

S&T BANCORP INC  
Form 10-Q  
August 02, 2017

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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 (IRS Employer  
incorporation or organization) 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  No

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

Common Stock, \$2.50 Par Value - 34,979,557 shares as of July 31, 2017

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

	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
(dollars in thousands, except per share data)		
<b>ASSETS</b>		
Cash and due from banks, including interest-bearing deposits of \$66,764 and \$87,201 at June 30, 2017 and December 31, 2016	\$ 125,863	\$ 139,486
Securities available-for-sale, at fair value	689,388	693,487
Loans held for sale	23,120	3,793
Portfolio loans, net of unearned income	5,757,819	5,611,419
Allowance for loan losses	(55,351 )	(52,775 )
Portfolio loans, net	5,702,468	5,558,644
Bank owned life insurance	72,449	72,081
Premises and equipment, net	45,019	44,999
Federal Home Loan Bank and other restricted stock, at cost	33,417	31,817
Goodwill	291,670	291,670
Other intangible assets, net	4,191	4,910
Other assets	98,581	102,166
Total Assets	\$ 7,086,166	\$ 6,943,053
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 1,335,768	\$ 1,263,833
Interest-bearing demand	636,904	638,300
Money market	950,619	936,461
Savings	1,010,348	1,050,131
Certificates of deposit	1,476,223	1,383,652
Total Deposits	5,409,862	5,272,377
Securities sold under repurchase agreements	46,489	50,832
Short-term borrowings	645,000	660,000
Long-term borrowings	13,518	14,713
Junior subordinated debt securities	45,619	45,619
Other liabilities	54,616	57,556
Total Liabilities	6,215,104	6,101,097
<b>SHAREHOLDERS' EQUITY</b>		
Common stock (\$2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at June 30, 2017 and December 31, 2016	90,326	90,326
Outstanding— 34,980,280 shares at June 30, 2017 and 34,913,023 shares at December 31, 2016		
Additional paid-in capital	214,941	213,098
Retained earnings	610,504	585,891
Accumulated other comprehensive (loss) income	(12,858 )	(13,784 )
Treasury stock (1,150,200 shares at June 30, 2017 and 1,217,457 shares at December 31, 2016, at cost)	(31,851 )	(33,575 )

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Total Shareholders' Equity	871,062	841,956
Total Liabilities and Shareholders' Equity	\$7,086,166	\$6,943,053
See Notes to Consolidated Financial Statements		

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

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
(dollars in thousands, except per share data)	2017	2016	2017	2016
<b>INTEREST INCOME</b>				
Loans, including fees	\$60,558	\$52,019	\$117,458	\$103,177
Investment Securities:				
Taxable	2,947	2,580	5,796	5,134
Tax-exempt	928	915	1,848	1,857
Dividends	481	336	963	702
Total Interest Income	64,914	55,850	126,065	110,870
<b>INTEREST EXPENSE</b>				
Deposits	5,976	5,029	11,355	9,284
Borrowings and junior subordinated debt securities	2,368	1,113	4,261	2,240
Total Interest Expense	8,344	6,142	15,616	11,524
<b>NET INTEREST INCOME</b>	<b>56,570</b>	<b>49,708</b>	<b>110,449</b>	<b>99,346</b>
Provision for loan losses	4,869	4,848	10,052	9,863
Net Interest Income After Provision for Loan Losses	51,701	44,860	100,397	89,483
<b>NONINTEREST INCOME</b>				
Securities gains (losses), net	3,617	—	3,987	—
Debit and credit card	3,042	2,869	5,885	5,655
Service charges on deposit accounts	2,997	3,065	6,012	6,064
Wealth management	2,428	2,630	4,831	5,382
Insurance	1,461	1,205	2,924	2,979
Mortgage banking	675	578	1,408	1,107
Gain on sale of credit card portfolio	—	—	—	2,066
Other	2,045	2,101	4,214	5,012
Total Noninterest Income	16,265	12,448	29,261	28,265
<b>NONINTEREST EXPENSE</b>				
Salaries and employee benefits	19,903	17,626	40,444	38,528
Net occupancy	2,751	2,688	5,566	5,638
Data processing	2,135	2,518	4,386	4,630
Furniture and equipment	1,810	1,719	3,857	3,648
FDIC insurance	1,185	994	2,308	1,934
Other taxes	1,083	896	2,060	1,995
Professional services and legal	958	988	2,001	1,728
Marketing	948	1,075	1,702	1,976
Other	5,824	6,249	11,082	13,092
Total Noninterest Expense	36,597	34,753	73,406	73,169
Income Before Taxes	31,369	22,555	56,252	44,579
Provision for income taxes	8,604	5,496	15,299	11,427
Net Income	\$22,765	\$17,059	\$40,953	\$33,152
Earnings per share—basic	\$0.66	\$0.49	\$1.18	\$0.96
Earnings per share—diluted	\$0.65	\$0.49	\$1.17	\$0.95
Dividends declared per share	\$0.20	\$0.19	\$0.40	\$0.38
Comprehensive Income	\$22,503	\$20,427	\$41,879	\$44,861

