

S&T BANCORP INC
Form 10-Q
August 01, 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 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)

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| | |
|--|---|
| 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 July 22, 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 June 30, 2013 and December 31, 2012</u> | 3 |
| <u>Consolidated Statements of Comprehensive Income Three and Six Months Ended June 30, 2013 and 2012</u> | 4 |
| <u>Consolidated Statements of Changes in Shareholders' Equity Six Months Ended June 30, 2013 and 2012</u> | 5 |
| <u>Consolidated Statements of Cash Flows Six Months Ended June 30, 2013 and 2012</u> | 6 |
| <u>Notes to Consolidated Financial Statements</u> | 7-34 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 35-52 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 52-53 |
| Item 4. <u>Controls and Procedures</u> | 53 |
| <u>PART II. OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 54 |
| Item 1A. <u>Risk Factors</u> | 54 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 54 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 54 |
| Item 4. <u>Mine Safety Disclosures</u> | 54 |
| Item 5. <u>Other Information</u> | 54 |
| Item 6. <u>Exhibits</u> | 54 |
| <u>Signatures</u> | 55 |

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

| <i>(dollars in thousands, except share and per share data)</i> | 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) | 77,993 | 77,993 |
| Authorized 50,000,000 shares | | |
| Issued 31,197,365 shares at June 30, 2013 and December 31, 2012 | | |

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| | | |
|---|---|---------------------|
| 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

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 June 30, | | Six Months Ended June 30, | |
|--|--|---------------|--------------------------------------|---------------|
| | 2013 | 2012 | 2013 | 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 |

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| | | | | |
|----------------------------------|------------------|-----------------|------------------|------------------|
| 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

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 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

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

| <i>(dollars in thousands)</i> | 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

Table of Contents

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

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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.

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 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:

| <i>(dollars in thousands, except shares and per share data)</i> | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-----------------|----------------------------------|------------------|
| | 2013 | 2012 | 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 |

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| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| 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 |

Table of Contents

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

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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

Table of Contents

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 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 MSR. If the carrying value of MSR exceeds fair value, they are considered impaired. As the valuation model includes significant unobservable inputs, MSR is classified as Level 3 within the fair value hierarchy.

Other Assets

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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.

Table of Contents

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.

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 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.

| <i>(dollars in thousands)</i> | June 30, 2013 | | | |
|---|----------------------|-------------------|----------------|-------------------|
| | 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 |

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 June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|--------|---------------------------|--------|
| | 2013 | 2012 | 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.

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| <i>(dollars in thousands)</i> | June 30, 2013 | | | Total |
|-------------------------------|---------------|-----------|------------------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| 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 |

| <i>(dollars in thousands)</i> | December 31, 2012 | | | Total |
|-------------------------------|-------------------|-----------|------------------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| 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 |

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

| <i>(dollars in thousands)</i> | Carrying Value(I) | Fair Value Measurements at June 30, 2013 | | | |
|--|----------------------|--|------------|---------|--------------|
| | | 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

| <i>(dollars in thousands)</i> | Carrying Value(I) | 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 | 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 |

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

| | June 30, 2013 | | | |
|---|-------------------|-----------------|-------------------|-------------------|
| | | Gross | Gross | |
| | Amortized | Unrealized | Unrealized | Fair |
| <i>(dollars in thousands)</i> | Cost | Gains | Losses | 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 | | | |
|---|-------------------|------------------|-----------------|-------------------|
| | | Gross | Gross | |
| | Amortized | Unrealized | Unrealized | Fair |
| <i>(dollars in thousands)</i> | Cost | Gains | Losses | 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 |

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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 June 30, | | Six Months Ended June 30, | |
|-------------------------------|------------------------------------|-------------|----------------------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Gross realized gains | \$ | \$ 6 | \$ 2 | \$ 857 |
| Gross realized losses | | | | 11 |
| Net Realized Gains | \$ | \$ 6 | \$ 2 | \$ 846 |

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> | Less Than 12 Months | | June 30, 2013 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 | \$ 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) |

| <i>(dollars in thousands)</i> | Less Than 12 Months | | December 31, 2012 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) |

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

Table of Contents**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.

| <i>(dollars in thousands)</i> | June 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 | \$ 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.

Table of Contents**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:

| <i>(dollars in thousands)</i> | 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.

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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.

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 table summarizes the restructured loans as of the dates presented:

| <i>(dollars in thousands)</i> | June 30, 2013 | | | December 31, 2012 | | |
|--------------------------------|------------------|------------------|------------------|-------------------|------------------|------------------|
| | Accruing | Nonaccruing | Total | Accruing | Nonaccruing | Total |
| | TDRs | TDRs | TDRs | TDRs | TDRs | 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:

| <i>(dollars in thousands)</i> | Number of Loans | Three Months Ended June 30, 2013 | | Total Difference in Recorded Investment |
|--------------------------------------|-----------------|----------------------------------|---------------------------|---|
| | | Pre-Modification | Post-Modification | |
| | | Outstanding | Outstanding | |
| | | Recorded | Recorded | |
| | | Investment ⁽¹⁾ | Investment ⁽¹⁾ | |
| 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) |

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| 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.

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 | Six Months Ended June 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 | | | | |
| 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.

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 and Six Months Ended June 30, 2012 | | Total Difference in Recorded Investment |
|----------------------------------|--------------------|--|--|---|
| | | Pre-Modification | Post-Modification | |
| | | Outstanding Recorded Investment ⁽¹⁾ | Outstanding Recorded Investment ⁽¹⁾ | |
| 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

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| <i>(dollars in thousands)</i> | For the | | For the | |
|--|--------------------|---------------------------|--------------------|---------------------------|
| | Three Months Ended | | Three Months Ended | |
| | Number of | June 30, 2013 Recorded | Number of | June 30, 2012 Recorded |
| | Defaults | Investment | Defaults | 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 |

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 | | Defaulted TDRs | |
|-------------------------------|------------------|---------------|------------------|-----------------|
| | For the | | For the | |
| | Six Months Ended | | Six Months Ended | |
| | June 30, 2013 | | June 30, 2012 | |
| | Number of | Recorded | Number of | Recorded |
| | Defaults | Investment | Defaults | Investment |
| <i>(dollars in thousands)</i> | | | | |
| 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:

| <i>(dollars in thousands)</i> | 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:

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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.

Table of Contents**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:

| <i>(dollars in thousands)</i> | June 30, 2013 | | | | | Total Past Due | Total Loans |
|--------------------------------|---------------------|---------------------|---------------------|------------------|------------------|---------------------|-------------|
| | Current | 30-59 Days Past Due | 60-89 Days Past Due | Nonaccrual | | | |
| 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 | |

| <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 | |

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| | | | | | | |
|--------------------------------|---------------------|------------------|-----------------|------------------|------------------|---------------------|
| 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.

Table of Contents**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:

| <i>(dollars in thousands)</i> | June 30, 2013 | | | | | | | |
|-------------------------------|---------------------------|---------------|------------------------------|---------------|----------------------------|---------------|---------------------|---------------|
| | 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% |

| <i>(dollars in thousands)</i> | December 31, 2012 | | | | | | | |
|-------------------------------|---------------------------|---------------|------------------------------|---------------|----------------------------|---------------|---------------------|---------------|
| | 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.

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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> | June 30, 2013 | | | | | | | | | |
|-------------------------------|---------------------------------|-----------------------|------------------------|-----------------------|---|-----------------------|----------------------------------|-----------------------|-------------------|-----------------------|
| | 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% |

| <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% |

Table of Contents**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:

| <i>(dollars in thousands)</i> | June 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 | \$ 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 |
|--------------|------------------|------------------|---------------|------------------|-------------------|-----------------|

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:

| | For the Three Months Ended | | | |
|---|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
| | June 30, 2013 | | June 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 | \$ 2,084 | \$ | \$ 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 | | | |
|-------------------------------|--------------------------|--|---------------|--|
| | June 30, 2013 | | June 30, 2012 | |
| <i>(dollars in thousands)</i> | | | | |

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| | 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 | 221 | 22,714 | 337 |
| Consumer real estate | 9,194 | 215 | 6,869 | 61 |
| Other consumer | 106 | 2 | | |
| Total without a Related Allowance Recorded | 69,784 | 988 | 86,068 | 1,209 |
| Total: | | | | |
| Commercial real estate | 34,463 | 415 | 50,745 | 841 |
| Commercial and industrial | 12,449 | 135 | 13,296 | 173 |
| Commercial construction | 16,854 | 221 | 29,088 | 367 |
| Consumer real estate | 9,237 | 219 | 6,869 | 61 |
| Other consumer | 120 | 3 | | |
| Total | \$ 73,123 | \$ 993 | \$ 99,998 | \$ 1,442 |

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

As of June 30, 2013, CRE loans of \$29.9 million comprised 45 percent of the total impaired loans of \$66.8 million. These impaired loans are collateralized primarily by commercial real estate properties such as retail or strip malls, office buildings, hotels 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 \$13.6 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 otherwise. As of June 30, 2013, an estimated fair value less cost to sell of approximately \$48.6 million existed for CRE impaired loans. We have current appraisals on all, but \$5.1 million of the \$29.9 million of impaired CRE loans. Approximately \$4.3 million of the \$5.1 million relates to one loan where an appraisal was delayed due to ongoing negotiations to modify the loan. The current appraisal is dated June 22, 2012 and a new appraisal has been ordered.

