S&T BANCORP INC
Form 10-Q
August 01, 2013
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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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)

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

800-325-2265

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, $2.50 Par Value - 29,738,305 shares as of July 22, 2013

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share and per share data)	**June 30, 2013 (Unaudited)**	**December 31, 2012 (Audited)**
ASSETS		
Cash and due from banks, including interest-bearing deposits of $191,005 and $257,116 at June 30, 2013 and December 31, 2012, respectively	$ 247,432	$ 337,711
Securities available-for-sale, at fair value	479,821	452,266
Loans held for sale	3,185	22,499
Portfolio loans, net of unearned income	3,443,233	3,346,622
Allowance for loan losses	(46,105)	(46,484)
Portfolio loans, net	3,397,128	3,300,138
Bank owned life insurance	59,535	58,619
Premises and equipment, net	37,473	38,676
Federal Home Loan Bank and other restricted stock, at cost	13,959	15,315
Goodwill	175,820	175,733
Other intangible assets, net	4,506	5,350
Other assets	109,900	120,395
Total Assets	**$ 4,528,759**	**$ 4,526,702**
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 947,747	$ 960,980
Interest-bearing demand	297,028	316,760
Money market	329,065	361,233
Savings	1,003,705	965,571
Certificates of deposit	1,071,083	1,033,884
Total Deposits	**3,648,628**	**3,638,428**
Securities sold under repurchase agreements	74,151	62,582
Short-term borrowings	125,000	75,000
Long-term borrowings	22,965	34,101
Junior subordinated debt securities	45,619	90,619
Other liabilities	65,544	88,550
Total Liabilities	**3,981,907**	**3,989,280**
SHAREHOLDERS EQUITY		
Common stock ($2.50 par value) Authorized 50,000,000 shares Issued 31,197,365 shares at June 30, 2013 and December 31, 2012	77,993	77,993

Outstanding 29,738,305 shares at June 30, 2013 and 29,732,209 shares at December 31, 2012		
Additional paid-in capital	77,672	77,458
Retained earnings	453,258	436,039
Accumulated other comprehensive loss	(21,795)	(13,582)
Treasury stock (1,459,060 shares at June 30, 2013 and 1,465,156 shares at December 31, 2012, at cost)	(40,276)	(40,486)
Total Shareholders Equity	**546,852**	**537,422**
Total Liabilities and Shareholders Equity	**$ 4,528,759**	**$ 4,526,702**

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(dollars in thousands, except per share data)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
INTEREST INCOME				
Loans, including fees	$ 35,765	$ 36,596	$ 70,810	$ 72,933
Investment securities:				
Taxable	1,879	1,887	3,742	3,831
Tax-exempt	815	778	1,648	1,531
Dividends	94	109	196	215
Total Interest Income	**38,553**	**39,370**	**76,396**	**78,510**
INTEREST EXPENSE				
Deposits	2,951	4,475	6,153	9,226
Borrowings and junior subordinated debt securities	1,006	1,076	1,978	2,144
Total Interest Expense	**3,957**	**5,551**	**8,131**	**11,370**
NET INTEREST INCOME	**34,596**	**33,819**	**68,265**	**67,140**
Provision for loan losses	1,023	7,023	3,330	16,296
Net Interest Income After Provision for Loan Losses	**33,573**	**26,796**	**64,935**	**50,844**
NONINTEREST INCOME				
Securities gains, net		6	2	846
Debit and credit card fees	3,150	2,839	5,601	5,506
Wealth management fees	2,820	2,577	5,396	4,996
Service charges on deposit accounts	2,495	2,432	4,943	4,841
Insurance fees	1,643	1,519	3,418	3,210
Mortgage banking	911	705	1,393	1,376
Gain on sale of merchant card servicing business			3,093	
Other	1,848	2,453	3,827	4,826
Total Noninterest Income	**12,867**	**12,531**	**27,673**	**25,601**
NONINTEREST EXPENSE				
Salaries and employee benefits	14,725	14,641	30,792	31,113
Data processing	2,137	2,195	4,801	5,436
Net occupancy	1,958	1,832	4,127	3,616
Furniture and equipment	1,230	1,209	2,538	2,447
Professional services and legal	1,171	1,208	2,145	3,108
Other taxes	915	777	1,914	1,551
Marketing	793	655	1,482	1,397