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 (Loss)/Income	Treasury Stock	Total
Balance at January 1, 2016	\$ 90,326	\$ 210,545	\$ 544,228	\$ (16,457 )	\$ (36,405)	\$ 792,237
Net income for six months ended June 30, 2016	—	—	33,152	—	—	33,152
Other comprehensive income (loss), net of tax	—	—	—	11,709	—	11,709
Cash dividends declared (\$0.38 per share)	—	—	(13,211 )	—	—	(13,211 )
Treasury stock issued for restricted awards (110,643 shares, net of 4,659 forfeitures)	—	—	(3,037 )	—	2,921	(116 )
Recognition of restricted stock compensation expense	—	1,279	—	—	—	1,279
Balance at June 30, 2016	\$ 90,326	\$ 211,824	\$ 561,132	\$ (4,748 )	\$ (33,484)	\$ 825,050
Balance at January 1, 2017	\$ 90,326	\$ 213,098	\$ 585,891	\$ (13,784 )	\$ (33,575)	\$ 841,956
Net income for six months ended June 30, 2017	—	—	40,953	—	—	40,953
Other comprehensive income (loss), net of tax	—	—	—	926	—	926
Cash dividends declared (\$0.40 per share)	—	—	(13,927 )	—	—	(13,927 )
Treasury stock issued for restricted awards (89,351 shares, net of 22,094 forfeitures)	—	—	(2,413 )	—	1,724	(689 )
Recognition of restricted stock compensation expense	—	1,843	—	—	—	1,843
Balance at June 30, 2017	\$ 90,326	\$ 214,941	\$ 610,504	\$ (12,858 )	\$ (31,851)	\$ 871,062