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

| <i>(dollars in thousands)</i> | Three Months Ended June 30, 2013 | | | | | |
|--------------------------------------|----------------------------------|---------------------------|-------------------------|----------------------|-----------------|------------------|
| | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Consumer Real Estate | Other Consumer | Total Loans |
| Balance at beginning of period | \$ 24,442 | \$ 8,676 | \$ 6,603 | \$ 5,259 | \$ 956 | \$ 45,936 |
| Charge-offs | (1,170) | (563) | (54) | (743) | (399) | (2,929) |
| Recoveries | 1,572 | 190 | 2 | 225 | 86 | 2,075 |
| Net (Charge-offs)/ Recoveries | 402 | (373) | (52) | (518) | (313) | (854) |
| Provision for loan losses | (1,360) | 820 | (739) | 1,914 | 388 | 1,023 |
| Balance at End of Period | \$ 23,484 | \$ 9,123 | \$ 5,812 | \$ 6,655 | \$ 1,031 | \$ 46,105 |

| <i>(dollars in thousands)</i> | Three Months Ended June 30, 2012 | | | | | |
|--------------------------------------|----------------------------------|---------------------------|-------------------------|----------------------|----------------|------------------|
| | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Consumer Real Estate | Other Consumer | Total Loans |
| Balance at beginning of period | \$ 24,297 | \$ 11,864 | \$ 7,684 | \$ 3,162 | \$ 820 | \$ 47,827 |
| Charge-offs | (2,464) | (2,471) | (3,016) | (447) | (218) | (8,616) |
| Recoveries | 142 | 144 | | 60 | 109 | 455 |
| Net (Charge-offs)/ Recoveries | (2,322) | (2,327) | (3,016) | (387) | (109) | (8,161) |
| Provision for loan losses | 2,721 | 2,337 | 1,270 | 626 | 69 | 7,023 |
| Balance at End of Period | \$ 24,696 | \$ 11,874 | \$ 5,938 | \$ 3,401 | \$ 780 | \$ 46,689 |

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Six Months Ended June 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 | (2,809) | (1,923) | (443) | (1,237) | (651) | (7,063) |
| Recoveries | 2,322 | 290 | 55 | 508 | 179 | 3,354 |
| Net (Charge-offs)/ Recoveries | (487) | (1,633) | (388) | (729) | (472) | (3,709) |
| Provision for loan losses | (1,275) | 2,997 | (1,300) | 2,326 | 582 | 3,330 |
| Balance at End of Period | \$ 23,484 | \$ 9,123 | \$ 5,812 | \$ 6,655 | \$ 1,031 | \$ 46,105 |

Six Months Ended June 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 | \$ 29,804 | \$ 11,274 | \$ 3,703 | \$ 3,166 | \$ 894 | \$ 48,841 |
| Charge-offs | (5,574) | (3,968) | (8,291) | (960) | (478) | (19,271) |
| Recoveries | 178 | 248 | 99 | 109 | 189 | 823 |
| Net (Charge-offs)/ Recoveries | (5,396) | (3,720) | (8,192) | (851) | (289) | (18,448) |
| Provision for loan losses | 288 | 4,320 | 10,427 | 1,086 | 175 | 16,296 |
| Balance at End of Period | \$ 24,696 | \$ 11,874 | \$ 5,938 | \$ 3,401 | \$ 780 | \$ 46,689 |

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 June 30, 2013 and December 31, 2012:

| <i>(dollars in thousands)</i> | June 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 | \$ 23,420 | \$ 23,484 | \$ 29,883 | \$ 1,471,608 | \$ 1,501,491 |
| Commercial and industrial | | 9,123 | 9,123 | 11,767 | 814,929 | 826,696 |
| Commercial construction | | 5,812 | 5,812 | 16,278 | 150,947 | 167,225 |
| Consumer real estate | 59 | 6,596 | 6,655 | 8,699 | 871,139 | 879,838 |
| Other consumer | 17 | 1,014 | 1,031 | 139 | 67,844 | 67,983 |
| Total | \$ 140 | \$ 45,965 | \$ 46,105 | \$ 66,766 | \$ 3,376,467 | \$ 3,443,233 |

| <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.

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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.

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

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

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) | |
| | June 30, 2013 | December 31, 2012 | June 30, 2013 | December 31, 2012 |
| Derivatives not Designated as Hedging Instruments | | | | |
| Interest Rate Swap Contracts Commercial Loans | | | | |
| Fair value | \$ 15,396 | \$ 23,748 | \$ 15,327 | \$ 23,522 |
| Notional amount | 229,123 | 227,532 | 229,123 | 227,532 |
| Collateral posted | | | 14,131 | 19,595 |
| Interest Rate Lock Commitments Mortgage Loans | | | | |
| Fair value | | 467 | 25 | |
| Notional amount | | 14,287 | 9,858 | |
| Forward Sale Contracts Mortgage Loans | | | | |
| Fair value | 357 | | | 48 |
| Notional amount | 11,235 | | | 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:

| <i>(dollars in thousands)</i> | Derivatives | | Derivatives | |
|--|----------------------------|-------------------|---------------------------------|-------------------|
| | (included in Other Assets) | | (included in Other Liabilities) | |
| | June 30, 2013 | December 31, 2012 | June 30, 2013 | December 31, 2012 |
| Derivatives not Designated as Hedging Instruments | | | | |
| Gross amounts recognized | \$ 15,755 | \$ 24,262 | \$ 15,686 | \$ 24,036 |
| Gross amounts offset | (359) | (514) | (359) | (514) |

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| | | | | |
|--|------------------|------------------|-----------------|-----------------|
| Net amounts presented in the Consolidated Balance Sheets | 15,396 | 23,748 | 15,327 | 23,522 |
| Gross amounts not offset | | | (14,131) | (19,595) |
| Net Amount | \$ 15,396 | \$ 23,748 | \$ 1,196 | \$ 3,927 |

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 June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|---------------|---------------------------|---------------|
| | 2013 | 2012 | 2013 | 2012 |
| Derivatives not Designated as Hedging Instruments | | | | |
| Interest rate swap contracts commercial loans | \$ (27) | \$ 43 | \$ (156) | \$ 183 |
| Interest rate lock commitments mortgage loans | (266) | 306 | (492) | 372 |
| Forward sale contracts mortgage loans | 381 | (180) | 405 | (111) |
| Total Derivative Gain (Loss) | \$ 88 | \$ 169 | \$ (243) | \$ 444 |

Table of Contents**S&T BANCORP, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued****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 \$19.6 million at a fixed rate and \$48.7 million at a variable rate at June 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> | June 30, 2013 | | December 31, 2012 | |
|---|----------------------|----------------------------------|--------------------------|----------------------------------|
| | Balance | Weighted Average Rate | Balance | Weighted Average Rate |
| Short-term borrowings | | | | |
| Securities sold under repurchase agreements | \$ 74,151 | 0.12% | \$ 62,582 | 0.20% |
| Short-term borrowings | 125,000 | 0.27% | 75,000 | 0.19% |
| Total short-term borrowings | 199,151 | 0.21% | 137,582 | 0.19% |
| Long-term borrowings | | | | |
| Junior subordinated debt securities | 45,619 | 2.73% | 90,619 | 3.01% |
| Other long-term borrowings | 22,965 | 3.02% | 34,101 | 3.17% |
| Total long-term borrowings | 68,584 | 2.83% | 124,720 | 3.05% |
| Total borrowings | \$ 267,735 | 0.88% | \$ 262,302 | 1.55% |

We had total borrowings at June 30, 2013 and December 31, 2012 at the FHLB of Pittsburgh of \$147.7 million and \$108.9 million, respectively. This consisted of \$22.7 in long-term borrowings and \$125.0 in short-term borrowings at June 30, 2013. At June 30, 2013, we had a maximum borrowing capacity of \$1.3 billion, with a remaining borrowing availability of \$1.2 billion with the FHLB of Pittsburgh.

