13 and 8 basis points for the three and nine month periods ended September 30, 2013. The cost of total interest-bearing deposits was 0.40 percent and 0.44 percent for the three and nine month periods ended September 30, 2013, a decrease of 20 basis points and 23 basis points from the three month and nine month periods ended September 30, 2012. Interest expense on average borrowings also decreased over both the three and nine month periods ended September 30, 2013 compared to the same periods in 2012, by \$0.5 million and \$0.6 million. The decrease is a result of lower costing funds utilized to replace \$10 million of long-term borrowings that matured in the first quarter of 2013 and the redemption of \$45 million of subordinated debt during the second quarter of 2013. Overall, the cost of interest-bearing liabilities decreased 26 basis points to 0.44 percent and 25 basis points to 0.52 percent for the three and nine month periods ended September 30, 2013 compared to 0.70 percent and 0.77 percent for the three and nine month periods ended September 30, 2012.

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

	Three Months Ended September 30, 2013			Nine Months Ended September 30, 2013		
	Compared to September 30, 2012 ⁽²⁾ Volume	Rate	Net	Compared to September 30, 2012 ⁽²⁾ Volume	Rate	Net
<i>(dollars in thousands)</i>						
Interest earned on:						
Loans ^{(1) (2)}	\$ 2,859	\$ (3,181)	\$ (322)	\$ 8,015	\$ (10,435)	\$ (2,420)
Interest-bearing deposits with banks	(117)	(2)	(119)	(197)	34	(163)
Taxable investment securities ⁽³⁾	527	(357)	170	1,676	(1,591)	85
Tax-exempt investment securities ⁽²⁾	141	(23)	118	646	(347)	299
Federal Home Loan Bank and other restricted stock	(1)	25	24	(5)	43	38
Total Interest-earning Assets	3,409	(3,538)	(129)	10,135	(12,296)	(2,161)
Interest paid on:						
Interest-bearing demand		(11)	(11)	2	(68)	(66)
Money market	1	(28)	(27)	39	(77)	(38)
Savings	63	(330)	(267)	226	(628)	(402)
Certificates of deposit	(84)	(852)	(936)	(706)	(3,102)	(3,808)
Securities sold under repurchase agreements	2	(13)	(11)	20	(17)	3

Edgar Filing: S&T BANCORP INC - Form 10-Q

Short-term borrowings	64	(3)	61	47		47
Long-term borrowings	(98)	(10)	(108)	(211)	(39)	(250)
Junior subordinated debt securities	(364)	(55)	(419)	(431)	(12)	(443)
Total Interest-bearing Liabilities	(416)	(1,302)	(1,718)	(1,014)	(3,943)	(4,957)
Net Change in Net Interest Income	\$ 3,825	\$ (2,236)	\$ 1,589	\$ 11,149	\$ (8,353)	\$ 2,796

⁽¹⁾ Nonaccruing loans are included in the daily average loan amounts outstanding.

⁽²⁾ Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2013 and 2012.

⁽³⁾ Taxable investment income is adjusted for the dividend-received deduction for equity securities.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**Provision for Loan Losses**

The provision for loan losses is the amount added to the allowance for loan losses, or ALL, after adjusting for charge-offs and recoveries to bring the ALL to a level considered appropriate to absorb probable losses inherent in the loan portfolio. The provision for loan losses increased \$1.1 million to \$3.4 million for the three months ended September 30, 2013 and decreased \$11.9 million to \$6.7 million for the nine months ended September 30, 2013 compared to the same periods in 2012. The increase in the provision for loan losses for the three months ended September 30, 2013 is due to an increase in specific reserves. During the third quarter of 2013, a \$3.1 million specific reserve was established for a commercial construction loan. The decrease in the provision for loan losses for the nine month period ended September 30, 2013 reflects the improving economic conditions which have positively impacted our asset quality metrics in all categories, including decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio. Net loan charge-offs decreased \$1.2 million, to \$1.5 million for the three months ended September 30, 2013 compared to \$2.7 million for the three months ended September 30, 2012 and decreased \$15.9 million to \$5.3 million for the nine months ended September 30, 2013 compared to \$21.2 million for the nine months ended September 30, 2012. Nonaccrual loans decreased 45 percent to \$36.4 million at September 30, 2013 compared to \$66.1 million at September 30, 2012. Total special mention and substandard loans have decreased \$113.1 million, or 34 percent, over the last twelve months to \$222.3 million at September 30, 2013. Refer to *Allowance for Loan Losses* in the MD&A of this report for additional information.

Noninterest Income

<i>(dollars in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013	2012	\$ Change	% Change	2013	2012	\$ Change	% Change
Service charges on deposit accounts	\$ 2,801	\$ 2,567	\$ 234	9.1	\$ 7,744	\$ 7,407	\$ 337	4.5
Debit and credit card fees	2,764	2,966	(202)	(6.8)	8,365	8,472	(107)	(1.3)
Wealth management fees	2,747	2,397	350	14.6	8,143	7,393	750	10.1
Insurance fees	1,738	1,731	7	0.4	5,156	4,941	215	4.4
Mortgage banking	265	797	(532)	(66.8)	1,658	2,174	(516)	(23.7)
Gain on sale of merchant card servicing business					3,093		3,093	
Securities gains, net	3	2,170	(2,167)	(99.9)	5	3,016	(3,011)	(99.8)
Other	2,224	2,118	106	5.0	6,051	6,944	(893)	(12.9)
Total Noninterest Income	\$ 12,542	\$ 14,746	\$ (2,204)	(14.9)	\$ 40,215	\$ 40,347	\$ (132)	(0.3)

Noninterest income decreased \$2.2 million, or 14.9 percent, and \$0.1 million, or 0.3 percent, to \$12.5 million and \$40.2 million for the three and nine month periods ended September 30, 2013 compared to the same periods in 2012. Decreases in securities gains, mortgage banking and debit and credit card fees during the three and nine month periods ended September 30, 2013 were offset with increased revenues from wealth management fees and service charges on deposit accounts, and the gain on the sale of our merchant card servicing business as compared to the same periods in the prior year.