See Notes to Consolidated Financial Statements



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

	Six Months Ended June 30,	
(dollars in thousands)	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net income	\$40,953	\$33,152
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	10,052	9,863
Provision for unfunded loan commitments	(334 )	131
Depreciation, amortization and accretion	850	1,878
Net amortization of discounts and premiums on securities	2,030	1,861
Stock-based compensation expense	1,843	1,279
Securities gains	(3,987 )	—
Mortgage loans originated for sale	(38,899 )	(45,831 )
Proceeds from the sale of mortgage loans	38,041	46,555
Gain on the sale of mortgage loans, net	(719 )	(679 )
Gain on the sale of credit card portfolio	—	(2,066 )
Pension plan curtailment gain	—	(1,017 )
Net increase in interest receivable	(666 )	(3,485 )
Net increase in interest payable	246	1,126
Net decrease (increase) in other assets	4,484	(2,900 )
Net (decrease) increase in other liabilities	(1,775 )	4,127
Net Cash Provided by Operating Activities	52,119	43,994
<b>INVESTING ACTIVITIES</b>		
Purchases of securities available-for-sale	(36,604 )	(45,431 )
Proceeds from maturities, prepayments and calls of securities available-for-sale	35,256	34,723
Proceeds from sales of securities available-for-sale	7,751	—
Net proceeds from (purchases of) Federal Home Loan Bank stock	1,600	(4,723 )
Net increase in loans	(176,768 )	(369,089)
Proceeds from sale of loans not originated for resale	3,581	2,427
Purchases of premises and equipment	(3,018 )	(1,360 )
Proceeds from the sale of premises and equipment	273	3
Proceeds from the sale of credit card portfolio	—	25,019
Net Cash Used in Investing Activities	(167,929 )	(358,431)
<b>FINANCING ACTIVITIES</b>		
Net increase in deposits	44,914	105,970
Net increase in certificates of deposit	92,427	138,148
Net decrease in securities sold under repurchase agreements	(4,343 )	(13,607 )
Net (decrease) increase in short-term borrowings	(15,000 )	194,000
Repayments of long-term borrowings	(1,195 )	(101,155)
Treasury shares issued-net	(689 )	(116 )
Cash dividends paid to common shareholders	(13,927 )	(13,211 )
Net Cash Provided by Financing Activities	102,187	310,029
Net decrease in cash and cash equivalents	(13,623 )	(4,408 )
Cash and cash equivalents at beginning of period	139,486	99,399
Cash and Cash Equivalents at End of Period	\$125,863	\$94,991

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Supplemental Disclosures

Loans transferred to (from) held for sale	\$17,750	\$(1,540 )
Interest paid	\$15,369	\$10,398
Income taxes paid, net of refunds	\$13,399	\$13,474
Transfers of loans to other real estate owned	\$1,407	\$231
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 the audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission, or SEC, on February 24, 2017. In the opinion of management, the accompanying interim financial information reflects all adjustments, consisting of 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.

We previously reported in our annual report on Form 10-K, three reportable operating segments: Community Banking, Insurance and Wealth Management. We have reevaluated our segment reporting as of January 1, 2017 and have determined that Insurance and Wealth Management activities are not material to our consolidated financial results, therefore, we are no longer reporting segment information.

Reclassification

Amounts in prior period financial statements and footnotes are reclassified whenever necessary to conform to the current period presentation. Reclassifications had no effect on our results of operations or financial condition.

Use of Estimates

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

Recently Adopted Accounting Standards Updates, or ASU or Update

Stock Compensation - Improvements to Employee Share-Based Payment Accounting

On March 31, 2016 the Financial Accounting Standards Board, or FASB, issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. The ASU changes seven aspects of the accounting for share-based payment award transactions, including: 1. accounting for income taxes; 2. classification of excess tax benefits on the statement of cash flows; 3. forfeitures; 4. minimum statutory tax withholding requirements; 5. classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; 6. practical expedient - expected term (nonpublic only); and 7. intrinsic value (nonpublic only). This ASU is effective for fiscal years beginning after December 15, 2016 and interim periods within those years for public business entities. The adoption of this ASU had no material impact on our results of operations or financial position.

Equity Method and Joint Ventures - Simplifying the Transition to the Equity Method of Accounting

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016. The amendments will be applied

prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The adoption of this ASU had no 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

Receivables - Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities  
In March 2017, the FASB issued ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) - Premium Amortization on Purchased Callable Debt Securities. The amendments in this ASU affect all entities that hold investments in callable debt securities that have an amortized cost basis in excess of the amount that is repayable by the issuer at the earliest call date. This ASU shortens the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount, which continues to be amortized to maturity. This Update is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. We have early adopted the provisions of this ASU and it had no impact on our results of operations or financial position.

Recently Issued Accounting Standards Updates not yet Adopted

Compensation - Retirement Benefits - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Post Retirement Benefit Costs

In March 2017, the FASB issued ASU No. 2017-07, Compensation Retirement Benefits - Improving the Presentation of Net Periodic Pension Costs and Net Periodic Post retirement Benefit Costs (Topic 715). The main objective of this ASU is to provide financial statement users with clearer and disaggregated information related to the components of net periodic benefit cost and improve transparency of the presentation of net periodic benefit cost in the financial statements. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued or made available for issuance. Effective March 31, 2016, our qualified and nonqualified defined benefit plans were amended to freeze benefit accruals for all persons entitled to benefits under the plan; as such, the provisions of this ASU will have no impact on our results of operations and financial position.

Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets - Clarifying the Scope of Assets Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets

In February 2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). The main objective in this ASU is intended to provide greater detail on what types of transactions should be accounted for as partial sales of nonfinancial assets. The scope of this ASU, as originally issued in ASU No. 2014-09 (described below), is intended to reduce the complexity of current GAAP requirements by clarifying which accounting guidance applies to various types of contracts that transfer assets or ownership interest to another entity. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017 and at the same time that ASU No. 2014-09 is effective. Early adoption is permitted, but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other - Simplifying the Test for Goodwill Impairment (Topic 350). The main objective in this ASU is intended to simplify the current requirements for testing goodwill for impairment by eliminating step two from the goodwill impairment test. The amendments are expected to reduce the complexity and costs associated with performing the goodwill impairment test, which could result in recording impairment charges sooner than under the current guidance. This Update is effective for any interim and annual impairment tests in reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially

impact our results of operations and financial position.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Business Combinations - Clarifying the Definition of a Business

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations - Clarifying the Definition of a Business (Topic 805). The main objective in this ASU is to help financial statement preparers evaluate whether a set of transferred assets and activities (either acquired or disposed of) is a business under Topic 805, Business Combinations by changing the definition of a business. The revised definition will result in fewer acquisitions being accounted for as business combinations than under today's guidance. The definition of a business is significant because it affects the accounting for acquisitions, the identification of reporting units, consolidation evaluations and the accounting for dispositions. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted for transactions not yet reflected in financial statements that have been issued or made available for issuance. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

Income Taxes - Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory. The main objective of this ASU is to require companies to recognize the income tax effects of intercompany sales and transfers of assets other than inventory in the period in which the transfer occurs. This represents a change from existing guidance, which requires companies to defer the income tax effects of intercompany transfers of assets until the asset has been sold to an outside party or otherwise recognized. The new guidance will require companies to defer the income tax effects only of intercompany transfers of inventory. This Update is effective for annual periods beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period. If an entity chooses to early adopt the amendments in the ASU, it must do so in the first interim period of its annual financial statements. That is, an entity cannot adopt the amendments in the ASU in a later interim period and apply them as if they were in effect as of the beginning of the year. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The main objective of this ASU is to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this Update provide guidance on the following eight specific cash flow issues: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of bank-owned life insurance (BOLI) policies, distributions received from equity method investments, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, provided that all of the amendments are adopted in the same period. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments of this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The collective changes to the recognition and measurement accounting standards for financial instruments and their anticipated impact on the allowance for credit losses modeling have been universally referred to as the CECL, or current expected credit loss, model. This Update is

effective for interim and annual reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the provisions of this ASU to determine the potential impact on our results of operations and financial position.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue pronouncement creates a single source of revenue guidance for all companies in all industries and is more principles-based than current revenue guidance. The pronouncement provides a five-step model for a company to recognize revenue when it transfers



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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. The five steps are: 1. identify the contract with the customer; 2. identify the separate performance obligations in the contract; 3. determine the transaction price; 4. allocate the transaction price to the separate performance obligations; and 5. recognize revenue when each performance obligation is satisfied. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This ASU defers the effective date of ASU No. 2014-09 for all entities by one year.

In March 2016, the FASB issued ASU No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), as an amendment to ASU No. 2014-09 to improve Topic 606, Revenue from Contracts with Customers by reducing: 1. The potential for diversity in practice arising from inconsistent application of the principal versus agent guidance, and 2. The cost and complexity of applying Topic 606 both at transition and on an ongoing basis.