FDIC assessment	707	719	1,483	1,327
Other	4,750	6,108	10,720	12,132
Total Noninterest Expense	**28,386**	**29,344**	**60,002**	**62,127**
Income Before Taxes	**18,054**	**9,983**	**32,606**	**14,318**
Provision for income taxes	3,951	1,383	6,173	2,238
Net Income	**$ 14,103**	**$ 8,600**	**$ 26,433**	**$ 12,080**
Earnings per share basic	$ 0.47	$ 0.30	$ 0.89	$ 0.42
Earnings per share diluted	$ 0.47	$ 0.30	$ 0.89	$ 0.42
Dividends declared per share	$ 0.15	$ 0.15	$ 0.30	$ 0.30
Comprehensive Income	**$ 6,651**	**$ 9,297**	**$ 18,220**	**$ 12,799**

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

(dollars in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive 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 six months ended June 30, 2012			12,080			12,080
Other comprehensive income (loss), net of tax				719		719
Cash dividends declared ($0.30 per share)			(8,556)			(8,556)
Common stock issued in acquisition (690,273 shares)	1,726	12,755				14,481
Treasury stock issued for restricted awards (118,030 shares, net of 3,863 forfeitures)			(2,261)		3,174	913
Recognition of restricted stock compensation expense		443				443
Tax expense from stock-based compensation		(30)				(30)
Balance at June 30, 2012	**$ 76,011**	**$ 65,805**	**$ 422,731**	**$ (13,389)**	**$ (40,582)**	**$ 510,576**
Balance at January 1, 2013	**$ 77,993**	**$ 77,458**	**$ 436,039**	**$ (13,582)**	**$ (40,486)**	**$ 537,422**
Net income for six months ended June 30, 2013			26,433			26,433
Other comprehensive (loss) income, net of tax				(8,213)		(8,213)
Cash dividends declared ($0.30 per share)			(8,918)			(8,918)
Treasury stock issued for restricted awards (22,189 shares, net of 16,093 forfeitures)			(296)		210	(86)
Recognition of restricted stock compensation expense		261				261
Tax expense from stock-based compensation		(47)				(47)
Balance at June 30, 2013	**$ 77,993**	**$ 77,672**	**$ 453,258**	**$ (21,795)**	**$ (40,276)**	**$ 546,852**

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(dollars in thousands)	**Six Months Ended June 30, 2013**	**2012**
OPERATING ACTIVITIES		
Net income	$ 26,433	$ 12,080
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,330	16,296
Provision for unfunded loan commitments	302	907
Depreciation and amortization	3,061	3,461
Net amortization of discounts and premiums	1,776	1,004
Stock-based compensation expense	254	478
Securities gains, net	(2)	(846)
Net gain on sale of merchant card servicing business	(3,093)	
Tax expense from stock-based compensation	47	30
Mortgage loans originated for sale	(37,706)	(37,503)
Proceeds from the sale of loans	57,667	38,676
Gain on the sale of loans, net	(647)	(599)
Net (increase) decrease in interest receivable	(1,222)	915
Net decrease in interest payable	(1,241)	(451)
Net decrease in other assets	17,243	3,776
Net (decrease) increase in other liabilities	(20,981)	4,187
Net Cash Provided by Operating Activities	**45,221**	**42,411**
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(66,495)	(53,281)
Proceeds from maturities, prepayments and calls of securities available-for-sale	23,240	50,194
Proceeds from sales of securities available-for-sale	94	63,004
Net proceeds from the redemption of Federal Home Loan Bank stock	1,356	1,850
Net (increase) decrease in loans	(103,846)	44,402
Purchases of premises and equipment	(1,400)	(1,562)
Proceeds from the sale of premises and equipment	576	28
Net cash acquired from bank acquisitions		4,859
Proceeds from the sale of merchant card servicing business	4,750	
Net Cash (Used in) Provided by Investing Activities	**(141,725)**	**109,494**
FINANCING ACTIVITIES		
Net (decrease) increase in core deposits	(26,999)	127,656
Net increase (decrease) in certificates of deposit	36,842	(151,887)
Net increase in securities sold under repurchase agreements	11,569	16,370
Net increase in short-term borrowings	50,000	
Proceeds from long-term borrowings		4,311
Repayments of long-term borrowings	(11,136)	(7,964)
Repayment of junior subordinated debt	(45,000)	
Purchase of treasury shares	(86)	(49)
Sale of treasury shares		962
Cash dividends paid to common shareholders	(8,918)	(8,556)
Tax expense from stock-based compensation	(47)	(30)