The \$2.2 million and \$3.0 million decrease in securities gains for the three and nine months ended September 30, 2013 relate to the sale of two equity securities during the same periods in 2012. Mortgage banking income decreased \$0.5 million for both the three and nine month periods ended September 30, 2013 compared to the same periods in 2012 due to a higher interest rate environment in 2013. Interest rates increased in the second quarter of 2013 resulting in a decrease in the volume of loans originated for sale in the secondary market and less favorable pricing on loan sales. During the nine months ended September 30, 2013, we sold 16 percent fewer mortgages with \$51.8 million in loan sales compared to \$62.0 million during the same period in 2012. The decrease in other noninterest income of \$0.9 million for the nine month period ended

Edgar Filing: S&T BANCORP INC - Form 10-Q

September 30, 2013 was primarily attributed to a decrease in fee income on letters of credit of \$0.3 million and a decrease of \$0.4 million in BOLI income related to a death benefit earned in 2012 and a lower rate of return on BOLI throughout 2013.

The decreases in noninterest income were offset by increases of \$0.4 million and \$0.8 million in wealth management fees, and increased service charges on deposits of \$0.2 million and \$0.3 million for the three and nine month periods ended September 30, 2013 as well as the \$3.1 million gain on the sale of our merchant card servicing business during the first quarter of 2013 as compared to the same periods in 2012. We sold our merchant card servicing business for \$4.8 million and paid deconversion and termination fees of \$1.7 million to the merchant processor resulting in a net gain of \$3.1 million. In conjunction with the sale of the merchant card servicing business, we entered into a marketing and sales alliance agreement with the purchaser, providing transition fees, royalties and referral revenue. Income from the marketing and sales alliance agreement is included in debit and credit card fees. Revenues from the marketing and sales alliance agreement of \$1.4 million for the nine months ended September 30, 2013 were comparable to the merchant revenue included in debit and credit card fees for the same period in 2012. Service charges on deposit accounts increased \$0.2 million and \$0.3 million in the three and nine month periods ended September 30,

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

2013 compared to the same periods in the prior year, primarily due to increases in certain deposit related fees that occurred throughout 2013. Increased brokerage activity, higher assets under management, or AUM, and growth in advisory services contributed to the increases in our wealth management fees for the three and nine month periods ended September 30, 2013 compared to the same periods in 2012.

Noninterest Expense

<i>(dollars in thousands)</i>	Three Months Ended September 30,				Nine Months Ended September 30,			
	2013	2012	\$ Change	% Change	2013	2012	\$ Change	% Change
Salaries and employee benefits ⁽¹⁾	\$ 14,910	\$ 14,643	\$ 267	1.8	\$ 45,646	\$ 43,960	\$ 1,686	3.8
Data processing ⁽¹⁾	2,137	1,990	147	7.4	6,180	5,475	705	12.9
Net occupancy ⁽¹⁾	1,910	1,972	(62)	(3.1)	6,032	5,576	456	8.2
Furniture and equipment	1,084	1,414	(330)	(23.3)	3,623	3,861	(238)	(6.2)
Other taxes	1,039	982	57	5.8	2,953	2,533	420	16.6
Professional services and legal ⁽¹⁾	996	988	8	0.8	3,139	3,545	(406)	(11.5)
Merger related expense		764	(764)	(100.0)	838	5,274	(4,436)	(84.1)
FDIC insurance	629	838	(209)	(24.9)	2,112	2,164	(52)	(2.4)
Marketing ⁽¹⁾	607	718	(111)	(15.5)	2,088	2,068	20	1.0
Other noninterest expense ⁽¹⁾	4,631	6,709	(2,078)	(31.0)	15,334	18,690	(3,356)	(18.0)
Total Noninterest Expense	\$ 27,943	\$ 31,018	\$ (3,075)	(9.9)	\$ 87,945	\$ 93,146	\$ (5,201)	(5.6)

⁽¹⁾ Excludes one-time merger related expense.

Noninterest expense decreased \$3.1 million, or 9.9 percent, and \$5.2 million, or 5.6 percent, to \$27.9 million and \$87.9 million, for the three and nine month periods ended September 30, 2013 compared to the same periods in 2012. The decrease in noninterest expense was due to a decline in merger related expenses and other noninterest expense for both the three and nine months ended September 30, 2013. We experienced higher expenses in several categories during 2013 due to the full integration of our two acquisitions that occurred in 2012.

We had no merger related expense for the three months ended September 30, 2013 and \$0.8 million for the nine months ended September 30, 2013 compared to \$0.8 million and \$5.3 million for the same periods in 2012. The \$0.8 million of merger related expense recognized in 2013 related to the data processing system conversion of Gateway Bank. Although the Gateway Bank acquisition occurred in August 2012, the merger with S&T Bank and the system conversion was completed on February 8, 2013.

Salaries and employee benefits increased \$0.3 million and \$1.7 million for the three and nine month periods ended September 30, 2013 due to additional employees, annual merit increases and higher commissions and incentives. Increases consisted of \$0.2 million and \$0.8 million for the three and nine months ended September 30, 2013 due to new employees from our two acquisitions in the prior year and the addition of our loan production office in northeast Ohio, which was opened in late 2012. Adding to the increase was our annual salary merit increase of \$0.2 million and \$0.4 million for the three and nine month periods ended September 30, 2013. Commission and incentive expense increased by \$0.6 million and \$1.2 million for the three and nine month periods ended September 30, 2013 due to increased loan production and strong performance in our other business lines. Offsetting these increases was a decrease in pension expense of \$0.3 million and \$0.8 million for the three and nine month periods ended September 30, 2013, resulting from a change in actuarial assumptions and decreases in stock compensation expense of \$0.1

million and \$0.3 million.