In April 2016, the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing, as an amendment to ASU No. 2014-09 to improve Topic 606, Revenue from Contracts with Customers, by reducing: 1. The potential for diversity in practice at initial application, and 2. The cost and complexity of applying Topic 606 both at transition and on an ongoing basis.

In May 2016, the FASB issued ASU No. 2016-12, Narrow-scope Improvements and Practical Expedients. The amendments in this ASU do not change the core principles of Topic 606, Revenue from Contracts with Customers. These amendments affect only the narrow aspects of Topic 606: 1. Collectibility Criterion, 2. Presentation of Sales Taxes and Other Similar Taxes Collected from Customers, 3. Noncash Consideration, 4. Contract Modifications at Transition, and 5. Completed Contracts at Transition.

ASU 2014-09, including transition requirements for all amendments, is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the original effective date for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Our revenue is comprised of net interest income, which is excluded from the scope of ASU 2014-09, and non-interest income. We are continuing our overall assessment of revenue streams and reviewing contracts potentially affected by the ASU including trust and asset management fees, deposit related fees, interchange fees and other revenue streams associated with contracts with third parties to determine the potential impact to our results of operations, financial position and disclosures. However, we do not expect that this ASU will materially impact our results of operations and financial position.

Leases - Section A-Amendments to the FASB Accounting Standards Codification, Section B-Conforming Amendments Related to Leases and Section C-Background Information and Basis for Conclusions

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize a right-to-use asset and a lease obligation for all leases on the balance sheet. Lessor accounting remains substantially similar to current GAAP. ASU 2016-02 supersedes Topic 840, Leases. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU 2016-02 mandates a modified retrospective transition method for all entities. Early adoption of this ASU is permitted. We anticipate that this ASU will impact our financial statements as it relates to the recognition of right-to-use assets and lease obligations on our Consolidated Balance Sheet. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

Accounting for Financial Instruments - Overall: Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement (Subtopic 825-10). The amendments in this ASU No. address the following: 1. require equity investments to be measured at fair value with changes in fair value recognized in net income; 2. simplify the impairment assessment of equity investments without readily-determinable fair values by requiring a qualitative assessment to identify impairment; 3. eliminate the requirement to disclose the method(s) and significant assumptions

used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; 4. require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 5. require separate presentation in other comprehensive income for the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; 6. require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or in the accompanying notes to the financial statements; and 7. clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2017. We are evaluating the provisions of this ASU; however, we do not anticipate that this ASU will materially impact our results of operations and financial position.

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## S&amp;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 and diluted earnings per share for the periods presented:

(in thousands, except shares and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator for Earnings per Share—Basic:				
Net income	\$22,765	\$ 17,059	\$40,953	\$ 33,152
Less: Income allocated to participating shares	81	60	141	101
Net Income Allocated to Shareholders	\$22,684	\$ 16,999	\$40,812	\$ 33,051
Numerator for Earnings per Share—Diluted:				
Net income	\$22,765	\$ 17,059	\$40,953	\$ 33,152
Net Income Available to Shareholders	\$22,765	\$ 17,059	\$40,953	\$ 33,152
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	34,724,925	34,674,712	34,707,683	34,666,773
Add: Potentially dilutive shares	181,571	89,853	199,693	80,890
Denominator for Treasury Stock Method—Diluted	34,906,496	34,764,565	34,907,376	34,747,663
Weighted Average Shares Outstanding—Basic	34,724,925	34,674,712	34,707,683	34,666,773
Add: Average participating shares outstanding	123,729	122,160	119,585	105,794
Denominator for Two-Class Method—Diluted	34,848,654	34,796,872	34,827,268	34,772,567
Earnings per share—basic	\$0.66	\$ 0.49	\$ 1.18	\$ 0.96
Earnings per share—diluted	\$0.65	\$ 0.49	\$ 1.17	\$ 0.95
Warrants considered anti-dilutive excluded from potentially dilutive shares - exercise price \$31.53 per share, expires January 2019	466,554	517,012	456,749	517,012
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	126,332	144,998	105,187	117,796