Net Cash Provided by (Used in) Financing Activities	**6,225**	**(19,187)**
Net (decrease) increase in cash and cash equivalents	(90,279)	132,718
Cash and cash equivalents at beginning of period	337,711	270,526
Cash and Cash Equivalents at End of Period	**$ 247,432**	**$ 403,244**
Supplemental Disclosures		
Interest paid	$ 9,372	$ 11,821
Income taxes paid, net of refunds	5,155	
Net assets acquired from Mainline, excluding cash and cash equivalents		3,817
Transfers to other real estate owned and other repossessed assets	$ 180	$ 469

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Principals 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 S&T s 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 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 allowing either party to net in the event of default 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.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 1. BASIS OF PRESENTATION continued

Recently Issued Accounting Standards Updates not yet Adopted

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 Carryforward Exists

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Tax Credit Carryforward Exists. The ASU requires that entities should present an unrecognized tax benefit as a reduction of the deferred tax asset for a net operating loss, or NOL, or similar tax loss or tax credit carryforward rather than as a liability when the uncertain tax position would reduce the NOL or other carryforward 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.

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:

(dollars in thousands, except shares and per share data)	**Three Months Ended June 30, 2013**	**2012**	**Six Months Ended June 30, 2013**	**2012**
Numerator for Earnings per Share Basic:				
Net income	$ 14,103	$ 8,600	$ 26,433	$ 12,080
Less: Income allocated to participating shares	36	37	81	55
Net Income Allocated to Shareholders	**$ 14,067**	**$ 8,563**	**$ 26,352**	**$ 12,025**
Numerator for Earnings per Share Diluted:				
Net income	$ 14,103	$ 8,600	$ 26,433	$ 12,080

Net Income Available to Shareholders	**$ 14,103**	**$ 8,600**	**$ 26,433**	**$ 12,080**
Denominators:				
Weighted Average Shares Outstanding Basic	**29,654,018**	**28,791,207**	**29,637,825**	**28,485,810**
Add: Dilutive potential shares	23,858	19,547	41,319	29,993
Denominator for Treasury Stock Method Diluted	**29,677,876**	**28,810,754**	**29,679,144**	**28,515,803**
Weighted Average Shares Outstanding Basic	**29,654,018**	**28,791,207**	**29,637,825**	**28,485,810**
Add: Average participating shares outstanding	74,994	123,522	91,530	129,707
Denominator for Two-Class Method Diluted	**29,729,012**	**28,914,729**	**29,729,355**	**28,615,517**
Earnings per share basic	$ 0.47	$ 0.30	$ 0.89	$ 0.42
Earnings per share diluted	$ 0.47	$ 0.30	$ 0.89	$ 0.42
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	629,570	750,653	642,499	752,770
Restricted stock considered anti-dilutive excluded from dilutive potential shares	51,136	66,422	50,211	64,673

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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.

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

adjustments into the valuation models to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in calculating fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements and collateral postings.

Nonrecurring Basis

Loans Held for Sale

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

Impaired Loans

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

Appraisals may be discounted based on our historical knowledge, 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 MSRs is determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor driving the value of MSRs. If the carrying value of MSRs exceeds fair value, they are considered impaired. As the valuation model includes significant unobservable inputs, 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.

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

Cash and Cash Equivalents and Other Short-Term Assets

The carrying amounts reported in the Consolidated Balance Sheets for cash and due from banks, including interest-bearing deposits, approximate fair value.

Loans

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

Bank Owned Life Insurance

Fair value approximates net cash surrender value.

Deposits

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

Short-Term Borrowings

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

Long-Term Borrowings

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

Junior Subordinated Debt Securities

The variable rate junior subordinated debt securities reprice quarterly and 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.

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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 June 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.

