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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from To

Commission file number 0-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

800-325-2265

(Registrant s telephone number, including area code)

Not Applicable

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

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

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

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

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

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Unaudited)

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

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

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

Net Cash Provided by (Used in) Financing Activities		**55,840**		**(104,469)**
Net (decrease) increase in cash and cash equivalents		(102,783)		76,550
Cash and cash equivalents at beginning of period		337,711		270,526
Cash and Cash Equivalents at End of Period	**$**	**234,928**	**$**	**347,076**
Supplemental Disclosures				
Interest paid	$	13,668	$	17,575
Income taxes paid, net of refunds		8,130		1,394
Net assets (liabilities) from acquisitions, excluding cash and cash equivalents				(683)
Transfers to other real estate owned and other repossessed assets	$	493	$	864

See Notes to Consolidated Financial Statements

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

Principles of Consolidation

The interim Consolidated Financial Statements include the accounts of S&T Bancorp, Inc., or S&T, and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments of 20 percent to 50 percent of the outstanding common stock of investees are accounted for using the equity method of accounting.

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of S&T have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission, or SEC, on February 25, 2013. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

Reclassification

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

Use of Estimates

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

Recently Adopted Accounting Standards Updates

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income

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

Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities

In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities in order to clarify the scope of ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, issued in December 2011. ASU 2011-11 required entities to disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This ASU was issued to allow investors to better compare financial statements prepared under GAAP with financial statements prepared under International Financial Reporting Standards, or IFRS. ASU 2013-01 clarified that ASU 2011-11 applies to derivatives, sale and repurchase agreements and reverse sale of repurchase agreements, and securities borrowing and securities lending arrangements, but does not apply to standard commercial contracts that permit either party to net in the event of default under the applicable contract or to broker-dealer unsettled regular-way trades. Both ASUs are effective for public companies retrospectively for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of ASU 2013-01 and ASU 2011-11 impacted only our disclosures and did not have an impact on our results of operations or financial position.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 1. BASIS OF PRESENTATION continued

Recently Issued Accounting Standards Updates not yet Adopted

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

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 2. EARNINGS PER SHARE

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

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

NOTE 3. FAIR VALUE MEASUREMENTS

We use fair value measurements when recording and disclosing certain financial assets and liabilities. Securities available-for-sale, trading assets and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, impaired loans, other real estate owned, or OREO, mortgage servicing rights, or MSRs, and certain other assets.

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

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

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

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

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

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

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

Recurring Basis

Securities Available-for-Sale

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

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

Trading Assets

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

Derivative Financial Instruments

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

Nonrecurring Basis

Loans Held for Sale

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

Impaired Loans

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

OREO and Other Repossessed Assets

OREO and other repossessed assets obtained in partial or total satisfaction of a loan are recorded at the lower of recorded investment in the loan or fair value less cost to sell. Subsequent to foreclosure, these assets are carried at the lower of the amount recorded at acquisition date or fair value less cost to sell. Accordingly, it may be necessary to record nonrecurring fair value adjustments. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Like impaired loans, appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets are classified as Level 3.

Mortgage Servicing Rights

The fair value of MSRs is determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor driving the value of MSRs. MSRs are considered impaired if the carrying value exceeds fair value. The valuation model includes significant unobservable inputs; therefore, MSRs are classified as Level 3 within the fair value hierarchy.

Other Assets

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

Financial Instruments

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

Cash and Cash Equivalents and Other Short-Term Assets

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

Loans

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

Bank Owned Life Insurance

Fair value approximates net cash surrender value.

Deposits

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

Short-Term Borrowings

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

Long-Term Borrowings

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

Junior Subordinated Debt Securities

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

Loan Commitments and Standby Letters of Credit

Off-balance sheet financial instruments consist of commitments to extend credit and letters of credit. Except for interest rate lock commitments, estimates of the fair value of these off-balance sheet items are not made because of the short-term nature of these arrangements and the credit standing of the counterparties.