Data processing, occupancy and other taxes increased for the three and nine month periods ended September 30, 2013. Data processing increased \$0.1 million and \$0.7 million in the three and nine month periods ended September 30, 2013 compared to the same periods in 2012 due to increased processing charges resulting from our acquisitions, the annual increase with our third party data processor and the implementation of software that significantly strengthens the authentication of our customers that use our online banking product. Occupancy increased \$0.5 million for the nine month period ended September 30, 2013 primarily due to additional branch locations resulting from our two acquisitions. Offsetting this increase was savings from the closure of two branches and two drive-up facilities during 2013. The increase of \$0.1 million and \$0.4 million in other taxes primarily relates to the additional shares tax obligation for Gateway Bank.

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

Furniture and equipment and FDIC insurance expense decreased during the three and nine month periods ended September 30, 2013 when compared to the same periods ended September 30, 2012. Furniture and equipment expense decreased \$0.3 million and \$0.2 million for the three and nine month periods ended September 30, 2013 due to a decrease in depreciation expense related to assets acquired in our 2008 acquisition that were fully depreciated during the current period. Federal Deposit Insurance Corporation, or FDIC, charges are based on financial ratios which have improved during 2013, resulting in decreases of \$0.2 million and \$0.1 million for the three and nine month periods ended September 30, 2013 when compared with the same periods in 2012. Professional services and legal expense were unchanged for the three months ended September 30, 2013 compared to the same period in the prior year but decreased \$0.4 million for the nine months ended September 30, 2013 compared to the same period in 2012 when additional external accounting and consulting charges were incurred in the first quarter of 2012.

Other noninterest expense decreased \$2.1 million and \$3.4 million for the three and nine month periods ended September 30, 2013 as compared to the same periods in 2012. The decreases in other noninterest expense for both the three and nine month periods ended September 30, 2013 were primarily due to decreases of \$1.2 million and \$1.8 million in the reserve for unfunded loan commitments, \$0.2 million and \$0.5 million in OREO expense and \$0.1 million in loan collection expense for both periods, all due to improving asset quality. Other noninterest expense also decreased \$0.5 million due to the reversal of a contingent liability for an IRS proposed penalty for tax year 2010. The contingent liability was assumed with the acquisition of Mainline Bancorp in 2012 and was reversed when we received notice during the current period that the IRS had waived the \$0.5 million penalty.

Provision for Income Taxes

The provision for income taxes increased \$1.6 million and \$5.5 million to \$4.2 million and \$10.4 million for the three and nine month periods ended September 30, 2013 compared to \$2.6 million and \$4.9 million for the same periods in the prior year. The increase to the provision for income taxes for the three months ended September 30, 2013 is primarily due to revisions to the expected full year tax rate and an increase of \$1.2 million in pretax income. The increase to the provision for income taxes for the nine months ended September 30, 2013 is primarily due to a \$19.5 million increase in pretax income. Our provision for income taxes is comprised of the effective tax rate applied to current year ordinary income plus or minus discrete amounts of tax generally related to tax expense associated with prior periods. Our effective tax rate, or ETR, inclusive of discrete items for the nine months ended September 30, 2013 increased to 21.2 percent as compared to 16.5 percent for the same period in 2012. The increases in ETR were primarily due to increased income partially offset by tax-exempt interest and a nonrecurring tax benefit in the first quarter of 2013.

Financial Condition**September 30, 2013**

Total assets increased by 1.4 percent to \$4.6 billion at September 30, 2013 compared to \$4.5 billion at December 31, 2012. Loan production was strong, resulting in an increase to total portfolio loans of \$164.7 million, or 4.9 percent. Our commercial loan portfolio grew by \$136.0 million, or 5.6 percent, to \$2.5 billion while our consumer loan portfolio increased by \$28.7 million, or 3.1 percent, to \$1.0 billion. Securities increased \$35.9 million, or 7.9 percent, compared to December 31, 2012 due to the investment of cash into higher yielding securities. Our deposit base increased \$55.8 million or 1.5 percent, with total deposits of \$3.7 billion at September 30, 2013 compared to \$3.6 billion at December 31, 2012. Savings deposits increased \$73.5 million as higher rate CDs matured and customers moved funds to other deposit products. The \$14.2 million increase in CDs was due to the issuance of \$56.0 million of Certificate of Deposit Account Registry Services, or CDARS, One-Way Buy, or OWB, deposits and \$34.6 million in brokered CDs during the first nine months of 2013 offset by CD maturities. Junior subordinated debt securities and other long-term borrowings decreased by \$56.7 million primarily due to the repayment of \$45.0 million of subordinated debt during the nine months ended September 30, 2013. We replaced the higher costing junior subordinated debt and long-term borrowings with lower costing short-term borrowings. Securities sold under repurchase agreements decreased \$29.3 million as customers exited this product following a restructuring of the product and changes in customer preference. Total shareholder's equity increased by \$18.0 million, or 3.4 percent, compared to December 31, 2012. The increase was primarily due to net income of \$38.7 million offset by \$13.4 million in dividends

and a decrease to other comprehensive income of \$7.6 million primarily from a decline in the market value of our available-for-sale securities for the period.

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**Securities Activity**

(dollars in thousands)

	September 30, 2013	December 31, 2012	\$ Change
Obligations of U.S. government corporations and agencies	\$ 237,398	\$ 212,066	\$ 25,332
Collateralized mortgage obligations of U.S. government corporations and agencies	44,877	57,896	(13,019)
Residential mortgage-backed securities of U.S. government corporations and agencies	51,250	50,623	627
Commercial mortgage-backed securities of U.S. government corporations and agencies	30,680	10,158	20,522
Obligations of states and political subdivisions	114,817	112,767	2,050
Debt Securities Available-for-Sale	479,022	443,510	35,512
Marketable equity securities	9,140	8,756	384
Total Securities Available-for-Sale	\$ 488,162	\$ 452,266	\$ 35,896

We invest in various securities in order to provide a source of liquidity, to satisfy various pledging requirements, increase net interest income and as a tool of the ALCO to reposition the balance sheet for interest rate risk purposes. Securities are subject to market risk that could negatively affect the level of liquidity available to us. Security purchases are subject to investment policies approved annually by our Board of Directors and administered through ALCO and our treasury function. The securities portfolio increased \$35.9 million, or 7.9 percent, from December 31, 2012. The increase is due to the investment of cash into higher yielding assets offset by a decline in value of the bond portfolio due to the rise in interest rates.

