

S&T BANCORP INC
Form 10-Q
August 07, 2014
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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, 2014

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
(State or other jurisdiction of incorporation or organization) 25-1434426
(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 No

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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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 - 29,796,397 shares as of July 31, 2014

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CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
	(Unaudited)	(Audited)
(dollars in thousands, except share data)		
ASSETS		
Cash and due from banks, including interest-bearing deposits of \$54,575 and \$53,594 at June 30, 2014 and December 31, 2013, respectively	\$ 130,235	\$ 108,356
Securities available-for-sale, at fair value	588,488	509,425
Loans held for sale	3,102	2,136
Portfolio loans, net of unearned income	3,725,079	3,566,199
Allowance for loan losses	(46,580)	(46,255)
Portfolio loans, net	3,678,499	3,519,944
Bank owned life insurance	61,348	60,480
Premises and equipment, net	36,665	36,615
Federal Home Loan Bank and other restricted stock, at cost	15,818	13,629
Goodwill	175,820	175,820
Other intangible assets, net	3,146	3,759
Other assets	94,909	103,026
Total Assets	\$4,788,030	\$4,533,190
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$1,089,999	\$992,779
Interest-bearing demand	307,897	312,790
Money market	301,719	281,403
Savings	1,024,050	994,805
Certificates of deposit	1,141,581	1,090,531
Total Deposits	3,865,246	3,672,308
Securities sold under repurchase agreements	25,269	33,847
Short-term borrowings	185,000	140,000
Long-term borrowings	20,636	21,810
Junior subordinated debt securities	45,619	45,619
Other liabilities	49,073	48,300
Total Liabilities	4,190,843	3,961,884
SHAREHOLDERS' EQUITY		
Common stock (\$2.50 par value)		
Authorized—50,000,000 shares		
Issued—31,197,365 shares at June 30, 2014 and December 31, 2013	77,993	77,993
Outstanding—29,797,204 shares at June 30, 2014 and 29,737,725 shares at December 31, 2013		
Additional paid-in capital	78,570	78,140
Retained earnings	485,277	468,158
Accumulated other comprehensive income (loss)	(6,026)	(12,694)
Treasury stock 1,400,161 shares at June 30, 2014 and 1,459,640 shares at December 31, 2013, (at cost)	(38,627)	(40,291)
Total Shareholders' Equity	597,187	571,306

Total Liabilities and Shareholders' Equity	\$4,788,030	\$4,533,190
See Notes to Consolidated Financial Statements		

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands, except per share data)	2014	2013	2014	2013
INTEREST INCOME				
Loans, including fees	\$36,614	\$35,765	\$72,263	\$70,810
Investment Securities:				
Taxable	2,184	1,879	4,167	3,742
Tax-exempt	979	815	1,908	1,648
Dividends	95	94	199	196
Total Interest Income	39,872	38,553	78,537	76,396
INTEREST EXPENSE				
Deposits	2,476	2,951	4,986	6,153
Borrowings and junior subordinated debt securities	541	1,006	1,105	1,978
Total Interest Expense	3,017	3,957	6,091	8,131
NET INTEREST INCOME	36,855	34,596	72,446	68,265
Provision for loan losses	(1,134)	) 1,023	(845)	) 3,330
Net Interest Income After Provision for Loan Losses	37,989	33,573	73,291	64,935
NONINTEREST INCOME				
Securities gains, net	40	—	41	2
Wealth management fees	2,837	2,820	5,792	5,396
Debit and credit card fees	2,724	3,150	5,226	5,601
Service charges on deposit accounts	2,574	2,495	5,083	4,943
Insurance fees	1,425	1,643	3,102	3,418
Mortgage banking	264	911	396	1,393
Gain on sale of merchant card servicing business	—	—	—	3,093
Other	1,907	1,848	3,547	3,827
Total Noninterest Income	11,771	12,867	23,187	27,673
NONINTEREST EXPENSE				
Salaries and employee benefits	15,772	14,725	31,148	30,792
Data processing	2,219	2,137	4,314	4,801
Net occupancy	1,984	1,958	4,214	4,127
Furniture and equipment	1,277	1,230	2,548	2,538
Marketing	960	793	1,578	1,482
Other taxes	893	915	1,524	1,914
Professional services and legal	875	1,171	1,538	2,145
FDIC insurance	579	707	1,210	1,483
Other	5,606	4,750	11,005	10,720
Total Noninterest Expense	30,165	28,386	59,079	60,002
Income Before Taxes	19,595	18,054	37,399	32,606
Provision for income taxes	4,875	3,951	8,646	6,173
Net Income	\$14,720	\$14,103	\$28,753	\$26,433
Earnings per share—basic	\$0.49	\$0.47	\$0.97	\$0.89
Earnings per share—diluted	\$0.49	\$0.47	\$0.97	\$0.89
Dividends declared per share	\$0.17	\$0.15	\$0.33	\$0.30
Comprehensive Income	\$18,343	\$6,651	\$35,421	\$18,220