Other

Estimates of fair value are not made for items that are not defined as financial instruments, including such items as our core deposit intangibles and the value of our trust operations.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at September 30, 2013 and December 31, 2012. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

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

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

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

Balance at end of period	**$**	**$**	**275**	**$**	**$**	**275**

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

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

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

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 3. FAIR VALUE MEASUREMENTS continued

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

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

(1) As reported in the Consolidated Balance Sheets

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

Mortgage servicing rights	2,106	2,106			2,106
Interest rate swaps	23,748	23,748		23,748	
Interest rate lock commitments	467	467		467	
LIABILITIES					
Deposits	$ 3,638,428	$ 3,643,683	$	$	$ 3,643,683
Securities sold under repurchase agreements	62,582	62,582			62,582
Short-term borrowings	75,000	75,000			75,000
Long-term borrowings	34,101	36,235			36,235
Junior subordinated debt securities	90,619	90,619			90,619
Interest rate swaps	23,522	23,522		23,522	
Forward sale contracts	48	48		48	

(1) As reported in the Consolidated Balance Sheets

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE

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

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE continued

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

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

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

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

We do not believe any individual unrealized loss as of September 30, 2013 represents an other than temporary impairment, or OTTI. As of September 30, 2013, the unrealized losses on thirty-seven debt securities were attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. There were no unrealized losses on marketable equity securities as of September 30, 2013. We do not intend to sell and it is not likely that we will be required to sell any of the securities, referenced in the table above, in an unrealized loss position before recovery of their amortized cost.

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE continued

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

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

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

NOTE 5. LOANS AND LOANS HELD FOR SALE

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

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

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

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE continued

We attempt to limit our exposure to credit risk by diversifying our loan portfolio and actively managing concentrations. When concentrations exist in certain segments, we mitigate this risk by monitoring the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 73 percent of total portfolio loans at September 30, 2013 and 72 percent of total portfolio loans at December 31, 2012. Within our commercial portfolio, the commercial real estate, or CRE, and commercial construction portfolios combined comprise 68 percent of total commercial loans and 49 percent of total portfolio loans at September 30, 2013 and 67 percent of total commercial loans and 48 percent of total portfolio loans at December 31, 2012. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type reveal no concentration in excess of nine percent of total loans at either September 30, 2013 or December 31, 2012. The majority of both commercial and consumer loans are made to businesses and individuals in Western Pennsylvania resulting in a geographic concentration. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Management believes underwriting guidelines, active monitoring of economic conditions and ongoing review by credit administration mitigates the concentration risk present in the loan portfolio. Only the CRE and commercial construction portfolios combined have any significant out-of-state exposure with 22 percent of the combined portfolio and 11 percent of total loans being out-of-state loans at September 30, 2013 and 19 percent of the combined portfolio and 9 percent of total loans being out-of-state loans at December 31, 2012. Our CRE and commercial construction portfolios combined out-of-state exposure, excluding the contiguous states of Ohio, West Virginia, New York and Maryland, was 8.2 percent of the combined portfolio and 4.0 percent of total loans at September 30, 2013 and 8.4 percent of the combined portfolio and 4.1 percent of total loans at December 31, 2012. Management has the knowledge and experience in these markets which are identified as in market lending opportunities for our organization.

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

We individually evaluate all substandard commercial loans that experienced a forbearance or change in terms agreement, as well as all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan to determine if they should be designated as TDRs. All TDRs are considered to be impaired loans and will be reported as impaired loans for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal and interest will be collected according to the restructured agreement. Further, all impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

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

	September 30, 2013			December 31, 2012		
	Accruing	**Nonaccruing**	**Total**	**Accruing**	**Nonaccruing**	**Total**
(dollars in thousands)	**TDRs**	**TDRs**	**TDRs**	**TDRs**	**TDRs**	**TDRs**