On a quarterly basis, management evaluates the securities portfolio for other than temporary impairment, or OTTI. The bond portfolio had net unrealized gains of \$0.9 million and \$14.9 million at September 30, 2013 and December 31, 2012. These net unrealized gains included \$5.8 million and \$0.1 million of unrealized losses. The increase in unrealized losses was a result of a higher interest rate environment in 2013 and is not related to the underlying credit quality of the bond portfolio. 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, 2013. There was no OTTI recorded in the three or nine months ended September 30, 2013. We do not intend to sell and it is not likely that we will be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost.

Loan Composition

(dollars in thousands)

	September 30, 2013		December 31, 2012	
	Amount	% of Loans	Amount	% of Loans
Commercial				
Commercial real estate	\$ 1,567,814	44.7	\$ 1,452,133	43.4
Commercial and industrial	827,699	23.6	791,396	23.7
Construction	152,206	4.3	168,143	5.0

Edgar Filing: S&T BANCORP INC - Form 10-Q

Total Commercial Loans	2,547,719	72.6	2,411,672	72.1
Consumer				
Residential mortgage	477,141	13.6	427,303	12.7
Home equity	413,097	11.7	431,335	12.9
Installment and other consumer	69,043	2.0	73,875	2.2
Construction	4,335	0.1	2,437	0.1
Total Consumer Loans	963,616	27.4	934,950	27.9
Total Portfolio Loans	3,511,335	100.0	3,346,622	100.0
Loans Held for Sale	3,695		22,499	
Total Loans	\$ 3,515,030		\$ 3,369,121	

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

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

Our loan portfolio represents the most significant source of interest income for us. The risk that borrowers will be unable to pay such obligations is inherent in the loan portfolio. Other conditions such as the overall economic climate can significantly impact a borrower's ability to pay. Total portfolio loans increased \$164.7 million, or 4.9 percent, since December 31, 2012, to \$3.5 billion at September 30, 2013 due to organic loan growth in our CRE, C&I and residential mortgage portfolios offset by declines in our home equity and commercial construction portfolios. The increase in loans can be attributed to the execution of our strategic initiative to grow our loan portfolio by adding seasoned lenders to our staff and the addition of an LPO in northeast Ohio. During the nine months ended September 30, 2013, we added nine commercial lenders to our staff and we continue to actively recruit seasoned lenders. Additionally, the LPO that we established in northeast Ohio in the third quarter of 2012 is performing ahead of our expectations with \$79.0 million in commercial loans at September 30, 2013.

Total commercial loans have increased \$136.0 million, or 5.6 percent, from December 31, 2012. CRE loans increased \$115.7 million, or 8.0 percent, due to new loan originations and the transfer of \$63.0 million in construction loans into the CRE portfolio. C&I loans increased \$36.3 million, or 4.6 percent, due to new loan originations and increased utilization of lines of credit. Commercial construction loans have decreased \$15.9 million, or 9.5 percent, as new originations and line utilizations of approximately \$75 million were offset with transfers to permanent loans and loan payoffs.

Residential mortgages increased \$49.8 million, or 12 percent, due to strong originations in the first nine months of 2013. However, we have experienced a decrease in loan originations in the third quarter of 2013, a result of the rise in interest rates that occurred in the second quarter of 2013. We are only retaining 10, 15 and 20 year residential real estate loans in our portfolio rather than selling these loans in the secondary market. Prior to the fourth quarter of 2012, we were selling loans with terms of 20 years or more.

Residential mortgage lending continues to be a strategic focus through a centralized mortgage origination department, ongoing product redesign, secondary market activities and the utilization of commission compensated originators. Management believes that continued adherence to our conservative mortgage lending policies for portfolio loans will be as important in a growing economy as it was during the downturn in recent years. The loan-to-value policy guideline is 80 percent for residential first lien mortgages. We may approve higher loan-to-value loans, but generally with the appropriate private mortgage insurance coverage. Second lien positions may be assumed with home equity loans, but normally only to the extent that the combined credit exposure for both the first and second liens does not exceed 100 percent of the estimated fair value of the property. Portfolio loans are limited to a maximum term of 20 years for traditional mortgages and 15 years with a maximum amortization term of 30 years for balloon payment mortgages. Combo mortgage loans consisting of a residential first mortgage and a home equity second mortgage are also available to creditworthy borrowers.

Currently, we are selling 30 year mortgages into the secondary market, primarily to Fannie Mae. The rationale for these sales is to mitigate interest-rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio, generate fee revenue from sales and servicing and maintain the primary customer relationship. During the nine months ended September 30, 2013 and 2012, we sold \$51.8 million and \$62.0 million of 1-4 family mortgages and currently service \$325.8 million of secondary market mortgage loans sold to Fannie Mae at September 30, 2013. We intend to continue to sell 30 year loans to Fannie Mae.

While residential mortgage loans have grown during the year, home equity loans have declined, also a result of the rise in interest rates during the second quarter. Home equity loans have decreased \$18.2 million, or 4.2 percent, from \$431.3 million at December 31, 2012 to \$413.1 million at September 30, 2013.

Loans held for sale decreased \$18.8 million due primarily to a commercial participation loan that was in process at December 31, 2012.