	June 30, 2013			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$	$ 232,856	$	$ 232,856
Collateralized mortgage obligations of U.S. government corporations and agencies		47,336		47,336
Residential mortgage-backed securities of U.S. government corporations and agencies		53,687		53,687
Commercial mortgage-backed securities of U.S. government corporations and agencies		30,547		30,547
Obligations of states and political subdivisions		106,320		106,320
Marketable equity securities	188	8,887		9,075
Total securities available-for-sale	188	479,633		479,821
Trading securities held in a Rabbi Trust	3,063			3,063
Total securities	3,251	479,633		482,884
Derivative financial assets:				
Interest rate swaps		15,396		15,396
Forward sale contracts		357		357
Total Assets	**$ 3,251**	**$ 495,386**	**$**	**$ 498,637**
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$	$ 15,327	$	$ 15,327
Interest rate lock commitments		25		25
Total Liabilities	**$**	**$ 15,352**	**$**	**$ 15,352**

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

(dollars in thousands)	December 31, 2012 Level 1	Level 2	Level 3	Total
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:

(dollars in thousands)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Balance at beginning of period	$ 312	$ 500	$ 300	$ 462
Total gains included in other comprehensive income	32	56	44	94
Net purchases, sales, issuances and settlements				
Transfers out of Level 3	(344)		(344)	

Balance at end of period	**$**	**$ 556**	**$**	**$ 556**

(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.

The $0.3 million transfer out of Level 3 moved into Level 2 as a result of an initial public offering. There were no Level 3 liabilities measured at fair value on a recurring basis for any of the periods presented.

We may be required to measure certain assets and liabilities on a nonrecurring basis. The following tables present our assets that are measured at estimated fair value on a nonrecurring basis by the fair value hierarchy level at June 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. At December 31, 2012, we had no loans held for sale that were recorded at fair value.

(dollars in thousands)	June 30, 2013 Level 1	Level 2	Level 3	Total
ASSETS				
Loans held for sale	$	$	$ 3,185	$ 3,185
Impaired loans			24,565	24,565
Other real estate owned			178	178
Mortgage servicing rights			2,689	2,689
Total Assets	**$**	**$**	**$ 30,462**	**$ 30,462**

(dollars in thousands)	December 31, 2012 Level 1	Level 2	Level 3	Total
ASSETS				
Impaired loans	$	$	$ 44,059	$ 44,059
Other real estate owned			585	585
Mortgage servicing rights			2,106	2,106
Total Assets	**$**	**$**	**$ 46,750**	**$ 46,750**

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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 June 30, 2013 and December 31, 2012 are presented in the following tables:

		Fair Value Measurements at June 30, 2013			
(dollars in thousands)	**Carrying Value*(1)***	**Total**	**Level 1**	**Level 2**	**Level 3**
ASSETS					
Cash and due from banks, including interest-bearing deposits	$ 247,432	$ 247,432	$ 247,432	$	$
Securities available-for-sale	479,821	479,821	188	479,633	
Loans held for sale	3,185	3,185			3,185
Portfolio loans, net of unearned income	3,443,233	3,426,036			3,426,036
Bank owned life insurance	59,535	59,535		59,535	
FHLB and other restricted stock	13,959	13,959			13,959
Trading securities held in a Rabbi Trust	3,063	3,063	3,063		
Mortgage servicing rights	2,689	2,689			2,689
Interest rate swaps	15,396	15,396		15,396	
Forward sale contracts	357	357		357	
LIABILITIES					
Deposits	$ 3,648,628	$ 3,651,607	$	$	$ 3,651,607
Securities sold under repurchase agreements	74,151	74,151			74,151
Short-term borrowings	125,000	125,000			125,000
Long-term borrowings	22,965	24,323			24,323
Junior subordinated debt securities	45,619	45,619			45,619
Interest rate swaps	15,327	15,327		15,327	
Interest rate lock commitments	25	25		25	

(1) *As reported in the Consolidated Balance Sheets*

		Fair Value Measurements at December 31, 2012			
(dollars in thousands)	**Carrying Value*(1)***	**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	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		
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*

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE

The following tables indicate the composition of the securities available-for-sale portfolio as of the dates presented:

	June 30, 2013			
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Obligations of U.S. government corporations and agencies	$ 232,784	$ 2,705	$ (2,633)	$ 232,856
Collateralized mortgage obligations of U.S. government corporations and agencies	46,603	880	(147)	47,336
Residential mortgage-backed securities of U.S. government corporations and agencies	52,471	1,798	(582)	53,687
Commercial mortgage-backed securities of U.S. government corporations and agencies	31,587		(1,040)	30,547
Obligations of states and political subdivisions	106,669	1,552	(1,901)	106,320
Debt Securities	**470,114**	**6,935**	**(6,303)**	**470,746**
Marketable equity securities	7,579	1,496		9,075
Total	**$ 477,693**	**$ 8,431**	**$ (6,303)**	**$ 479,821**