NOTE 9. COMMITMENTS AND CONTINGENCIES**Commitments**

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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 expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Our allowance for unfunded commitments totaled \$3.3 million at June 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> | June 30, 2013 | December 31, 2012 |
|-------------------------------|----------------------|--------------------------|
| Commitments to extend credit | \$ 940,357 | \$ 874,137 |
| Standby letters of credit | 81,389 | 95,399 |
| Total | \$ 1,021,746 | \$ 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.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 10. OTHER COMPREHENSIVE INCOME

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

| | Three Months Ended June 30, 2013 | | | Three Months Ended June 30, 2012 | | |
|---|----------------------------------|-----------------------------|----------------------|----------------------------------|-----------------------------|----------------------|
| | Pre-Tax Amount | Tax (Expense) Benefit | Net of Tax Amount | Pre-Tax Amount | Tax (Expense) Benefit | Net of Tax Amount |
| <i>(dollars in thousands)</i> | | | | | | |
| Change in unrealized gains/losses on securities available-for-sale | \$ (12,061) | \$ 4,221 | \$ (7,840) | \$ 509 | \$ (178) | \$ 331 |
| Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income ⁽¹⁾ | | | | (6) | 2 | (4) |
| Adjustment to funded status of employee benefit plans | 598 | (210) | 388 | 569 | (199) | 370 |
| Other Comprehensive Income (Loss) | \$ (11,463) | \$ 4,011 | \$ (7,452) | \$ 1,072 | \$ (375) | \$ 697 |

⁽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.

| | Six Months Ended June 30, 2013 | | | Six Months Ended June 30, 2012 | | |
|---|--------------------------------|-----------------------------|----------------------|--------------------------------|-----------------------------|----------------------|
| | Pre-Tax Amount | Tax (Expense) Benefit | Net of Tax Amount | Pre-Tax Amount | Tax (Expense) Benefit | Net of Tax Amount |
| <i>(dollars in thousands)</i> | | | | | | |
| Change in unrealized gains/losses on securities available-for-sale | \$ (13,829) | \$ 4,840 | \$ (8,989) | \$ 815 | \$ (285) | \$ 530 |
| Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income ⁽¹⁾ | (2) | 1 | (1) | (846) | 296 | (550) |
| Adjustment to funded status of employee benefit plans | 1,196 | (419) | 777 | 1,137 | (398) | 739 |
| Other Comprehensive Income (Loss) | \$ (12,635) | \$ 4,422 | \$ (8,213) | \$ 1,106 | \$ (387) | \$ 719 |

⁽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 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; however, 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 June 30, | | Six Months Ended June 30, | |
|--|------------------------------------|---------------|----------------------------------|-----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Components of Net Periodic Pension Cost | | | | |
| Service cost - benefits earned during the period | \$ 708 | \$ 727 | \$ 1,416 | \$ 1,454 |
| Interest cost on projected benefit obligation | 996 | 1,076 | 1,992 | 2,152 |
| Expected return on plan assets | (1,565) | (1,404) | (3,130) | (2,808) |
| Amortization of prior service cost (credit) | (34) | (33) | (68) | (65) |
| Recognized net actuarial loss | 588 | 571 | 1,176 | 1,141 |
| Net Periodic Pension Expense | \$ 693 | \$ 937 | \$ 1,386 | \$ 1,874 |

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.

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

| <i>(dollars in thousands)</i> | June 30, 2013 | December 31, 2012 |
|-------------------------------|----------------------|--------------------------|
| Community Banking | \$ 4,520,085 | \$ 4,518,799 |

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| | | |
|---------------------|---------------------|---------------------|
| Insurance | 7,460 | 6,697 |
| Wealth Management | 1,214 | 1,206 |
| Total Assets | \$ 4,528,759 | \$ 4,526,702 |

The following tables provide financial information for our three segments for the three and six month periods ended June 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.

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

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 June 30, 2013 | | | | Consolidated |
|--------------------------------------|---|------------------|------------------------------|---------------------|---------------------|
| | Community Banking | Insurance | Wealth Management | Eliminations | |
| Interest income | \$ 38,505 | \$ | \$ 135 | \$ (87) | \$ 38,553 |
| Interest expense | 4,663 | | | (706) | 3,957 |
| Net interest income (expense) | 33,842 | | 135 | 619 | 34,596 |
| Provision for loan losses | 1,023 | | | | 1,023 |
| Noninterest income | 8,467 | 1,349 | 2,812 | 239 | 12,867 |
| Noninterest expense | 21,786 | 1,105 | 2,389 | 1,797 | 27,077 |
| Depreciation expense | 876 | 12 | 8 | | 896 |
| Amortization of intangible assets | 387 | 13 | 13 | | 413 |
| Provision (benefit) for income taxes | 4,592 | 77 | 221 | (939) | 3,951 |
| Net Income | \$ 13,645 | \$ 142 | \$ 316 | | \$ 14,103 |

| <i>(dollars in thousands)</i> | Three Months Ended June 30, 2012 | | | | Consolidated |
|--------------------------------------|---|------------------|------------------------------|---------------------|---------------------|
| | Community Banking | Insurance | Wealth Management | Eliminations | |
| Interest income | \$ 39,020 | \$ | \$ 104 | \$ 246 | \$ 39,370 |
| Interest expense | 6,008 | | | (457) | 5,551 |
| Net interest income (expense) | 33,012 | | 104 | 703 | 33,819 |
| Provision for loan losses | 7,023 | | | | 7,023 |
| Noninterest income | 8,670 | 1,293 | 2,570 | (2) | 12,531 |
| Noninterest expense | 22,902 | 1,268 | 2,271 | 1,479 | 27,920 |
| Depreciation expense | 971 | 12 | 8 | | 991 |
| Amortization of intangible assets | 405 | 13 | 15 | | 433 |
| Provision (benefit) for income taxes | 1,998 | | 163 | (778) | 1,383 |
| Net Income (Loss) | \$ 8,383 | \$ | \$ 217 | \$ | \$ 8,600 |

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Six Months Ended June 30, 2013
Wealth

| <i>(dollars in thousands)</i> | Community Banking | Insurance | Management | Eliminations | Consolidated |
|--------------------------------------|------------------------------|------------------|-------------------|---------------------|---------------------|
| Interest income | \$ 76,194 | \$ 1 | \$ 273 | \$ (72) | \$ 76,396 |
| Interest expense | 9,454 | | | (1,323) | 8,131 |
| Net interest income (expense) | 66,740 | 1 | 273 | 1,251 | 68,265 |
| Provision for loan losses | 3,330 | | | | 3,330 |
| Noninterest income | 18,823 | 2,947 | 5,386 | 517 | 27,673 |
| Noninterest expense | 46,427 | 2,552 | 4,878 | 3,468 | 57,325 |
| Depreciation expense | 1,795 | 22 | 16 | | 1,833 |
| Amortization of intangible assets | 792 | 26 | 26 | | 844 |
| Provision (benefit) for income taxes | 7,438 | 122 | 313 | (1,700) | 6,173 |
| Net Income (Loss) | \$ 25,781 | \$ 226 | \$ 426 | \$ | \$ 26,433 |

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

| <i>(dollars in thousands)</i> | Six Months Ended June 30, 2012 | | | | Consolidated |
|--------------------------------------|--------------------------------|----------------|----------------------|--------------|------------------|
| | Community Banking | Insurance | Wealth Management | Eliminations | |
| Interest income | \$ 78,252 | \$ 1 | \$ 206 | \$ 51 | \$ 78,510 |
| Interest expense | 11,904 | | | (534) | 11,370 |
| Net interest income (expense) | 66,348 | 1 | 206 | 585 | 67,140 |
| Provision for loan losses | 16,296 | | | | 16,296 |
| Noninterest income | 17,500 | 2,714 | 4,981 | 406 | 25,601 |
| Noninterest expense | 49,263 | 2,721 | 4,637 | 2,689 | 59,310 |
| Depreciation expense | 1,918 | 25 | 15 | | 1,958 |
| Amortization of intangible assets | 803 | 26 | 30 | | 859 |
| Provision (benefit) for income taxes | 3,724 | (20) | 232 | (1,698) | 2,238 |
| Net Income (Loss) | \$ 11,844 | \$ (37) | \$ 273 | \$ | \$ 12,080 |

NOTE 13. SALE OF MERCHANT CARD SERVICING BUSINESS

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

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 six month periods ended June 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, 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
- 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

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 June 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 \$4.5 billion at June 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 in Akron, 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 six months ended June 30, 2013, we successfully executed on our key strategic initiatives of loan growth and improving asset quality. Loan growth was strong in the first half of 2013 with portfolio loans increasing \$96.6 million, or 2.9 percent, since 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 continued to improve during the first half of 2013 with nonperforming assets, or NPAs, decreasing \$17.6 million, or 31 percent, from December 31, 2012. During the second quarter of 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 109 basis points to 14.30 percent at June 30, 2013 from 15.39 percent at December 31, 2012, due to the above mentioned 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 9.54 percent and tier 1 risk-based capital ratio of 12.28 percent.

Our focus throughout the second half 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 operation infrastructure in order to be positioned to take advantage of internal or acquisition growth opportunities.

Earnings Summary

Net income for the three months ended June 30, 2013 was \$14.1 million, or diluted earnings per share of \$0.47, compared to \$8.6 million, or \$0.30, for the same period in 2012. Net income for the six months ended June 30, 2013 was \$26.4 million, or diluted earnings per share of \$0.89,

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compared to \$12.1 million, or \$0.42, for the same period in 2012. The significant improvement in net income for both the three and six months ended June 30, 2013 was primarily driven by a lower provision for loan losses.

Net interest income increased \$0.8 million and \$1.1 million for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. Net interest income and net interest margin were positively impacted by a \$0.5 million interest recovery on a previously charged-off loan partially offset by \$0.1 million of expenses related to the repayment of \$45.0 million of subordinated debt during the second quarter of 2013. Total average interest earning assets increased \$168.8 million, or 4.3 percent, and \$233.8 million, or 6.1 percent, for the three and six month periods ended June 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. The increase in loan volume has mitigated the impact on net interest income resulting from the low interest rate environment. Further positively impacting net interest income is lower funding costs in both the three and six months ended June 30, 2013 compared to the same periods in 2012.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued

The provision for loan losses decreased \$6.0 million and \$13.0 million for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. The decrease in the provision for loan losses 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 \$7.3 million for the three months ended June 30, 2013 and \$14.7 million for the six months ended June 30, 2013 compared to the same periods in 2012. Total special mention and substandard loans have decreased 14.7 percent over the last twelve months to \$268.7 million at June 30, 2013.