Allowance for Loan Losses

We maintain an ALL at a level determined to be adequate to absorb estimated probable credit losses inherent within the loan portfolio as of the balance sheet date. Determination of an adequate ALL is subjective, as it requires estimations of the occurrence of future events, as well as the timing of such events, and it may be subject to significant changes from period to period. The methodology for determining the ALL has two main components: 1) evaluation and impairment tests of individual loans, and 2) evaluation of certain groups of homogeneous loans with similar risk characteristics.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

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

We continuously monitor our ALL methodology to ensure that it is responsive to the current economic environment. Over the past year, the economic conditions within our markets have stabilized, and we have experienced significant improvement in our credit quality, including lower net charge-offs, lower delinquency, lower non-performing loans and lower special mention and substandard loans compared to December 31, 2012. Accordingly, the assumptions used within the ALL were reevaluated in the third quarter of 2013 to be responsive to the improved economic environment and the changes in our credit quality.

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. Due to the recent improvement in economic conditions, we completed an internal study utilizing our loan charge-off history to recalibrate the LEPs of the commercial portfolio segments. Consistent with the improved economic conditions, the LEPs have lengthened, and as a result, we lengthened our LEP assumption for each of the commercial portfolio segments. We believe that the consumer portfolio segment LEPs have also lengthened as they are influenced by the same improvement in economic conditions that impacted the commercial portfolio segments. We therefore also lengthened the LEP assumption for the consumer portfolio segments in the third quarter of 2013.

The changes made to the ALL assumptions were applied prospectively and did not result in a material change to the total ALL at September 30, 2013. Lengthening the LEP does increase the historical loss rates and therefore the quantitative component of the ALL. We believe this makes the quantitative component of the ALL more reflective of inherent losses that exist within the loan portfolio, which resulted in a decrease in the qualitative component of the ALL. The changes to the LEPs also improved our insight into the inherent risk of the individual commercial portfolio segments. As the economic conditions have improved, our data indicates that the CRE segment has less inherent loss and that the C&I segment contains greater inherent loss. The ALL at September 30, 2013 reflects these changes within the CRE and C&I portfolio segments.

An inherent risk to the loan portfolio as a whole is the condition of the local economy. In addition, each loan segment carries with it risks specific to the segment. The following is a discussion of the key risks by portfolio segment that management assesses in preparing the ALL.

CRE loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as hotels, strip malls and apartments. Individual project cash flows, as well as global cash flows, are generally the sources of repayment for these loans. Besides cash flow risks, CRE loans have collateral risk and risks based upon the business prospects of the lessee, if the project is not owner occupied.

C&I loans are made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. Cash flow from the operations of the company is the primary source of repayment for these loans and the cash flow depends not only on the economy as a whole, but also on the health of the company's industry.

Commercial construction loans are made to finance construction of buildings or other structures, as well as to finance the acquisition and development of raw land for various purposes. During the construction phase, a number of factors can result in delays and cost overruns. While the risk is generally confined to the construction and absorption periods, if there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or the value of the property securing the loan may not have sufficient value in a liquidation to cover the outstanding principal. There are also various risks depending on the type of project and the experience and resources of the developer.

Consumer real estate loans are secured by 1-4 family residences, including purchase money mortgages, first and second lien home equity loans and home equity lines of credit. The primary source of repayment for these loans is the income and assets of the borrower. The unemployment rate, as well as the state of the local housing market, had a significant impact on the risk determination since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Edgar Filing: S&T BANCORP INC - Form 10-Q

Other consumer loans are made to individuals and may be secured by assets other than 1-4 family residences, or may be unsecured. This class of loans includes auto loans, unsecured lines and credit cards. The primary source of repayment for these loans is the income and assets of the borrower so the local unemployment rate is an important indicator of risk. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

At September 30, 2013, approximately 84 percent of the ALL was related to our commercial loan portfolio, while commercial loans comprised 73 percent of our loan portfolio. Commercial loans have been more impacted by the economic slowdown in our markets. The ability of customers to repay commercial loans is more dependent upon the success of their business, continuing income and general economic conditions. Accordingly, the risk of loss is higher on such loans compared to consumer loans, which have incurred lower losses in our market.

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

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

<i>(dollars in thousands)</i>	Allowance for Loan Losses		September 30, 2013		Portfolio Loans		Total
	Individually	Collectively	Total	Individually	Collectively	Total	
	Evaluated for Impairment	Evaluated for Impairment		Evaluated for Impairment	Evaluated for Impairment		
Commercial real estate	\$ 64	\$ 17,625	\$ 17,689	\$ 28,323	\$ 1,539,491	\$ 1,567,814	
Commercial and industrial		14,799	14,799	10,128	817,571	827,699	
Commercial construction	3,139	4,860	7,999	15,258	136,948	152,206	
Consumer real estate	56	6,321	6,377	8,354	886,219	894,573	
Other consumer	19	1,100	1,119	148	68,895	69,043	
Total	\$ 3,278	\$ 44,705	\$ 47,983	\$ 62,211	\$ 3,449,124	\$ 3,511,335	

<i>(dollars in thousands)</i>	Allowance for Loan Losses		December 31, 2012		Portfolio Loans		Total
	Individually	Collectively	Total	Individually	Collectively	Total	
	Evaluated for Impairment	Evaluated for Impairment		Evaluated for Impairment	Evaluated for Impairment		
Commercial real estate	\$ 1,226	\$ 24,020	\$ 25,246	\$ 39,994	\$ 1,412,139	\$ 1,452,133	
Commercial and industrial	1,002	6,757	7,759	13,283	778,113	791,396	
Commercial construction	3	7,497	7,500	18,512	149,631	168,143	
Consumer real estate		5,058	5,058	10,827	850,248	861,075	
Other consumer		921	921	25	73,850	73,875	
Total	\$ 2,231	\$ 44,253	\$ 46,484	\$ 82,641	\$ 3,263,981	\$ 3,346,622	

	September 30, 2013	December 31, 2012
Ratio of net charge-offs to average loans outstanding	0.21%*	0.78%
Allowance for loan losses as a percentage of total loans	1.37%	1.38%
Allowance for loan losses to nonperforming loans	132%	85%

* Annualized

The balance in the ALL increased \$1.5 million to \$48.0 million, or 1.37 percent, of total portfolio loans at September 30, 2013 compared to \$46.5 million, or 1.38 percent, of total portfolio loans at December 31, 2012. The increase in the ALL was primarily due to an increase in the reserve for loans individually evaluated for impairment of \$1.0 million related to a \$3.1 million specific reserve for one commercial construction loan that was established in the third quarter of 2013. Impaired loans decreased \$20.4 million from December 31, 2012, primarily a result of loan

Edgar Filing: S&T BANCORP INC - Form 10-Q

pay downs and the sale of \$2.8 million of impaired loans during the third quarter of 2013. Further, new impaired loan formation has been low during 2013 with only \$7.2 million of new impaired loans. The reserve for loans collectively evaluated for impairment did not change significantly with an increase of \$0.5 million at September 30, 2013 compared to December 31, 2012.