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE continued

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

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

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

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

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE continued

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

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE continued

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

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

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

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 5. LOANS AND LOANS HELD FOR SALE continued

Defaulted TDRs are defined as loans having a payment default of 90 days or more after the restructuring takes place. The following table is a summary of TDRs which defaulted during the three and nine month periods ended September 30, 2013 and 2012 that had been restructured within the last twelve months prior to defaulting:

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

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

We maintain an allowance for loan losses, or ALL, at a level determined to be adequate to absorb estimated probable credit losses inherent in the loan portfolio as of the balance sheet date. We develop and document a systematic ALL methodology based on the following portfolio segments: 1) CRE, 2) C&I, 3) Commercial Construction, 4) Consumer Real Estate and 5) Other Consumer.

The following are key risks within each portfolio segment:

CRE Loans secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as hotels, strip malls and apartments. Operations of the individual projects as well as global cash flows of the debtors are the primary sources of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the collateral type as well as the business prospects of the lessee, if the project is not owner occupied.

C&I Loans made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Cash flow from the operations of the company is the primary source of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the industry of the company. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt.

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

Consumer Real Estate Loans secured by first and second liens such as home equity loans, home equity lines of credit and 1-4 family residences, including purchase money mortgages. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The state of the local housing market can also have a significant impact on this segment because low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Other Consumer Loans made to individuals that may be secured by assets other than 1-4 family residences, as well as unsecured loans. This segment includes auto loans, unsecured loans and lines and credit cards. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

We further assess risk within each portfolio segment by pooling loans with similar risk characteristics. For the commercial loan classes, the most important indicator of risk is the internally assigned risk rating, including pass, special mention and substandard. Consumer loans are pooled by type of collateral and first or second lien positions for consumer real estate loans. Historical loss rates are applied to these loan pools to determine the reserve for loans collectively evaluated for impairment. Management continuously monitors various credit quality indicators for both the commercial and consumer loan portfolios, including delinquency, nonperforming status and changes in risk ratings on a monthly basis.

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

The ALL methodology for groups of loans collectively evaluated for impairment is comprised of both a quantitative and qualitative analysis. A key assumption in the quantitative component of the reserve is the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from the point at which a loss is incurred on a loan to the point at which the loss is confirmed. In general, the LEP will be shorter in an economic slowdown or recession and longer during times of economic stability or growth, as customers are better able to delay loss confirmation after a potential loss event has occurred. Due to the recent improvement in economic conditions, we completed an internal study utilizing our loan charge-off history to recalibrate the LEPs of the commercial portfolio segments. Consistent with the improved economic conditions, the LEPs have lengthened, and as a result, we lengthened our LEP assumption for each of the commercial portfolio segments. We believe that the consumer portfolio segment LEPs have also lengthened as they are influenced by the same improvement in economic conditions that impacted the commercial portfolio segments. We therefore also lengthened the LEP assumption for the consumer portfolio segments in the third quarter of 2013.

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

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

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

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

We continually monitor the commercial loan portfolio through an internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and are reviewed on an ongoing basis according to our internal policies. Loans within the pass rating generally have a lower risk of loss than loans risk rated as special mention and substandard.

Our risk ratings are consistent with regulatory guidance and are as follows:

Pass The loan is currently performing and is of high quality.

Special Mention A special mention loan has potential weaknesses that warrant management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the strength of our credit position at some future date. Economic and market conditions, beyond the borrower s control, may in the future necessitate this classification.