	December 31, 2012			
(dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Obligations of U.S. government corporations and agencies	$ 207,229	$ 4,890	$ (53)	$ 212,066
Collateralized mortgage obligations of U.S. government corporations and agencies	56,085	1,811		57,896
Residential mortgage-backed securities of U.S. government corporations and agencies	47,279	3,344		50,623
Commercial mortgage-backed securities of U.S. government corporations and agencies	10,129	29		10,158
Obligations of states and political subdivisions	107,911	4,908	(52)	112,767
Debt Securities	**428,633**	**14,982**	**(105)**	**443,510**
Marketable equity securities	7,672	1,095	(11)	8,756
Total	**$ 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:

(dollars in thousands)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Gross realized gains	$	$ 6	$ 2	$ 857
Gross realized losses				11
Net Realized Gains	**$**	**$ 6**	**$ 2**	**$ 846**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE continued

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

	June 30, 2013					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	$ 116,064	$ (2,633)	$	$	$ 116,064	$ (2,633)
Collateralized mortgage obligations of U.S. government corporations and agencies	19,824	(147)			19,824	(147)
Residential mortgage-backed securities of U.S. government corporations and agencies	23,457	(582)			23,457	(582)
Commercial mortgage-backed securities of U.S. government corporations and agencies	30,547	(1,040)			30,547	(1,040)
Obligations of states and political subdivisions	50,835	(1,901)			50,835	(1,901)
Debt Securities	**240,727**	**(6,303)**			**240,727**	**(6,303)**
Marketable equity securities						
Total Temporarily Impaired Securities	**$ 240,727**	**$ (6,303)**	**$**	**$**	**$ 240,727**	**$ (6,303)**

	December 31, 2012					
	Less Than 12 Months		12 Months or More		Total	
(dollars in thousands)	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)

Total Temporarily Impaired Securities	**$**	**22,883**	**$**	**(116)**	**$**		**$**		**$**	**22,883**	**$**	**(116)**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE continued

We do not believe any individual unrealized loss as of June 30, 2013 represents an other than temporary impairment, or OTTI. As of June 30, 2013, the unrealized losses on thirty-eight debt securities were primarily attributable to changes in interest rates. There were no unrealized losses on marketable equity securities as of June 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 $1.4 million and $10.4 million were included in accumulated other comprehensive loss, net of tax, at June 30, 2013 and December 31, 2012, respectively. Gross unrealized gains of $5.5 million and $10.5 million, net of tax, were netted against gross unrealized losses of $4.1 million and $0.1 million, respectively, for these same periods. There were no unrealized losses reclassified into earnings to record OTTI during the period ended June 30, 2013 and minimal losses were reclassified into earnings to record OTTI during the period ended June 30, 2012.

The amortized cost and fair value of securities available-for-sale at June 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.

	June 30, 2013	
(dollars in thousands)	**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	$ 49,853	$ 50,286
Due after one year through five years	134,486	136,613
Due after five years through ten years	73,704	71,660
Due after ten years	81,410	80,617
	339,453	**339,176**
Collateralized mortgage obligations of U.S. government corporations and agencies	46,603	47,336
Residential mortgage-backed securities of U.S. government corporations and agencies	52,471	53,687
Commercial Mortgage-backed securities of U.S. government corporations and agencies	31,587	30,547
Debt Securities	**470,114**	**470,746**
Marketable equity securities	7,579	9,075
Total	**$ 477,693**	**$ 479,821**

At June 30, 2013 and December 31, 2012, securities with carrying values of $295.3 million and $307.5 million, respectively, were pledged for various regulatory and legal requirements.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of $0.7 million and $0.2 million at June 30, 2013 and December 31, 2012, respectively. The following table indicates the composition of the loans as of the dates presented:

(dollars in thousands)	**June 30, 2013**	**December 31, 2012**
Commercial		
Commercial real estate	$ 1,501,491	$ 1,452,133
Commercial and industrial	826,696	791,396
Commercial construction	167,225	168,143
Total Commercial Loans	**2,495,412**	**2,411,672**
Consumer		
Residential mortgage	463,446	427,303
Home equity	413,585	431,335
Installment and other consumer	67,983	73,875
Consumer construction	2,807	2,437
Total Consumer Loans	**947,821**	**934,950**
Total Portfolio Loans	**3,443,233**	**3,346,622**
Loans held for sale	3,185	22,499
Total Loans	**$ 3,446,418**	**$ 3,369,121**