Overall asset quality improved with decreases in loan charge-offs, nonaccrual loans and special mention and substandard loans from December 31, 2012. Special mention and substandard loans decreased \$114.8 million, or 34 percent, to \$222.3 million at September 30, 2013, from \$337.1 million at December 31, 2012.

We determine loans 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. Our methodology for evaluating whether a loan is impaired includes risk-rating credits on an individual basis and consideration of the borrower's overall financial condition, payment history and available cash resources. In measuring impairment, we primarily look to the discounted cash flows of the credit itself or to the value of the collateral. We may consider the existence of guarantees and the financial strength of the guarantors involved. Guarantees may be considered as a source of repayment; however, absent a verifiable payment capacity, a guarantee alone would not be sufficient to avoid classifying the loan as impaired.

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

Troubled debt restructurings, or TDRs, whether on accrual or nonaccrual status, are also classified as impaired loans. TDRs are loans where we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we would not otherwise grant. 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. Generally these concessions are for a period of at least six months. Additionally, we classify loans where the debt obligation has been discharged through a Chapter 7 Bankruptcy and not reaffirmed by the borrower as TDRs.

TDRs can be returned to accruing status if the following criteria are met: 1) the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and 2) there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring. All TDRs are considered to be impaired loans and will be reported as impaired loans for their remaining lives, 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 we fully expected that the remaining principal and interest will be collected according to the restructured agreement. All impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements noted above to be returned to accruing status.

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

As of September 30, 2013, we had \$56.0 million in total TDRs, including \$35.6 million that were accruing and \$20.4 million that were in nonaccrual. During the nine months ended September 30, 2013, we had \$10.5 million of new TDRs, the most significant was a CRE TDR of \$4.3 million which had principal forgiveness of \$0.1 million, an \$0.8 million C&I TDR related to a maturity date extension and 56 loans totaling \$2.1 million related to bankruptcy filings that were not reaffirmed resulting in discharged debt. During the nine months ended September 30, 2013, we had four TDRs for \$1.9 million that met the above requirements for being returned to accrual status.

The charge-off policy for commercial loans requires that loans and other obligations that are not collectible be promptly charged-off when the loss becomes probable, regardless of the delinquency status of the loan. We may elect to recognize a partial charge-off when management has determined that the value of collateral is less than the remaining investment in the loan. A loan or obligation does not need to be charged-off, regardless of delinquency status, if (i) management has determined there exists sufficient collateral to protect the remaining loan balance and (ii) there exists a strategy to liquidate the collateral. Management may also consider a number of other factors to determine when a charge-off is appropriate. These factors may include, but are not limited to:

The status of a bankruptcy proceeding

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

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

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

Our allowance for lending-related commitments is computed using a methodology similar to that used to determine the ALL. Amounts are added to the allowance for lending-related commitments by a charge to current earnings through noninterest expense. The balance in the

Edgar Filing: S&T BANCORP INC - Form 10-Q

allowance for lending-related commitments was relatively unchanged at \$3.1 million at September 30, 2013 as compared to \$3.0 million at December 31, 2012. The allowance for lending-related commitments is included in other liabilities in the Consolidated Balance Sheets.

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

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

<i>(dollars in thousands)</i>	September 30, 2013	December 31, 2012	\$ Change
Nonaccrual Loans			
Commercial real estate	\$ 9,329	\$ 20,972	\$ (11,643)
Commercial and industrial	1,971	5,496	(3,525)
Commercial construction	32	1,454	(1,422)
Residential mortgage	1,967	4,526	(2,559)
Home equity	2,679	3,312	(633)
Installment and other consumer	27	40	(13)
Consumer construction		218	(218)
Total Nonaccrual Loans	16,005	36,018	(20,013)
Nonaccrual Troubled Debt Restructurings			
Commercial real estate	7,150	9,584	(2,434)
Commercial and industrial	1,926	939	987
Commercial construction	9,652	5,324	4,328
Residential mortgage	1,054	2,752	(1,698)
Home equity	612	341	271
Total Nonaccrual Troubled Debt Restructurings	20,394	18,940	1,454
Total Nonaccrual Loans	36,399	54,958	(18,559)
OREO	460	911	(451)
Total Nonperforming Assets	\$ 36,859	\$ 55,869	\$ (19,010)

Asset Quality Ratios:

Nonperforming loans as a percent of total loans	1.04%	1.63%
Nonperforming assets as a percent of total loans plus OREO	1.05%	1.66%

Our policy is to place loans in all categories in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. There were no loans 90 days or more past due and still accruing at September 30, 2013 or December 31, 2012.

NPAs decreased to \$36.9 million at September 30, 2013 compared to \$55.9 million at December 31, 2012. The significant decline in NPAs is primarily the result of \$18.1 million in NPL pay downs, \$8.1 million of loan charge-offs, \$4.4 million of loans returning to accrual status and a \$2.8 million sale of NPLs. New NPL formation was \$15.3 million for the first nine months of 2013. The new formation includes one \$5.9 million commercial construction loan placed into nonaccrual status during the quarter ended September 30, 2013.