Total noninterest income increased \$0.3 million to \$12.9 million for the three month period ended June 30, 2013 and increased \$2.1 million to \$27.7 million for the six month period ended June 30, 2013 compared to the same periods in 2012. Almost all categories of noninterest income increased for the three and six months ended June 30, 2013 compared to the same periods in the prior year with the exception of securities gains and other noninterest income. The decrease in other noninterest income of \$0.6 million and \$1.0 million for the three and six months ended June 30, 2013 was attributed to lower fee income on letters of credit and commercial loan swaps and lower bank owned life insurance, or BOLI, income. The significant increase in total noninterest income of \$2.1 million for the six months ended June 30, 2013 was driven by the sale of our merchant card servicing business in the first quarter of 2013, resulting in a net gain of \$3.1 million. This increase was offset by a gain on a sale of one equity security of \$0.8 million in the first quarter of 2012.

Total noninterest expenses decreased \$1.0 million to \$28.4 million for the three month period ended June 30, 2013 and decreased \$2.1 million to \$60.0 million for the six month period ended June 30, 2013 compared to the same periods in 2012. The decrease in expense was primarily due to decreases in merger related expenses and other noninterest expense. One-time merger related expenses decreased by \$0.3 million and \$3.4 million in the three and six month periods ended June 30, 2013 compared to the same periods in 2012. Excluding the effect of merger related expenses, we experienced higher expenses in several categories, including net occupancy, other taxes and Federal Deposit Insurance Corporation, or FDIC, assessment resulting from the two acquisitions that occurred in 2012. Other noninterest expense decreased due to lower expense associated with other real estate owned, or OREO, and a decrease in the reserve for unfunded commitments.

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 Consolidated Statements of Comprehensive Income is reconciled to net interest income adjusted to a FTE basis in the next section for the three and six months ended June 30, 2013 and 2012.

Operating revenue is the sum of net interest income and noninterest income less one-time gains/losses and securities gains/losses. 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.

RESULTS OF OPERATIONS**Three and Six Months Ended June 30, 2013 Compared to****Three and Six Months Ended June 30, 2012****Net Interest Income**

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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 73 percent of operating revenue (net interest income plus noninterest income, excluding one-time gains/losses and security gains/losses) for the three month periods ended June 30, 2013 and 2012 and 74 percent of operating revenue for the six month periods ended June 30, 2013 and 2012. The level and mix of interest-earning assets and interest-bearing liabilities

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued

are 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 investments using the federal statutory tax rate of 35 percent for each period. 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 June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|------------------|----------------------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Total interest income | \$ 38,553 | \$ 39,370 | \$ 76,396 | \$ 78,510 |
| Total interest expense | 3,957 | 5,551 | 8,131 | 11,370 |
| Net interest income per consolidated statements of comprehensive income | 34,596 | 33,819 | 68,265 | 67,140 |
| Adjustment to FTE basis | 1,169 | 1,129 | 2,341 | 2,258 |
| Net Interest Income (FTE) (non-GAAP) | \$ 35,765 | \$ 34,948 | \$ 70,606 | \$ 69,398 |
| Net interest margin | 3.40% | 3.45% | 3.38% | 3.51% |
| Adjustment to FTE basis | 0.11 | 0.12 | 0.12 | 0.12 |
| Net Interest Margin (FTE) (non-GAAP) | 3.51% | 3.57% | 3.50% | 3.63% |

Income amounts are annualized for rate calculations.

Table of Contents**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 June 30, 2013 | | | Three Months Ended June 30, 2012 | | |
|---|-------------------------------------|------------------|--------------|-------------------------------------|------------------|--------------|
| | Balance | Interest | Rate | Balance | Interest | Rate |
| ASSETS | | | | | | |
| Loans ^{(1) (2)} | \$ 3,419,393 | \$ 36,459 | 4.28% | \$ 3,203,349 | \$ 37,265 | 4.67% |
| Interest-bearing deposits with banks | 186,265 | 132 | 0.28% | 330,647 | 184 | 0.22% |
| Taxable investment securities ⁽³⁾ | 365,799 | 1,866 | 2.04% | 277,677 | 1,848 | 2.66% |
| Tax-exempt investment securities ⁽²⁾ | 106,194 | 1,255 | 4.73% | 90,625 | 1,197 | 5.28% |
| Federal Home Loan Bank and other restricted stock | 12,420 | 10 | 0.31% | 19,003 | 5 | 0.10% |
| Total Interest-earning Assets | 4,090,071 | 39,722 | 3.89% | 3,921,301 | 40,499 | 4.14% |
| Noninterest-earning assets | 400,592 | | | 404,124 | | |
| Total Assets | \$ 4,490,663 | | | \$ 4,325,425 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Interest-bearing demand | \$ 303,461 | \$ 18 | 0.02% | \$ 303,535 | \$ 49 | 0.07% |
| Money market | 327,733 | 112 | 0.14% | 297,555 | 135 | 0.18% |
| Savings | 1,001,258 | 452 | 0.18% | 888,434 | 621 | 0.28% |
| Certificates of deposit | 1,047,868 | 2,369 | 0.91% | 1,146,931 | 3,671 | 1.28% |
| Securities sold under repurchase agreements | 67,461 | 22 | 0.13% | 50,353 | 21 | 0.16% |
| Short-term borrowings | 71,429 | 44 | 0.25% | 71,154 | 46 | 0.26% |
| Long-term borrowings | 23,196 | 176 | 3.05% | 34,534 | 280 | 3.25% |
| Junior subordinated debt securities | 82,817 | 764 | 3.70% | 90,619 | 728 | 3.23% |
| Total Interest-bearing Liabilities | 2,925,223 | 3,957 | 0.54% | 2,883,115 | 5,551 | 0.77% |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposits | 946,862 | | | 864,437 | | |
| Other liabilities | 72,370 | | | 69,167 | | |
| Shareholders' equity | 546,208 | | | 508,706 | | |
| Total Liabilities and Shareholders' Equity | \$ 4,490,663 | | | \$ 4,325,425 | | |
| Net Interest Income⁽²⁾ | | \$ 35,765 | | | \$ 34,948 | |
| Net Interest Margin⁽²⁾ | | | 3.51% | | | 3.57% |

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⁽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 includes the dividend-received deduction for equity securities.*

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued

| <i>(dollars in thousands)</i> | Six Months Ended | | | Six Months Ended | | |
|---|---------------------|---------------|--------------|---------------------|---------------|--------------|
| | Balance | Interest | Rate | Balance | Interest | Rate |
| ASSETS | | | | | | |
| Loans ⁽¹⁾ ⁽²⁾ | \$ 3,388,915 | \$ 72,190 | 4.30% | \$ 3,169,433 | \$ 74,287 | 4.70% |
| Interest-bearing deposits with banks | 198,379 | 252 | 0.25% | 280,944 | 297 | 0.21% |
| Taxable investment securities ⁽³⁾ | 359,622 | 3,731 | 2.07% | 276,360 | 3,814 | 2.76% |
| Tax-exempt investment securities ⁽²⁾ | 108,310 | 2,536 | 4.68% | 89,057 | 2,356 | 5.29% |
| Federal Home Loan Bank and other restricted stock | 13,415 | 28 | 0.42% | 19,011 | 14 | 0.15% |
| Total Interest-earning Assets | 4,068,641 | 78,737 | 3.90% | 3,834,805 | 80,768 | 4.22% |
| Noninterest-earning assets | 400,901 | | | 399,850 | | |
| Total Assets | \$ 4,469,542 | | | \$ 4,234,655 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Interest-bearing demand | \$ 306,792 | \$ 37 | 0.02% | \$ 298,261 | \$ 92 | 0.06% |
| Money market | 332,961 | 237 | 0.14% | 288,086 | 248 | 0.17% |
| Savings | 987,616 | 945 | 0.19% | 859,339 | 1,080 | 0.25% |
| Certificates of deposit | 1,045,521 | 4,934 | 0.95% | 1,139,809 | 7,806 | 1.37% |
| Securities sold under repurchase agreements | 65,411 | 48 | 0.15% | 43,983 | 33 | 0.15% |
| Short-term borrowings | 66,298 | 78 | 0.24% | 73,242 | 92 | 0.25% |
| Long-term borrowings | 26,323 | 407 | 3.12% | 33,065 | 550 | 3.34% |
| Junior subordinated debt securities | 86,696 | 1,445 | 3.36% | 90,619 | 1,469 | 3.25% |
| Total Interest-bearing Liabilities | 2,917,618 | 8,131 | 0.56% | 2,826,404 | 11,370 | 0.81% |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposits | 936,141 | | | 836,950 | | |
| Other liabilities | 72,450 | | | 68,496 | | |
| Shareholders' equity/other | 543,333 | | | 502,805 | | |
| Total Liabilities and Shareholders' Equity | \$ 4,469,542 | | | \$ 4,234,655 | | |
| Net Interest Income⁽²⁾ | \$ 70,606 | | | \$ 69,398 | | |
| Net Interest Margin⁽²⁾ | 3.50% | | | 3.63% | | |

⁽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 includes the dividend-received deduction for equity securities.