Substandard A substandard loan is not adequately protected by the net worth and/or paying capacity of the borrower or by the collateral pledged, if any. Substandard loans have a well-defined weakness, or weaknesses that jeopardize the liquidation of the debt. These loans are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

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

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

	December 31, 2012							
(dollars in thousands)	**Commercial Real Estate**	**% of Total**	**Commercial and Industrial**	**% of Total**	**Commercial Construction**	**% of Total**	**Total**	**% of Total**
Pass	$ 1,265,810	87.2%	$ 718,070	90.7%	$ 118,841	70.7%	$ 2,102,721	87.2%
Special mention	96,156	6.6%	42,016	5.3%	30,748	18.3%	168,920	7.0%
Substandard	90,167	6.2%	31,310	4.0%	18,554	11.0%	140,031	5.8%
Total	**$ 1,452,133**	**100.0%**	**$ 791,396**	**100.0%**	**$ 168,143**	**100.0%**	**$ 2,411,672**	**100.0%**

We monitor the delinquent status of the consumer portfolio on a monthly basis. Loans are considered nonperforming when interest and principal are 90 days or more past due or management has determined that a material deterioration in the borrower s financial condition exists. The risk of loss is generally highest for nonperforming loans.

The following tables indicate the recorded investment in consumer loan classes by performing and nonperforming status as of the dates presented:

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

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

loans and will be reported as an impaired loan for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is expected that the remaining principal and interest will be fully collected according to the restructured agreement. For all TDRs, regardless of size, as well as all other impaired loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate.

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

The following tables summarize investments in loans considered to be impaired and related information on those impaired loans for the periods presented:

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

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

	Three Months Ended September 30, 2013					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$ 23,484	$ 9,123	$ 5,812	$ 6,655	$ 1,031	$ 46,105
Charge-offs	(840)	(759)	(480)	(585)	(327)	(2,991)
Recoveries	617	167	481	122	63	1,450
Net (Charge-offs)/ Recoveries	**(223)**	**(592)**	**1**	**(463)**	**(264)**	**(1,541)**
Provision for loan losses	(5,572)	6,268	2,186	185	352	3,419
Balance at End of Period	**$ 17,689**	**$ 14,799**	**$ 7,999**	**$ 6,377**	**$ 1,119**	**$ 47,983**

	Three Months Ended September 30, 2012					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$ 24,696	$ 11,874	$ 5,938	$ 3,401	$ 780	$ 46,689
Charge-offs	(2,344)	(520)	(970)	(268)	(278)	(4,380)
Recoveries	570	609	395	18	73	1,665
Net (Charge-offs)/ Recoveries	**(1,774)**	**89**	**(575)**	**(250)**	**(205)**	**(2,715)**
Provision for loan losses	1,283	(3,216)	3,162	752	324	2,305
Balance at End of Period	**$ 24,205**	**$ 8,747**	**$ 8,525**	**$ 3,903**	**$ 899**	**$ 46,279**

	Nine Months Ended September 30, 2013					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$ 25,246	$ 7,759	$ 7,500	$ 5,058	$ 921	$ 46,484
Charge-offs	(3,649)	(2,682)	(923)	(1,822)	(978)	(10,054)

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

	Nine Months Ended September 30, 2012					
(dollars in thousands)	**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	(7,918)	(4,488)	(9,261)	(1,228)	(756)	(23,651)
Recoveries	748	857	494	127	263	2,489
Net (Charge-offs)/ Recoveries	**(7,170)**	**(3,631)**	**(8,767)**	**(1,101)**	**(493)**	**(21,162)**
Provision for loan losses	1,571	1,104	13,589	1,838	498	18,600
Balance at End of Period	**$ 24,205**	**$ 8,747**	**$ 8,525**	**$ 3,903**	**$ 899**	**$ 46,279**

S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES continued

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

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

	December 31, 2012					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ 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.

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.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES continued

Interest Rate Lock Commitments and Forward Sale Contracts

In the normal course of business, we sell originated mortgage loans into the secondary mortgage loan market. We offer interest rate lock commitments to potential borrowers. Whenever a customer requests these products, a mortgage originator quotes a secondary market rate guaranteed for that day by the investor. The commitments are generally for 60 days and guarantee a specified interest rate for a loan if underwriting standards are met, but the commitment does not obligate the potential borrower to close on the loan. Accordingly, some commitments expire prior to becoming loans. However, if the borrower accepts the guaranteed rate, we can encounter pricing risk if interest rates increase significantly before the loan can be closed and sold. We may utilize forward sale contracts in order to mitigate this pricing risk. The rate lock is executed between the mortgagee and us, and generally these rate locks are bundled. A forward sale contract is then executed between us and the investor. Both the interest rate lock commitment bundle and the corresponding forward sale contract are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the fair value of the derivatives during the commitment period are recorded in current earnings and included in mortgage banking in the Consolidated Statements of Comprehensive Income.