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT

We use fair value measurements when recording and disclosing certain financial assets and liabilities. Securities available-for-sale, trading assets and derivative financial instruments 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, and other repossessed assets, 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 that we have obtained from independent sources. Unobservable inputs reflect our estimates of assumptions that market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

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

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

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

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

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

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

**Recurring Basis**

**Securities Available-for-Sale**

Securities available-for-sale include both debt and equity securities. We obtain fair values for debt securities from a third-party pricing service which utilizes several sources for valuing fixed-income securities. We validate prices received from our pricing service through comparison to a secondary pricing service and broker quotes. We review the methodologies of the pricing service which provides us with a sufficient understanding of the valuation models, assumptions, inputs and pricing to reasonably measure the fair value of our debt 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 and vast descriptive terms and conditions databases, as well as extensive quality control programs.

Marketable equity securities that have an active, quotable market are classified as Level 1. Marketable equity securities that are quotable, but are thinly traded or inactive, are classified as Level 2. Marketable equity securities that

are not readily traded and do not have a quotable market are classified as Level 3.

**Trading Assets**

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

Derivative Financial Instruments

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

Nonrecurring Basis

Loans Held for Sale

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

Impaired Loans

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

OREO and Other Repossessed Assets

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

Mortgage Servicing Rights

The fair value of MSR is determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor driving the value of MSR. MSR are considered impaired if the carrying value exceeds fair value. The valuation model includes significant unobservable inputs; therefore, MSR are classified as Level 3. MSR are reported in other assets in the Consolidated Balance Sheets and are amortized into 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 3. FAIR VALUE MEASUREMENTS – continued

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 to not engage in trading or sales activities with respect to such financial instruments. For fair value disclosure purposes, we substantially utilize the fair value measurement criteria as required and explained above. In cases where quoted fair values are not available, we use present value methods to determine the fair value of our financial instruments.

Cash and Cash Equivalents

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

Loans

The fair value of variable rate performing loans that may reprice frequently at short-term market rates is based on carrying values adjusted for credit risk. The fair value of variable rate performing loans that reprice at intervals of one year or longer, such as adjustable rate mortgage products, is estimated using discounted cash flow analyses that utilize interest rates currently being offered for similar loans and adjusted for credit risk. The fair value of fixed rate performing loans is estimated using a discounted cash flow analysis that utilizes interest rates currently being offered for similar loans and adjusted for credit risk. The fair value of nonperforming loans is the carrying value less any specific reserve on the loan if it is impaired. The carrying amount of accrued interest approximates fair value.

Bank Owned Life Insurance

Fair value approximates net cash surrender value of bank owned life insurance.

Federal Home Loan Bank, or FHLB, and Other Restricted Stock

It is not practical to determine the fair value of our FHLB and other restricted stock due to the restrictions placed on the transferability of these stocks; restricted stock is presented at carrying value.

Deposits

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

Short-Term Borrowings

The carrying amounts of securities sold under repurchase agreements, or REPOs, 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.





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## S&amp;T BANCORP, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 3. FAIR VALUE MEASUREMENTS – continued

## Junior Subordinated Debt Securities

The interest rate on the variable rate junior subordinated debt securities is reset quarterly; therefore, the carrying values approximate their fair 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.

## Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at June 30, 2017 and December 31, 2016. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

(dollars in thousands)	June 30, 2017			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Securities available-for-sale:				
U.S. Treasury securities	\$—	\$24,886	\$—	\$—
Obligations of U.S. government corporations and agencies	—211,434	—	—	211,434
Collateralized mortgage obligations of U.S. government corporations and agencies	—120,203	—	—	120,203
Residential mortgage-backed securities of U.S. government corporations and agencies	—34,611	—	—	34,611
Commercial mortgage-backed securities of U.S. government corporations and agencies	—162,413	—	—	162,413
Obligations of states and political subdivisions	—131,106	—	—	131,106
Marketable equity securities	—4,735	—	—	4,735
Total securities available-for-sale	—	—	—	—