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Net interest income on an FTE basis increased \$0.8 million, or 2.3 percent, for the three months ended June 30, 2013 and \$1.1 million, or 1.7 percent, for the six months ended June 30, 2013 while net interest margin on an FTE basis declined 6 basis points and 13 basis points for the same periods. The low interest rate environment continues to be a challenge to our net interest income and net interest margin, as earning asset rates decreased faster than our ability to offset those decreases on the liability side.

Interest income on an FTE basis decreased \$0.8 million and \$2.0 million to \$39.7 million and \$78.7 million for the three and six months ended June 30, 2013 compared to \$40.5 million and \$80.8 million for the same periods in 2012. The decrease in interest income is primarily driven by declining loan rates with a 39 basis point decrease for the three months ended June 30, 2013 compared to June 30, 2012 and a 40 basis point decline for the six months ended June 30, 2013 compared to June 30, 2012. The impact of lower loan rates on interest income was mitigated by increasing average loan balances of \$216.0 million for the three months ended June 30, 2013 compared to the three months ended June 30, 2012, and an increase in average loans of \$219.5 million for the six months ended June 30, 2013 compared to the six months ended June 30, 2012. Average loans 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. Further positively impacting interest income was a \$0.5 million interest recovery in the second quarter of 2013. This interest recovery related to a previously charged off loan where a payment of \$1.1 million was received and \$0.6 million was applied to fully recover the principal and the remaining amount was recognized as recovered interest. Average securities increased \$103.7 million and \$102.5 million for the three months and six months ended June 30, 2013 compared to the same periods in the prior year. Overall, the FTE rate on total interest-earning assets decreased 25 basis points to 3.89 percent for the three months ended June 30, 2013 and decreased 32 basis points to 3.90 percent for the six months ended June 30, 2013 as compared to 4.14 percent and 4.22 percent for the same periods in 2012.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued

Interest expense decreased \$1.6 million to \$4.0 million for the three months ended June 30, 2013 compared to \$5.6 million for the three months ended June 30, 2012 and decreased \$3.3 million to \$8.1 million for the six months ended June 30, 2013 compared to \$11.4 million for the six months ended June 30, 2012. The decrease in interest expense was due to the maturity of higher costing certificates of deposits, or CDs. Average CDs decreased by \$99.1 million and \$94.3 million for the three and six month periods ended June 30, 2013, as the average of other interest-bearing deposits increased by \$142.9 million and \$181.7 million for the same periods, resulting in average interest-bearing deposit increases of \$43.9 million and \$87.4 million. The increase from \$2.6 billion in average interest-bearing deposits for both the three and six month periods ended June 30, 2012 as compared with \$2.7 billion in average interest-bearing deposits for the three and six month periods ended June 30, 2013 is mainly due to our two acquisitions in 2012. The cost of interest-bearing deposits was 0.44 percent and 0.46 percent for the three and six month periods ended June 30, 2013, a decrease of 24 basis points and 25 basis points from the three month and six month periods ended June 30, 2012 primarily due to the maturity of higher rate CDs and a shift to other lower cost interest-bearing deposits. Interest expense on average borrowings also decreased over both the three and six month periods ended June 30, 2013 compared to the same periods in 2012, by \$0.1 million and \$0.2 million due to the maturity of higher cost long-term borrowings. Overall, the cost of interest-bearing liabilities decreased 23 basis points and 25 basis points to 0.54 percent and 0.56 percent for the three and six month periods ended June 30, 2013 as compared to 0.77 percent and 0.81 percent for the three and six month periods ended June 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 June 30, 2013 | | | Six Months Ended June 30, 2013 | | |
|---|--|-------------------|----------------|--|-------------------|-----------------|
| | Compared to June 30, 2012 ⁽²⁾ Volume | Rate | Net | Compared to June 30, 2012 ⁽²⁾ Volume | Rate | Net |
| <i>(dollars in thousands)</i> | | | | | | |
| Interest earned on: | | | | | | |
| Loans ^{(1) (2)} | \$ 2,513 | \$ (3,319) | \$ (806) | \$ 5,144 | \$ (7,241) | \$ (2,097) |
| Interest-bearing deposits with banks | (80) | 28 | (52) | (87) | 42 | (45) |
| Taxable investment securities ⁽³⁾ | 586 | (568) | 18 | 1,149 | (1,232) | (83) |
| Tax-exempt investment securities ⁽²⁾ | 206 | (148) | 58 | 509 | (329) | 180 |
| Federal Home Loan Bank and other restricted stock | (2) | 7 | 5 | (4) | 18 | 14 |
| Total Interest-earning Assets | 3,223 | (4,000) | (777) | 6,711 | (8,742) | (2,031) |
| Interest paid on: | | | | | | |
| Interest-bearing demand | | (31) | (31) | 3 | (58) | (55) |
| Money market | 14 | (37) | (23) | 39 | (50) | (11) |
| Savings | 79 | (248) | (169) | 162 | (297) | (135) |
| Certificates of deposit | (317) | (985) | (1,302) | (647) | (2,225) | (2,872) |
| Securities sold under repurchase agreements | 7 | (6) | 1 | 16 | (1) | 15 |
| Short-term borrowings | | (2) | (2) | (9) | (5) | (14) |
| Long-term borrowings | (92) | (12) | (104) | (112) | (31) | (143) |
| Junior subordinated debt securities | (63) | 97 | 36 | (63) | 39 | (24) |
| Total Interest-bearing Liabilities | (372) | (1,222) | (1,594) | (611) | (2,628) | (3,239) |
| Net Change in Net Interest Income | \$ 3,595 | \$ (2,778) | \$ 817 | \$ 7,322 | \$ (6,114) | \$ 1,208 |

⁽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 includes the dividend-received deduction for equity securities.*

Provision for Loan Losses

The provision for loan losses is the amount to be 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 at June 30, 2013. The provision for loan losses decreased \$6.0 million to \$1.0 million for the three months ended June 30, 2013 and decreased \$13.0 million to \$3.3 million for the six months ended June 30, 2013 compared to the same periods in 2012. The decrease in the provision for loan losses reflects the improving economic environment throughout 2013 which has resulted in significant improvements in our asset quality. Net loan charge-offs decreased \$7.3 million to \$0.9 million for the three months ended

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued

June 30, 2013 compared to \$8.2 million for the three months ended June 30, 2012 and decreased \$14.7 million to \$3.7 million for the six months ended June 30, 2013 compared to \$18.4 million for the six months ended June 30, 2012. Nonaccrual loans decreased 45 percent to \$37.9 million at June 30, 2013 compared to \$69.1 million at June 30, 2012. Total special mention and substandard loans have decreased \$46.4 million, or 15 percent, over the last twelve months to \$268.7 million at June 30, 2013. The ALL was 1.34 percent of total loans at June 30, 2013 compared to 1.46 percent at June 30, 2012. 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 June 30, | | | | Six Months Ended June 30, | | | |
|--|-----------------------------|------------------|---------------|------------|---------------------------|------------------|-----------------|------------|
| | 2013 | 2012 | \$ Change | % Change | 2013 | 2012 | \$ Change | % Change |
| Debit and credit card fees | \$ 3,150 | \$ 2,839 | \$ 311 | 11.0 | \$ 5,601 | \$ 5,506 | \$ 95 | 1.7 |
| Wealth management fees | 2,820 | 2,577 | 243 | 9.4 | 5,396 | 4,996 | 400 | 8.0 |
| Service charges on deposit accounts | 2,495 | 2,432 | 63 | 2.6 | 4,943 | 4,841 | 102 | 2.1 |
| Insurance fees | 1,643 | 1,519 | 124 | 8.2 | 3,418 | 3,210 | 208 | 6.5 |
| Mortgage banking | 911 | 705 | 206 | 29.2 | 1,393 | 1,376 | 17 | 1.2 |
| Gain on sale of merchant card servicing business | | | | | 3,093 | | 3,093 | |
| Securities gains, net | | 6 | (6) | (100.0) | 2 | 846 | (844) | (99.8) |
| Other | 1,848 | 2,453 | (605) | (24.7) | 3,827 | 4,826 | (999) | (20.7) |
| Total Noninterest Income | \$ 12,867 | \$ 12,531 | \$ 336 | 2.7 | \$ 27,673 | \$ 25,601 | \$ 2,072 | 8.1 |

Noninterest income increased \$0.3 million, or 2.7 percent, and \$2.1 million, or 8.1 percent, to \$12.9 million and \$27.7 million for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. Almost all categories of noninterest income increased for the three and six months ended June 30, 2013 compared to the same periods in the prior year except for securities gains and other noninterest income.