Deposits

Edgar Filing: S&T BANCORP INC - Form 10-Q

<i>(dollars in thousands)</i>	September 30, 2013	December 31, 2012	\$ Change
Noninterest-bearing demand	\$ 974,262	\$ 960,980	\$ 13,282
Interest-bearing demand	324,291	316,760	7,531
Money market	308,445	361,233	(52,788)
Savings	1,039,115	965,571	73,544
Certificates of deposit	955,574	1,031,986	(76,412)
CDARs OWB and brokered CDs	92,516	1,898	90,618
Total Deposits	\$ 3,694,203	\$ 3,638,428	\$ 55,775

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

Deposits are the primary source of funds for us. We believe that our deposit base is stable and that we have the ability to attract new deposits, mitigating a funding dependency on other more volatile sources. Total deposits increased \$55.8 million at September 30, 2013 compared to December 31, 2012.

Noninterest-bearing demand and interest-bearing demand increased \$20.8 million at September 30, 2013 compared to December 31, 2012, primarily due to an increase in public deposit balances in September due to tax collections. Money market deposits decreased \$52.8 million at September 30, 2013 compared to December 31, 2012 mainly due to our Wealth Management division reallocating \$29.8 million of assets under management to other types of investments.

The low interest rate environment had an impact on our overall deposit mix as CD maturities at higher rates shifted into our savings products. The \$14.2 million increase in CDs was impacted by the addition of \$56.0 million of CDARS OWB deposits and \$34.6 million in brokered CDs during the nine months ended September 30, 2013. Participation in the CDARS OWB program allows us to issue deposits from insured depository institutions that are members of the CDARS deposit placement service. The issuance of brokered certificates of deposit and participation in the CDARS OWB program are ALCO strategies to increase and diversify funding sources. CDs of \$100,000 and over increased to 11 percent of total deposits at September 30, 2013 compared to 10 percent of total deposits at December 31, 2012.

Borrowings

<i>(dollars in thousands)</i>	September 30, 2013	December 31, 2012	\$ Change
Securities sold under repurchase agreements, retail	\$ 33,290	\$ 62,582	\$ (29,292)
Short-term borrowings	175,000	75,000	100,000
Long-term borrowings	22,390	34,101	(11,711)
Junior subordinated debt securities	45,619	90,619	(45,000)
Total Borrowings	\$ 276,299	\$ 262,302	\$ 13,997

Borrowings are an additional source of funding for us. Total borrowings increased by \$14.0 million from December 31, 2012. The shift in the borrowing mix is a result of short-term funds being utilized to replace a \$10 million long-term borrowing maturity in the first quarter of 2013 and the redemption of \$45 million of subordinated debt during the second quarter of 2013. The subordinated debt was redeemed due to its diminishing regulatory capital benefit and the future positive impact on net interest income. In addition, securities sold under repurchase agreements decreased \$29.3 million following a restructuring of the product and changes in customer preference.

Information pertaining to short-term borrowings is summarized in the tables below for the dates presented and for the nine and twelve month periods ended September 30, 2013 and December 31, 2012.

<i>(dollars in thousands)</i>	September 30, 2013	December 31, 2012
Balance at the period end	\$ 33,290	\$ 62,582

Edgar Filing: S&T BANCORP INC - Form 10-Q

Average balance during the period	63,382	47,388
Average interest rate during the period	0.13%	0.17%
Maximum month-end balance during the period	\$ 83,766	\$ 62,582
Average interest rate at the period end	0.01%	0.20%

<i>(dollars in thousands)</i>	Short-Term Borrowings	
	September 30, 2013	December 31, 2012
Balance at the period end	\$ 175,000	\$ 75,000
Average balance during the period	86,813	50,212
Average interest rate during the period	0.26%	0.24%
Maximum month-end balance during the period	\$ 175,000	\$ 75,000
Average interest rate at the period end	0.28%	0.19%

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

Information pertaining to long-term borrowings is summarized in the tables below for the dates presented and for the nine and twelve month periods ended September 30, 2013 and December 31, 2012.

<i>(dollars in thousands)</i>	Long-Term Borrowings	
	September 30, 2013	December 31, 2012
Balance at the period end	\$ 22,390	\$ 34,101
Average balance during the period	25,078	33,841
Average interest rate during the period	3.09%	3.26%
Maximum month-end balance during the period	\$ 28,913	\$ 40,669
Average interest rate at the period end	3.01%	3.17%

<i>(dollars in thousands)</i>	Junior Subordinated Debt Securities	
	September 30, 2013	December 31, 2012
Balance at the period end	\$ 45,619	\$ 90,619
Average balance during the period	72,853	90,619
Average interest rate during the period	3.23%	3.21%
Maximum month-end balance during the period	\$ 90,619	\$ 90,619
Average interest rate at the period end	2.71%	3.01%

Liquidity and Capital Resources

Liquidity is defined as a financial institution's ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or of borrowers needing to access funds to meet their credit needs. Liquidity risk management involves monitoring and maintaining sufficient levels of a diverse set of funding sources that are available for normal operations and for unanticipated stress events. In order to manage liquidity risk our Board of Directors has delegated authority to the ALCO for formulation, implementation and oversight of liquidity risk management. ALCO's goal is to maintain adequate levels of liquidity to meet our funding needs in both a normal operating environment and for potential liquidity stress events.

Our primary funding and liquidity source is a stable deposit base. We believe that the bank has the ability to retain existing and attract new deposits, mitigating a funding dependency on other more volatile sources. Although deposits are the primary source of funds, we have identified various funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. These funding sources include a cushion of highly liquid assets, borrowing availability at the FHLB, Federal Funds lines with other financial institutions and access to the brokered certificates of deposit market including CDARs OWB deposits.

Since the beginning of the financial industry crisis in 2008, monitoring and maintaining appropriate liquidity levels has become a focus of regulators, bankers and investors. ALCO has enhanced the measurement, monitoring and reporting systems for liquidity risk management for potential liquidity stress events. Specific focus has been on maintaining an adequate level of asset liquidity, performing short-term and long-term stress tests and developing a more detailed contingency funding plan. We also work to ensure access to various wholesale funding sources is available, even in a stress event.