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 represent 72 percent of total portfolio loans at both June 30, 2013 and December 31, 2012. Within our commercial portfolio, the commercial real estate, or CRE, and commercial construction portfolios combined comprise 67 percent of total commercial loans and 48 percent of total portfolio loans at both June 30, 2013 and 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. 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 20 percent of the combined portfolio and 10 percent of total loans being out-of-state loans at both June 30, 2013 and December 31, 2012. Included in this calculation are loans in Ohio, West Virginia, New York and Maryland which are contiguous states whereby economic and performance behavior are very similar to our footprint in Western Pennsylvania. 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 consider. 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.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE continued

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

	June 30, 2013			December 31, 2012		
(dollars in thousands)	Accruing TDRs	Nonaccruing TDRs	Total TDRs	Accruing TDRs	Nonaccruing TDRs	Total TDRs
Commercial real estate	$ 14,139	$ 8,679	$ 22,818	$ 14,220	$ 9,584	$ 23,804
Commercial and industrial	8,118	1,219	9,337	8,270	939	9,209
Commercial construction	11,503	4,507	16,010	11,734	5,324	17,058
Residential mortgage	3,151	1,430	4,581	3,078	2,752	5,830
Home equity	3,890	229	4,119	4,195	341	4,536
Installment and other consumer	139		139	24		24
Total	**$ 40,940**	**$ 16,064**	**$ 57,004**	**$ 41,521**	**$ 18,940**	**$ 60,461**

We returned no TDRs to accruing status during the three months ended June 30, 2013 and one TDR for $0.2 million to accruing status during the six months ended June 30, 2013. We did not return any TDRs to accruing status during the three months or six months ended June 30, 2012.

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

	Three Months Ended June 30, 2013			
(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment(1)	Post-Modification Outstanding Recorded Investment(1)	Total Difference in Recorded Investment
Commercial real estate				
Principal forgiveness(2)	1	$ 4,339	$ 4,339	$
Chapter 7 bankruptcy(3)	4	53	51	(2)
Commercial and industrial				
Maturity date extension	1	751	751	
Residential mortgage				
Chapter 7 bankruptcy(3)	2	84	75	(9)
Home equity				
Chapter 7 bankruptcy(3)	17	486	478	(8)

Total by Concession Type							
Maturity date extension	1		751		751		
Principal forgiveness[2]	1		4,339		4,339		
Chapter 7 bankruptcy[3]	23		623		604		(19)
Total	**25**	**$**	**5,713**	**$**	**5,694**	**$**	**(19)**

[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.*

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE continued

	Six Months Ended June 30, 2013			
(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment
Commercial real estate				
Principal deferral	3	$ 1,541	$ 1,288	$ (253)
Principal forgiveness[2]	1	4,339	4,339	
Chapter 7 bankruptcy[3]	7	258	255	(3)
Commercial and industrial				
Principal deferral	1	392	387	(5)
Maturity date extension	1	751	751	
Chapter 7 bankruptcy[3]	1	3	3	
Residential mortgage				
Principal deferral	2	153	153	
Chapter 7 bankruptcy[3]	8	353	344	(9)
Home equity				
Principal deferral	1	174	45	(129)
Chapter 7 bankruptcy[3]	23	648	640	(8)
Installment and other consumer				
Chapter 7 bankruptcy[3]	6	73	73	
Total by Concession Type				
Principal Deferral	7	2,260	1,873	(387)
Principal forgiveness[2]	1	4,339	4,339	
Maturity date extension	1	751	751	
Chapter 7 bankruptcy[3]	45	1,335	1,315	(20)
Total	**54**	**$ 8,685**	**$ 8,278**	**$ (407)**

[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.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE continued

	Three and Six Months Ended June 30, 2012			
(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment
Commercial real estate				
Maturity rate extension	1	160	157	(3)
Rate reduction	1	575	573	(2)
Commercial and industrial				
Maturity date extension	2	2,576	2,480	(96)
Residential mortgage				
Maturity date extension	1	475	464	(11)
Total by Concession Type				
Maturity date extension	4	3,211	3,101	(110)
Rate reduction	1	575	573	(2)
Total	**5**	**$ 3,786**	**$ 3,674**	**$ (112)**

[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.*

There were no new TDRs during the quarter ended March 31, 2012; therefore, the above chart represents both the three and six months ended June 30, 2012.