The significant increase in total noninterest income of \$2.1 million for the six months ended June 30, 2013 was driven by the sale of our merchant card servicing business in the first quarter of 2013. 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. The agreement is for an initial term of ten years and provides us with a share of future revenue and incentives to refer new customers. This agreement contributed to the increases in debit and credit card fee revenue for the three and six month periods ended June 30, 2013 over the same periods of 2012 by \$0.3 million and \$0.1 million. Our wealth management fees have increased \$0.2 million and \$0.4 million for the three and six months ended June 30, 2013, compared to the same periods in 2012 due to an increase in brokerage activity and higher assets under management. Assets under management have increased to \$1.7 billion at June 30, 2013 compared to \$1.6 billion at June 30, 2012. Our wealth management business continues to grow as we are seeing the benefits of additional resources added in this business line during 2012. Mortgage banking income increased \$0.2 million for the three months ended June 30, 2013 due to the positive impact of increased interest rates on the valuation of mortgage servicing rights and mortgage commitments as compared to the same period in the prior year. The decrease in securities gains of \$0.8 million for the six month period ended June 30, 2013 compared to the same period in 2012 was the result of a sale of one equity position during the first quarter of 2012, while there has been no significant sales activity in the first half of 2013. The decrease in other noninterest income of \$0.6 million and \$1.0 million for the three and six months ended June 30, 2013 was attributed to lower fee income on letters of credit and commercial loan swaps and lower BOLI income.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**Noninterest Expense**

| (dollars in thousands) | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|--|-----------------------------|------------------|-----------------|--------------|---------------------------|------------------|-------------------|--------------|
| | 2013 | 2012 | \$ Change | % Change | 2013 | 2012 | \$ Change | % Change |
| Salaries and employee benefits ⁽¹⁾ | \$ 14,725 | \$ 14,595 | \$ 130 | 0.9 | \$ 30,737 | \$ 29,316 | \$ 1,421 | 4.8 |
| Net occupancy ⁽¹⁾ | 1,958 | 1,832 | 126 | 6.9 | 4,122 | 3,616 | 506 | 14.0 |
| Data processing ⁽¹⁾ | 2,110 | 1,876 | 234 | 12.5 | 4,043 | 3,500 | 543 | 15.5 |
| Furniture and equipment | 1,230 | 1,209 | 21 | 1.7 | 2,538 | 2,447 | 91 | 3.7 |
| Other taxes | 915 | 777 | 138 | 17.8 | 1,914 | 1,551 | 363 | 23.4 |
| Professional services and legal ⁽¹⁾ | 1,171 | 1,168 | 3 | 0.3 | 2,143 | 2,753 | (610) | (22.2) |
| Merger related expense | 28 | 341 | (313) | (91.8) | 838 | 4,255 | (3,417) | (80.3) |
| FDIC assessment | 707 | 719 | (12) | (1.7) | 1,483 | 1,327 | 156 | 11.8 |
| Marketing | 793 | 655 | 138 | 21.1 | 1,482 | 1,397 | 85 | 6.1 |
| Other noninterest expense ⁽¹⁾ | 4,749 | 6,172 | (1,423) | (23.1) | 10,702 | 11,965 | (1,263) | (10.6) |
| Total Noninterest Expense | \$ 28,386 | \$ 29,344 | \$ (958) | (3.3) | \$ 60,002 | \$ 62,127 | \$ (2,125) | (3.4) |

⁽¹⁾ Excludes one-time merger related expense.

Noninterest expense decreased \$1.0 million, or 3.3 percent, and \$2.1 million, or 3.4 percent, to \$28.4 million and \$60.0 million, for the three and six month periods ended June 30, 2013 compared to the same periods in 2012. The decrease in noninterest expense was due to a significant decline in merger related and other noninterest expenses for both the three and six months ended June 30, 2013. Additionally, we experienced higher expenses in several categories during 2013 due to the full integration of our two acquisitions that occurred in 2012.

Merger expense was minimal for the three months ended June 30, 2013 and \$0.8 million for the six months ended June 30, 2013 compared to \$0.3 million and \$4.3 million for the same periods in the prior year. In the first quarter of 2013, we incurred \$0.8 million of merger related expense for the data processing system conversion of Gateway Bank into S&T Bank. We acquired Gateway Bank on August 8, 2012; however, the system conversion and merger into S&T Bank occurred on February 8, 2013.

Salaries and employee benefits increased \$0.1 million and \$1.4 million for the three and six month periods ended June 30, 2013 due to additional employees, annual merit increases and higher commissions. The increase of \$1.4 million for the six months ended June 30, 2013 was primarily due to approximately \$1.0 million of expense related to new employees resulting from our two acquisitions in the prior year and an increase in full time equivalents. Adding to the increase was our annual salary merit increase of \$0.4 million and commission expense of \$0.6 million for the six months ended June 30, 2013. Commission expense has increased due to increased loan production and strong performance in our other business lines. Offsetting these increases was a decrease in pension expense of \$0.5 million resulting from a change in actuarial assumptions and a decrease of \$0.2 million of stock compensation expense.

Occupancy, other taxes and the FDIC assessment increased primarily due to our two acquisitions in 2012. The increase of \$0.1 million and \$0.4 million in other taxes primarily relates to an additional shares tax obligation for Gateway Bank. Data processing increased \$0.2 million and \$0.5 million in the three and six month periods ended June 30, 2013 as compared to the same periods in 2012 due to the increased processing charges related to 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 products. Professional services and legal expense were unchanged for the three months ended June 30, 2013 compared to the same period in the prior year and decreased \$0.6 million for the six months ended June 30, 2013 compared to the same period in the prior year due to additional external accounting and consulting charges that were incurred in the first quarter of 2012.

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Other noninterest expense decreased \$1.4 million and \$1.3 million for the three and six months ended June 30, 2013 as compared to the same periods in 2012. The decreases in other noninterest expense for both the three and six month periods were primarily due to decreases in the reserve for unfunded loan commitments and OREO expense. The reserve for unfunded commitments has decreased in both periods as a result of improving asset quality. The decreases in OREO expense of \$0.4 million and \$0.8 million for the three and six months ended June 30, 2013 are due to a significant decline in OREO properties during 2013. As of June 30, 2013, we had only \$0.4 million of OREO compared to \$2.9 million at June 30, 2012.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**Provision for Income Taxes**

The provision for income taxes increased \$2.6 million and \$3.9 million to \$4.0 million and \$6.2 million for the three and six month periods ended June 30, 2013 compared to \$1.4 million and \$2.2 million for the same periods in the prior year, primarily due to \$8.1 million and \$18.3 million increases in pretax income. Our effective tax rate, inclusive of discrete items, for the six months ended June 30, 2013 increased to 18.9 percent as compared to 15.6 percent for six months ended June 30, 2012. The increase in the ETR was primarily due to increased taxable income partially offset by increased tax-exempt interest and a nonrecurring tax benefit in the first quarter of 2013.

Financial Condition**June 30, 2013**

Total assets remained relatively unchanged at \$4.5 billion at June 30, 2013 compared to December 31, 2012. Loan production was strong, resulting in an increase to total portfolio loans of \$96.6 million, or 2.9 percent. Our commercial loan portfolio grew by \$83.7 million, or 3.5 percent, to \$2.5 billion while our consumer loan portfolio increased by \$12.9 million, or 1.4 percent, to \$947.8 million. Securities increased \$27.6 million, or 6.1 percent, compared to December 31, 2012 due to the investment of cash into higher yielding securities. Our deposit base remains stable with total deposits of \$3.6 billion at both June 30, 2013 and December 31, 2012. The \$37.2 million increase in CDs was due to the issuance of \$77.1 million of Certificate of Deposit Account Registry Services, or CDARS, One-Way Buy, or OWB, deposits during the first six months of 2013 offset by CD maturities. Junior subordinated debt securities and other long-term borrowings decreased by \$56.1 million, primarily due to the repayment of \$45.0 million of subordinated debt and \$11.1 million of long-term borrowings during the six months ended June 30, 2013. Short-term borrowings increased \$50.0 million resulting from the pay-off of the subordinated debt and long-term borrowings. Total shareholder's equity increased by approximately \$9.4 million, or 1.8 percent, compared to December 31, 2012. The increase was primarily due to net income of \$26.4 million offset by \$8.9 million in dividends and a charge to other comprehensive income of \$8.2 million resulting from a decline in the market value of our available-for-sale securities for the period.