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

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

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

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

	Derivatives	Derivatives

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

[(1)] *Amounts represent posted collateral.*

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES continued

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

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

NOTE 8. BORROWINGS

Short-term borrowings are for terms under one year and were comprised of retail repurchase agreements, or REPOs, and Federal Home Loan Bank, or FHLB, advances. We define repurchase agreements with our local retail customers as retail REPOs. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. FHLB advances are for various terms secured by a blanket lien on residential mortgages and other loans secured by real estate.

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

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

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

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

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

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

NOTE 9. COMMITMENTS AND CONTINGENCIES

Commitments

In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event a customer does not satisfy the terms of their agreement, equals the contractual amount of the obligation less the value of any collateral. We apply the same credit policies in making commitments and standby letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Since many of the commitments are expected to

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 9. COMMITMENTS AND CONTINGENCIES continued

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

Estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties.

The following table sets forth the commitments and letters of credit as of the dates presented:

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

Litigation

In the normal course of business, we are subject to various legal and administrative proceedings and claims. While any type of litigation contains a level of uncertainty, we believe that the outcome of such proceedings or claims will not have a material adverse effect on our consolidated financial position.

NOTE 10. OTHER COMPREHENSIVE INCOME

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

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

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

[1] Reclassification adjustments are comprised of realized security gains. The gains have been reclassified out of accumulated other comprehensive income and have affected certain lines in the consolidated statement of comprehensive income as follows; the pre-tax amount is included in securities gains-net, the tax expense amount is included in the provision for income taxes and the net of tax amount is included in net income.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 10. OTHER COMPREHENSIVE INCOME continued

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

[(1)] *Reclassification adjustments are comprised of realized security gains. The gains have been reclassified out of accumulated other comprehensive income and have affected certain lines in the consolidated statement of comprehensive income as follows; the pre-tax amount is included in securities gains-net, the tax expense amount is included in the provision for income taxes and the net of tax amount is included in net income.*

NOTE 11. EMPLOYEE BENEFITS

We maintain a defined benefit pension plan, or Plan, covering substantially all employees hired prior to January 1, 2008. The benefits are based on years of service and the employee s compensation for the highest five consecutive years in the last ten years. Contributions are intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future. At this time, we are not required to make a cash contribution to the Plan in 2013. We contributed $3.1 million to the Plan in December 2012. The expected long-term rate of return on plan assets is 8.00 percent. For the current year there are no changes to the Plan.

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

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

NOTE 12. SEGMENTS

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

- Our Community Banking segment offers services which include accepting time and demand deposit accounts, originating commercial and consumer loans and providing letters of credit and credit card services.
- Our Insurance segment includes a full-service insurance agency offering commercial property and casualty insurance, group life and health coverage, employee benefit solutions and personal insurance lines.
- Our Wealth Management segment offers discount brokerage services, services as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisor that manages private investment accounts for individuals and institutions.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 12. SEGMENTS continued

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

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

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

The information provided under the caption Eliminations represents operations not considered to be reportable segments and/or general operating expenses and eliminations and adjustments, which are necessary for purposes of reconciling to the Consolidated Financial Statements.

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

	Three Months Ended September 30, 2012		
(dollars in thousands)	Insurance	Eliminations	Consolidated

	Community Banking		Wealth Management		
Interest income	$ 38,715	$	$ 119	$ (14)	$ 38,820
Interest expense	5,340				