For the three months ended June 30, 2013, we modified two loans that were not considered to be TDRs, including a $2.6 million commercial and industrial, or C&I, line of credit and a $0.4 million commercial construction loan. For the six months ended June 30, 2013, we modified five loans that were not considered to be TDRs, including three C&I loans totaling $5.3 million and two commercial construction loans totaling $0.6 million. 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 June 30, 2013 we have no commitments to lend additional funds on any TDRs.

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 six month periods ended June 30, 2013 and 2012, respectively, that had been restructured within the last twelve months prior to defaulting:

Defaulted TDRs

	For the Three Months Ended June 30, 2013		For the Three Months Ended June 30, 2012	
(dollars in thousands)	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate		$	1	$ 59
Commercial and Industrial				
Commercial construction				
Residential real estate	2	46	1	450
Home equity	2	33		
Total	**4**	**$ 79**	**2**	**$ 509**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE continued

	Defaulted TDRs			
	For the Six Months Ended June 30, 2013		For the Six Months Ended June 30, 2012	
(dollars in thousands)	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate		$	1	$ 59
Commercial and Industrial				
Commercial construction			3	2,659
Residential real estate	3	64	3	2,359
Home equity	4	151		
Total	**7**	**$ 215**	**7**	**$ 5,077**

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

(dollars in thousands)	June 30, 2013	December 31, 2012
Nonperforming Assets		
Nonaccrual loans	$ 21,819	$ 36,018
Nonaccrual TDRs	16,064	18,940
Total nonaccrual loans	37,883	54,958
OREO	408	911
Total Nonperforming Assets	**$ 38,291**	**$ 55,869**

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

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.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

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 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. The ALL methodology for groups of homogeneous loans, known as the general reserve, is comprised of both a quantitative and qualitative analysis. Due to the economic environment over the past two years, we used a relatively shorter time horizon of four quarters to calculate our historic loss rates for all loan portfolios. Given that credit quality has been improving in recent periods, the historic loss rates in certain portfolios have been decreasing to rates below what we believe is reflective of the inherent losses within these portfolios. As such, during the first quarter of 2013, we lengthened the historic loss calculation for our CRE and C&I portfolios to consider eight quarters. After consideration of the loss calculations, management applies additional qualitative adjustments so that the ALL is reflective of the inherent losses believed to exist in the loan portfolio at the balance sheet date. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

The following tables present the age analysis of past due loans segregated by class of loans as of June 30, 2013 and December 31, 2012:

	June 30, 2013					
(dollars in thousands)	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Nonaccrual**	**Total Past Due**	**Total Loans**
Commercial real estate	$ 1,479,450	$ 1,093	$ 216	$ 20,732	$ 22,041	$ 1,501,491
Commercial and industrial	817,633	729	3,130	5,204	9,063	826,696
Commercial construction	162,116	334		4,775	5,109	167,225
Residential mortgage	457,151	1,363	1,467	3,465	6,295	463,446
Home equity	407,695	2,080	136	3,674	5,890	413,585
Installment and other consumer	67,599	265	86	33	384	67,983
Consumer construction	2,807					2,807
Totals	**$ 3,394,451**	**$ 5,864**	**$ 5,035**	**$ 37,883**	**$ 48,782**	**$ 3,443,233**

	December 31, 2012					
(dollars in thousands)	**Current**	**30-59 Days Past Due**	**60-89 Days Past Due**	**Nonaccrual**	**Total Past Due**	**Total Loans**
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, which generally have an increasing risk of loss.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

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.

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

	June 30, 2013							
(dollars in thousands)	**Commercial Real Estate**	**% of Total**	**Commercial and Industrial**	**% of Total**	**Commercial Construction**	**% of Total**	**Total**	**% of Total**
Pass	$ 1,371,327	91.3%	$ 753,972	91.2%	$ 128,498	76.8%	$ 2,253,797	90.3%
Special mention	64,370	4.3%	45,694	5.5%	21,355	12.8%	131,419	5.3%
Substandard	65,794	4.4%	27,030	3.3%	17,372	10.4%	110,196	4.4%
Total	**$ 1,501,491**	**100.0%**	**$ 826,696**	**100.0%**	**$ 167,225**	**100.0%**	**$ 2,495,412**	**100.0%**