Securities Activity

| <i>(dollars in thousands)</i> | June 30, 2013 | December 31, 2012 | \$ Change |
|---|-------------------|-------------------|------------------|
| Obligations of U.S. government corporations and agencies | \$ 232,856 | \$ 212,066 | \$ 20,790 |
| Collateralized mortgage obligations of U.S. government corporations and agencies | 47,336 | 57,896 | (10,560) |
| Residential mortgage-backed securities of U.S. government corporations and agencies | 53,687 | 50,623 | 3,064 |
| Commercial mortgage-backed securities of U.S. government corporations and agencies | 30,547 | 10,158 | 20,389 |
| Obligations of states and political subdivisions | 106,320 | 112,767 | (6,447) |
| Debt Securities Available-for-Sale | 470,746 | 443,510 | 27,236 |
| Marketable equity securities | 9,075 | 8,756 | 319 |
| Total Securities Available-for-Sale | \$ 479,821 | \$ 452,266 | \$ 27,555 |

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

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Directors and administered through ALCO and our treasury function. The securities portfolio increased \$27.6 million, or 6.1 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 \$6.3 million of unrealized losses at June 30, 2013 compared to \$0.1 million at December 31, 2012. The significant increase in unrealized losses was a result of the increase in interest rates during the second quarter of 2013 and is not related to the underlying credit quality of the bond portfolio. There was no OTTI recorded in the three or six months ended June 30, 2013.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued**Loan Composition**

| <i>(dollars in thousands)</i> | June 30, 2013 | | December 31, 2012 | |
|--------------------------------|---------------------|---------------|---------------------|---------------|
| | Amount | % of Loans | Amount | % of Loans |
| Commercial | | | | |
| Commercial real estate | \$ 1,501,491 | 43.6% | \$ 1,452,133 | 43.4% |
| Commercial and industrial | 826,696 | 24.0% | 791,396 | 23.7% |
| Construction | 167,225 | 4.9% | 168,143 | 5.0% |
| Total Commercial Loans | 2,495,412 | 72.5% | 2,411,672 | 72.1% |
| Consumer | | | | |
| Residential mortgage | 463,446 | 13.4% | 427,303 | 12.7% |
| Home equity | 413,585 | 12.0% | 431,335 | 12.9% |
| Installment and other consumer | 67,983 | 2.0% | 73,875 | 2.2% |
| Construction | 2,807 | 0.1% | 2,437 | 0.1% |
| Total Consumer Loans | 947,821 | 27.5% | 934,950 | 27.9% |
| Total Portfolio Loans | 3,443,233 | 100.0% | 3,346,622 | 100.0% |
| Loans Held for Sale | 3,185 | | 22,499 | |
| Total Loans | \$ 3,446,418 | | \$ 3,369,121 | |

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 \$96.6 million, or 2.9 percent, since December 31, 2012, to \$3.4 billion at June 30, 2013 primarily due to organic loan growth in our CRE, C&I and residential mortgage 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 a loan production office, or LPO, in Northeast Ohio. During the six months ended June 30, 2013, we added nine commercial lenders to our staff and we continue to actively recruit seasoned lenders. Additionally, the loan production office that we established in Northeast Ohio in the third quarter of 2012 is performing ahead of our expectations and we are in process of recruiting additional lenders in that market.

Total commercial loans have increased \$83.7 million, or 3.5 percent, from December 31, 2012. CRE loans increased \$49.4 million, or 3.4 percent, due to new loan originations and the transfers of construction loans into the CRE portfolio. C&I loans increased \$35.3 million, or 4.5 percent, due to new loan originations and increased utilization of lines of credit. Construction loans remain relatively unchanged.

Although commercial loans, including CRE, C&I and construction, can have a relatively higher risk profile, management believes these risks are mitigated through active portfolio management, underwriting and continuous review. The loan-to-value policy guidelines for CRE loans are generally 65-85 percent.

Residential mortgages increased \$36.1 million, or 8.5 percent, due to strong originations in the first six months of 2013. In addition, we are 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

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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. We also originate loans for sale into the secondary market, primarily to Fannie Mae.

Currently, we are selling 30 year mortgages into the secondary market. 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 six months ended June 30, 2013 and 2012, we sold \$35.6 million and \$38.0 million of 1-4 family mortgages and currently service \$324.0 million of secondary market mortgage loans sold to Fannie Mae at June 30, 2013. We intend to continue to sell 30 year loans to Fannie Mae in the future.

Loans held for sale decreased \$19.3 million due to a participation loan that was in process at December 31, 2012.

Table of Contents

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

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. 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 the 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 that exist in the loan portfolio at the historic balance sheet date. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

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.

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.

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 June 30, 2013, approximately 83.3 percent of the ALL was related to our commercial loan portfolio, while commercial loans comprised 72.5 percent of our loan portfolio. Commercial loans have been more impacted by the economic slowdown in our markets. The ability of customers

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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**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 | | | June 30, 2013 | | Portfolio Loans Collectively Evaluated for Impairment | Total |
|-------------------------------|---|---|------------------|---|---------------------|--|-------|
| | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Total | Individually Evaluated for Impairment | Total | | |
| Commercial real estate | \$ 64 | \$ 23,420 | \$ 23,484 | \$ 29,883 | \$ 1,471,608 | \$ 1,501,491 | |
| Commercial and industrial | | 9,123 | 9,123 | 11,767 | 814,929 | 826,696 | |
| Commercial construction | | 5,812 | 5,812 | 16,278 | 150,947 | 167,225 | |
| Consumer real estate | 59 | 6,596 | 6,655 | 8,699 | 871,139 | 879,838 | |
| Other consumer | 17 | 1,014 | 1,031 | 139 | 67,844 | 67,983 | |
| Total | \$ 140 | \$ 45,965 | \$ 46,105 | \$ 66,766 | \$ 3,376,467 | \$ 3,443,233 | |

| <i>(dollars in thousands)</i> | Allowance for Loan Losses | | | December 31, 2012 | | Portfolio Loans Collectively Evaluated for Impairment | Total |
|-------------------------------|---|---|------------------|---|---------------------|--|-------|
| | Individually Evaluated for Impairment | Collectively Evaluated for Impairment | Total | Individually 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 | |

| | June 30, 2013 | December 31, 2012 |
|--|---------------|-------------------|
| Ratio of net charge-offs to average loans outstanding | 0.22%* | 0.78% |
| Allowance for loan losses as a percentage of total loans | 1.34% | 1.38% |
| Allowance for loan losses to nonperforming loans | 122% | 85% |

* Annualized

The balance in the ALL decreased \$0.4 million to \$46.1 million, or 1.34 percent, of total portfolio loans at June 30, 2013 as compared to \$46.5 million, or 1.38 percent, of total portfolio loans at December 31, 2012. The slight decline in the ALL was due to a decrease in the reserves for loans individually evaluated for impairment of \$2.1 million offset by an increase in the reserve for loans collectively evaluated for impairment of \$1.7 million. Impaired loans decreased \$15.9 million from December 31, 2012, primarily a result of loan paydowns. Further, new impaired loan

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formation has not been significant during 2013 with only \$6.3 million of new impaired loans. The reserve for loans collectively evaluated for impairment increased \$1.7 million primarily due to an increase in the C&I reserve of \$2.4 million due to higher historic loss rates and increased loan volume. The commercial construction general reserve decreased \$1.7 million primarily due to a decrease in volume of special mention construction loans. The reserve for loans collectively evaluated for impairment on the consumer real estate portfolio increased \$1.5 million due to higher historic loss rates and additional qualitative reserve added during the quarter to reflect the current level of risk expected within this portfolio.

Overall asset quality continued to improve as a result of decreases in loan charge-offs, nonaccrual loans and special mention and substandard loans from December 31, 2012. Special mention and substandard loans decreased \$68.4 million, or 20 percent, to \$268.7 million at June 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 record 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**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 consider. 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 status 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 the comparable risk of a longer term.

As of June 30, 2013, we had \$57.0 million in total TDRs, including \$40.9 million that were accruing and \$16.1 that were in nonaccrual status. During the six months ended June 30, 2013, we had \$8.7 million of new TDRs with the most significant TDR of \$4.3 million due to principal forgiveness of \$0.1 million, a \$0.8 million TDR related to a maturity date extension and others related to bankruptcy filings that were not reaffirmed resulting in discharged debt. During the six months ended June 30, 2013, we had one TDR for \$0.2 million that met the above requirements for being placed back to accrual status.

The charge-off policy for commercial loans requires that loans and other obligations that are not collectible be promptly charged-off in the month 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 that are not secured by real estate 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. Consumer loans secured by real estate are evaluated for charge-off after the loan balance becomes 90 days past due and are charged down to the estimated fair value of the collateral less 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

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allowance for lending-related commitments increased to \$3.3 million at June 30, 2013 as compared to \$3.0 million at December 31, 2012 due to an increase in the volume of commitments. The allowance for lending-related commitments is included in other liabilities in the Consolidated Balance Sheets.

Table of Contents**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> | June 30, 2013 | December 31, 2012 | \$ Change |
|--|------------------|-------------------|--------------------|
| Nonaccrual Loans | | | |
| Commercial real estate | \$ 12,053 | \$ 20,972 | \$ (8,919) |
| Commercial and industrial | 3,985 | 5,496 | (1,511) |
| Commercial construction | 268 | 1,454 | (1,186) |
| Residential mortgage | 2,035 | 4,526 | (2,491) |
| Home equity | 3,445 | 3,312 | 133 |
| Installment and other consumer | 33 | 40 | (7) |
| Consumer construction | | 218 | (218) |
| Total Nonaccrual Loans | 21,819 | 36,018 | (14,199) |
| Nonaccrual Troubled Debt Restructurings | | | |
| Commercial real estate | 8,679 | 9,584 | (905) |
| Commercial and industrial | 1,219 | 939 | 280 |
| Commercial construction | 4,507 | 5,324 | (817) |
| Residential mortgage | 1,430 | 2,752 | (1,322) |
| Home equity | 229 | 341 | (112) |
| Total Nonaccrual Troubled Debt Restructurings | 16,064 | 18,940 | (2,876) |
| Total Nonaccrual Loans | 37,883 | 54,958 | (17,075) |
| OREO | 408 | 911 | (503) |
| Total Nonperforming Assets | \$ 38,291 | \$ 55,869 | \$ (17,578) |

Asset Quality Ratios:

| | | |
|--|-------|-------|
| Nonperforming loans as a percent of total loans | 1.10% | 1.63% |
| Nonperforming assets as a percent of total loans plus OREO | 1.11% | 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 June 30, 2013 or December 31, 2012.