Edgar Filing: S&T BANCORP INC - Form 10-Q

ALCO uses a variety of ratios and reports to monitor our liquidity position. ALCO monitors an asset liquidity ratio, which is defined as the sum of interest-bearing deposits with banks, unpledged securities and loans held for sale to total assets. In addition to the asset liquidity ratio, ALCO reviews cash flow projections and various balance sheet liquidity ratios. ALCO policy guidelines are in place for each ratio that defines graduated risk tolerance levels. If a ratio moves to high risk, specific actions are defined, such as increased monitoring or the development of an action plan to reduce the risk position.

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

The following summarizes risk-based capital amounts and ratios for S&T Bancorp, Inc. and S&T Bank for the dates presented:

<i>(dollars in thousands)</i>	Adequately Capitalized (1)	Well- Capitalized (2)	September 30, 2013 Amount	September 30, 2013 Ratio	December 31, 2012 Amount	December 31, 2012 Ratio
S&T Bancorp, Inc.						
Tier 1 leverage	4.00%	5.00%	\$ 418,632	9.61%	\$ 392,506	9.31%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	418,632	12.26%	392,506	11.98%
Total capital to risk-weighted assets	8.00%	10.00%	487,123	14.27%	504,041	15.39%
S&T Bank						
Tier 1 leverage	4.00%	5.00%	\$ 382,525	8.82%	\$ 343,331	8.45%
Tier 1 capital to risk-weighted assets	4.00%	6.00%	382,525	11.27%	343,331	10.88%
Total capital to risk-weighted assets	8.00%	10.00%	450,090	13.26%	452,906	14.35%

⁽¹⁾ For an institution to qualify as adequately capitalized under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 8 percent, 4 percent and 4 percent. At September 30, 2013, we exceeded those requirements.

⁽²⁾ For an institution to qualify as well capitalized under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 10 percent, 6 percent and 5 percent. At September 30, 2013, we exceeded those requirements.

Our total risk based capital ratio decreased by 112 basis points to 14.27 percent at September 30, 2013 from 15.39 percent at December 31, 2012. The decrease was due primarily to the repayment of \$45.0 million of subordinated debt during the second quarter of 2013.

In October 2012, we filed a shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the SEC for the issuance of up to \$300 million of a variety of securities including debt and capital securities, preferred and common stock and warrants. We may use the proceeds from the sale of securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to subsidiaries, possible acquisitions and stock repurchases. As of September 30, 2013, we had not issued any securities pursuant to the shelf registration statement.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Edgar Filing: S&T BANCORP INC - Form 10-Q

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

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

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK continued**

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

Change in Interest Rate (basis points)	September 30, 2013		December 31, 2012	
	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
+300	9.6	14.9	8.2	23.2
+200	6.1	11.6	5.0	16.8
+100	2.7	6.4	2.0	9.1
- 100	(3.6)	(9.8)	(2.4)	(9.7)

The results from the rate shock analyses are consistent with having an asset sensitive balance sheet. Having an asset sensitive balance sheet means more assets than liabilities will reprice during the measured time frames. The implications of an asset sensitive balance sheet will differ depending upon the change in market interest rates. For example, with an asset sensitive balance sheet in a declining interest rate environment, more assets than liabilities will decrease in rate. This situation could result in a decrease in net interest income and operating income. Conversely, with an asset sensitive balance sheet in a rising interest rate environment, more assets than liabilities will increase in rate. This situation could result in an increase in net interest income and operating income. As measured by rate shock analyses, there was not a material change in our asset sensitive balance sheet position when comparing September 30, 2013 and December 31, 2012.

When comparing the EVE results for September 30, 2013 and December 31, 2012 the percent change to EVE has decreased. The change in EVE is due to the increase in long term rates between December 31, 2012 and September 30, 2013. The increase in long term rates resulted in a higher September 30, 2013 base case EVE mainly as a result of higher core deposit values. With a higher base EVE at September 30, 2013 and a similar dollar change between the base case and rate change scenarios at September 30, 2013 and December 31, 2012 the result is a lower percent change.

In addition to rate shocks and EVE, simulations are performed periodically to assess the sensitivity of scenario assumptions on pretax net interest income. Simulation analyses test for sensitivity to yield curve shape and slope changes, severe rate shocks, changes in prepayment assumptions and significant balance mix changes. Simulations indicate that an increase in rates will most likely result in an improvement in pretax net interest income. The improvement is based on our assumptions, therefore some of the benefit reflected in our scenarios may be offset by a change in the competitive environment and a change in product preference by our customers.

Item 4. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of S&T's Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of S&T's disclosure controls and procedures as of September 30, 2013. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed,

Edgar Filing: S&T BANCORP INC - Form 10-Q

summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to S&T's management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2013, there were no changes made to S&T's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, S&T's internal control over financial reporting.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have been no material changes to the risk factors that we have previously disclosed in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC on February 25, 2013.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

31.1 Rule 13a-14(a) Certification of the Chief Executive Officer.

31.2 Rule 13a-14(a) Certification of the Chief Financial Officer.

32 Rule 13a-14(b) Certification of the Chief Executive Officer and Chief Financial Officer.

101 The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheet at September 30, 2013 and Audited Consolidated Balance Sheet at December 31, 2012, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three Months and Nine Months ended September 30, 2013 and 2012, (iii) Unaudited Consolidated Statements of Changes in Shareholders' Equity for the Nine Months ended September 30, 2013 and 2012, (iv) Unaudited Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2013 and 2012 and (v) Notes to Unaudited Consolidated Financial Statements.

Table of Contents

SIGNATURES

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

S&T Bancorp, Inc.

(Registrant)

Date: October 30, 2013

/s/ Mark Kochvar
Mark Kochvar

Senior Executive Vice President and

Chief Financial Officer

(Principal Financial Officer and Duly Authorized Signatory)