	December 31, 2012							
(dollars in thousands)	**Commercial Real Estate**	**% of Total**	**Commercial and Industrial**	**% of Total**	**Commercial Construction**	**% of Total**	**Total**	**% 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:

	June 30, 2013									
(dollars in thousands)	**Residential Mortgage**	**% of Total**	**Home Equity**	**% of Total**	**Installment and other consumer**	**% of Total**	**Consumer Construction**	**% of Total**	**Total**	**% of Total**
Performing	$ 459,981	99.2%	$ 409,911	99.1%	$ 67,950	99.9%	$ 2,807	100.0%	$ 940,649	99.2%
Nonperforming	3,465	0.8%	3,674	0.9%	33	0.1%		%	7,172	0.8%
Total	**$ 463,446**	**100.0%**	**$ 413,585**	**100.0%**	**$ 67,983**	**100.0%**	**$ 2,807**	**100.0%**	**$ 947,821**	**100.0%**

	December 31, 2012									
(dollars in thousands)	**Residential Mortgage**	**% of Total**	**Home Equity**	**% of Total**	**Installment and other consumer**	**% of Total**	**Consumer Construction**	**% of Total**	**Total**	**% of Total**
Performing	$ 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%**

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

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 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 June 30, 2013 and December 31, 2012:

	June 30, 2013			December 31, 2012		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With a related allowance recorded:						
Commercial real estate	$ 2,037	$ 3,796	$ 64	$ 6,138	$ 6,864	$ 1,226
Commercial and industrial				1,864	2,790	1,002
Commercial construction				799	896	3
Consumer real estate	101	101	59			
Other consumer	27	27	17			
Total with a Related Allowance Recorded	**2,165**	**3,924**	**140**	**8,801**	**10,550**	**2,231**
Without a related allowance recorded:						
Commercial real estate	27,846	38,427		33,856	45,953	
Commercial and industrial	11,767	14,470		11,419	12,227	
Commercial construction	16,278	25,474		17,713	27,486	
Consumer real estate	8,598	9,945		10,827	12,025	
Other consumer	112	114		25	25	
Total without a Related Allowance Recorded	**64,601**	**88,430**		**73,840**	**97,716**	
Total:						
Commercial real estate	29,883	42,223	64	39,994	52,817	1,226
Commercial and industrial	11,767	14,470		13,283	15,017	1,002
Commercial construction	16,278	25,474		18,512	28,382	3
Consumer real estate	8,699	10,046	59	10,827	12,025	
Other consumer	139	141	17	25	25	

Total	**$ 66,766**	**$ 92,354**	**$ 140**	**$ 82,641**	**$ 108,266**	**$ 2,231**

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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:

	For the Three Months Ended			
	June 30, 2013		June 30, 2012	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:				
Commercial real estate	$ 2,084	$	$ 5,918	$ 150
Commercial and industrial			910	4
Commercial construction			4,207	(3)
Consumer real estate	86	4		
Other consumer	28	1		
Total with a Related Allowance Recorded	**2,198**	**5**	**11,035**	**151**
Without a related allowance recorded:				
Commercial real estate	30,956	174	43,695	337
Commercial and industrial	12,452	66	13,535	129
Commercial construction	16,376	87	24,314	189
Consumer real estate	8,708	156	7,087	40
Other consumer	114	2		
Total without a Related Allowance Recorded	**68,606**	**485**	**88,631**	**695**
Total:				
Commercial real estate	33,040	174	49,613	487
Commercial and industrial	12,452	66	14,445	133
Commercial construction	16,376	87	28,521	186
Consumer real estate	8,794	160	7,087	40
Other consumer	142	3		
Total	**$ 70,804**	**$ 490**	**$ 99,666**	**$ 846**

	For the Six Months Ended	
(dollars in thousands)	June 30, 2013	June 30, 2012

	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:				
Commercial real estate	$ 3,282	$	$ 5,228	$ 194
Commercial and industrial			2,328	9
Commercial construction			6,374	30
Consumer real estate	43	4		
Other consumer	14	1		
Total with a Related Allowance Recorded	**3,339**	**5**	**13,930**	**233**
Without a related allowance recorded:				
Commercial real estate	31,181	415	45,517	647
Commercial and industrial	12,449	135	10,968	164
Commercial construction	16,854 &n			