NPAs decreased to \$38.3 million at June 30, 2013 compared to \$55.9 million at December 31, 2012. The significant decline is primarily related to \$14.8 million in NPL payoffs and \$7.1 million in loan charge-offs. New NPL formation was \$6.8 million for the first six months of 2013.

Deposits

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(dollars in thousands)

| | June 30, 2013 | December 31, 2012 | \$ Change |
|----------------------------|---------------------|---------------------|------------------|
| Noninterest-bearing demand | \$ 947,747 | \$ 960,980 | \$ (13,233) |
| Interest-bearing demand | 297,028 | 316,760 | (19,732) |
| Money market | 329,065 | 361,233 | (32,168) |
| Savings | 1,003,705 | 965,571 | 38,134 |
| Certificates of deposit | 1,071,083 | 1,033,884 | 37,199 |
| Total Deposits | \$ 3,648,628 | \$ 3,638,428 | \$ 10,200 |

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 \$10.2 million at June 30, 2013 compared to December 31, 2012.

Noninterest-bearing demand and interest-bearing demand decreased \$33.0 million at June 30, 2013 compared to December 31, 2012. The decrease in demand balances is not unusual when comparing point in time balances, particularly when comparing to December 31, 2012, as we typically experience an increase in business demand balances at year-end that tend to be temporary in nature. Money market deposits decreased \$32.2 million at June 30, 2013 compared to December 31, 2012 mainly as a result of our Wealth Management division reallocating assets under management to other types of investments.

Table of Contents**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
continued

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 \$37.2 million increase in CDs was impacted by the addition of \$77.1 million of CDARS OWB deposits and a \$5.1 million brokered CD during the second quarter of 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 is an ALCO strategy to increase and diversify funding sources. CDs of \$100,000 and over increased to 12 percent compared to 10 percent of total deposits at June 30, 2013 and at December 31, 2012 with the increase primarily due to the addition of the CDARS OWB deposits.

Borrowings

| <i>(dollars in thousands)</i> | June 30, 2013 | December 31, 2012 | \$ Change |
|---|-------------------|-------------------|-----------------|
| Securities sold under repurchase agreements, retail | \$ 74,151 | \$ 62,582 | \$ 11,569 |
| Short-term borrowings | 125,000 | 75,000 | 50,000 |
| Long-term borrowings | 22,965 | 34,101 | (11,136) |
| Junior subordinated debt securities | 45,619 | 90,619 | (45,000) |
| Total Borrowings | \$ 267,735 | \$ 262,302 | \$ 5,433 |

Borrowings are an additional source of funding for us. Total borrowings have increased by \$5.4 million from December 31, 2012. We repaid \$45.0 million in junior subordinated debt during the second quarter of 2013 and had \$10.0 million of long-term borrowings mature during the first six months of 2013. The junior subordinated debt was repaid because of its diminishing regulatory capital benefit and the future positive impact on net interest income. We replaced the funding with FHLB advances and deposits through the CDARS OWB program.

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

| <i>(dollars in thousands)</i> | Securities Sold Under Repurchase Agreements | |
|---|---|-------------------|
| | June 30, 2013 | December 31, 2012 |
| Balance at the period end | \$ 74,151 | \$ 62,582 |
| Average balance during the period | 65,411 | 47,388 |
| Average interest rate during the period | 0.15% | 0.17% |
| Maximum month-end balance during the period | \$ 74,151 | \$ 62,582 |
| Average interest rate at the period end | 0.12% | 0.20% |

| <i>(dollars in thousands)</i> | Short-Term Borrowings | |
|---|-----------------------|-------------------|
| | June 30, 2013 | December 31, 2012 |
| Balance at the period end | \$ 125,000 | \$ 75,000 |
| Average balance during the period | 66,298 | 50,212 |
| Average interest rate during the period | 0.24% | 0.24% |
| Maximum month-end balance during the period | \$ 125,000 | \$ 75,000 |

| | | |
|---|-------|-------|
| Average interest rate at the period end | 0.27% | 0.19% |
|---|-------|-------|

Table of Contents**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 six month and twelve month periods ended June 30, 2013 and December 31, 2012.

| <i>(dollars in thousands)</i> | Long-Term Borrowings | |
|---|-----------------------------|--------------------------|
| | June 30, 2013 | December 31, 2012 |
| Balance at the period end | \$ 22,965 | \$ 34,101 |
| Average balance during the period | 26,323 | 33,841 |
| Average interest rate during the period | 3.12% | 3.26% |
| Maximum month-end balance during the period | \$ 28,913 | \$ 40,669 |
| Average interest rate at the period end | 3.02% | 3.17% |

| <i>(dollars in thousands)</i> | Junior Subordinated Debt Securities | |
|---|--|--------------------------|
| | June 30, 2013 | December 31, 2012 |
| Balance at the period end | \$ 45,619 | \$ 90,619 |
| Average balance during the period | 86,696 | 90,619 |
| Average interest rate during the period | 3.36% | 3.21% |
| Maximum month-end balance during the period | \$ 90,619 | \$ 90,619 |
| Average interest rate at the period end | 2.73% | 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.

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**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) | June 30, 2013 | | December 31, 2012 | |
|--|-------------------------------|--------------------------|---------------|--------|-------------------|--------|
| | | | Amount | Ratio | Amount | Ratio |
| S&T Bancorp, Inc. | | | | | | |
| Tier 1 leverage | 4.00% | 5.00% | \$ 410,484 | 9.54% | \$ 392,506 | 9.31% |
| Tier 1 capital to risk-weighted assets | 4.00% | 6.00% | 410,484 | 12.28% | 392,506 | 11.98% |
| Total capital to risk-weighted assets | 8.00% | 10.00% | 478,030 | 14.30% | 504,041 | 15.39% |
| S&T Bank | | | | | | |
| Tier 1 leverage | 4.00% | 5.00% | \$ 375,291 | 8.76% | \$ 343,331 | 8.45% |
| Tier 1 capital to risk-weighted assets | 4.00% | 6.00% | 375,291 | 11.29% | 343,331 | 10.88% |
| Total capital to risk-weighted assets | 8.00% | 10.00% | 441,950 | 13.30% | 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 June 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 June 30, 2013, we exceeded those requirements.

Our total risk based capital ratio decreased by 109 basis points to 14.30 percent at June 30, 2013 from 15.39 percent at December 31, 2012. The decrease was due 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 June 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.

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

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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. S&T policy guidelines limit the change in pretax net interest income over a 12 month horizon using rate shocks of +/- 300 basis points. Policy guidelines define the percent change in pretax net interest income by graduated risk tolerance levels of minimal, moderate and high. We have temporarily suspended the -200 and -300 basis point rate shock analyses. Due to the low interest rate environment we believe the impact to net interest income when evaluating the -200 and -300 basis point rate shock scenarios 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. We have also temporarily suspended the EVE -200 and -300 basis point scenarios due to the low interest rate environment.

Table of Contents**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) | % Change in Pretax Net Interest Income | June 30, 2013 | % Change in | | December 31, 2012 |
|--|---|--------------------------|---|---|-----------------------------|
| | | Economic Value of Equity | % Change in Pretax Net Interest Income | % Change in Pretax Net Interest Income | Economic Value of Equity |
| +300 | 9.0 | 15.3 | 8.2 | 23.2 | 23.2 |
| +200 | 5.5 | 11.3 | 5.0 | 16.8 | 16.8 |
| +100 | 2.1 | 6.2 | 2.0 | 9.1 | 9.1 |
| - 100 | (3.5) | (10.6) | (2.4) | (9.7) | (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 June 30, 2013 and December 31, 2012.

When comparing the EVE results for June 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 June 30, 2013 and December 31, 2012. The increase in long term rates resulted in a higher June 30, 2013 base case EVE mainly as a result of higher core deposit values. With a higher base EVE at June 30, 2013 and a similar dollar change between the base case and rate change scenarios at June 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 most often 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, particularly if the yield curve steepens, will most likely result in an improvement in pretax net interest income. We realize that some of the benefit reflected in our scenarios may be offset by a change in the competitive environment and a change in product preference by our customers

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

Under the supervision and with the participation of S&T's Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of S&T's disclosure controls and procedures as of June 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, 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.

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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 June 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

Not Applicable

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

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

Not Applicable

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 June 30, 2013 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheets at June 30, 2013 and December 31, 2012, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three Months and Six Months ended June 30, 2013 and 2012, (iii) Unaudited Consolidated Statements of Changes in Shareholders' Equity for the Six Months ended June 30, 2013 and 2012 and (iv) Unaudited Consolidated Statements of Cash Flows for the Six Months ended June 30, 2013 and 2012 and (v) Notes to Unaudited Consolidated Financial Statements.*

* This exhibit is furnished and will not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such exhibit will not be deemed to be incorporated by reference into any filing under the Securities Act or Securities Exchange Act, except to the extent that the Registrant specifically incorporates it by reference.

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: July 31, 2013

/s/ Mark Kochvar
Mark Kochvar

Senior Executive Vice President and

Chief Financial Officer

(Principal Financial Officer and Duly Authorized Signatory)

55