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 shares and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2013	\$77,993	\$77,458	\$436,039	\$ (13,582)	\$(40,486)	\$537,422
Net income for six months ended June 30, 2013	—	—	26,433	—	—	26,433
Other comprehensive income (loss), net of tax	—	—	—	(8,213)	—	(8,213)
Cash dividends declared (\$0.30 per share)	—	—	(8,918)	—	—	(8,918)
Treasury stock issued for restricted awards (22,189 shares, net of 16,093 forfeitures)	—	—	(296)	—	210	(86)
Recognition of restricted stock compensation expense	—	261	—	—	—	261
Tax expense from stock-based compensation	—	(47)	—	—	—	(47)
Balance at June 30, 2013	\$77,993	\$77,672	\$453,258	\$ (21,795)	\$(40,276)	\$546,852
Balance at January 1, 2014	\$77,993	\$78,140	\$468,158	\$ (12,694)	\$(40,291)	\$571,306
Net income for six months ended June 30, 2014	—	—	28,753	—	—	28,753
Other comprehensive income (loss), net of tax	—	—	—	6,668	—	6,668
Cash dividends declared (\$0.33 per share)	—	—	(9,810)	—	—	(9,810)
Treasury stock issued for restricted awards (80,455 shares, net of 20,976 forfeitures)	—	—	(1,824)	—	1,664	(160)
Recognition of restricted stock compensation expense	—	430	—	—	—	430
Tax expense from stock-based compensation	—	—	—	—	—	—
Balance at June 30, 2014	\$77,993	\$78,570	\$485,277	\$ (6,026)	\$(38,627)	\$597,187

See Notes to Consolidated Financial Statements

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

(dollars in thousands)	Six Months Ended June 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income	\$28,753	\$26,433
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(845	)3,330
Provision for unfunded loan commitments	182	302
Depreciation and amortization	2,309	3,061
Net amortization of discounts and premiums	1,898	1,776
Stock-based compensation expense	395	254
Securities gains, net	(41	)(2)
Net gain on sale of merchant card servicing business	—	(3,093)
Tax expense from stock-based compensation	—	47
Mortgage loans originated for sale	(13,057	)(37,706)
Proceeds from the sale of loans	13,475	57,667
Gain on the sale of loans, net	(85	)(647)
Net increase in interest receivable	(243	)(1,222)
Net decrease in interest payable	(186	)(1,241)
Net decrease in other assets	10,016	17,243
Net increase (decrease) in other liabilities	1,199	(20,981)
Net Cash Provided by Operating Activities	43,770	45,221
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(108,845	)(66,495)
Proceeds from maturities, prepayments and calls of securities available-for-sale	36,343	23,240
Proceeds from sales of securities available-for-sale	1,418	94
Net (payments for) proceeds from Federal Home Loan Bank stock	(2,189	)1,356
Net increase in loans	(169,209	)(103,846)
Proceeds from sale of loans not originated for resale	4,108	—
Purchases of premises and equipment	(1,719	)(1,400)
Proceeds from the sale of premises and equipment	64	576
Proceeds from the sale of merchant card servicing business	—	4,750
Net Cash Used in Investing Activities	(240,029	)(141,725)
FINANCING ACTIVITIES		
Net increase (decrease) in core deposits	141,888	(26,999)
Net increase in certificates of deposit	50,972	36,842
Net (decrease) increase in securities sold under repurchase agreements	(8,578	)11,569
Net increase in short-term borrowings	45,000	50,000
Repayments of long-term borrowings	(1,174	)(11,136)
Repayment of junior subordinated debt	—	(45,000)
Treasury shares purchased-net	(160	)(86)
Cash dividends paid to common shareholders	(9,810	)(8,918)
Tax expense from stock-based compensation	—	(47)
Net Cash Provided by Financing Activities	218,138	6,225
Net increase (decrease) in cash and cash equivalents	21,879	(90,279)

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Cash and cash equivalents at beginning of period	108,356	337,711
Cash and Cash Equivalents at End of Period	\$130,235	\$247,432
Supplemental Disclosures		
Loans transferred to held for sale	\$1,300	\$—
Interest paid	6,278	9,372
Income taxes paid, net of refunds	8,400	5,155
Transfers of loans to other real estate owned	\$274	\$180
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, 2013, filed with the Securities and Exchange Commission, or SEC, on February 21, 2014. 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, or ASU

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

In July 2013, the Financial Accounting Standards Board (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. 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 had no impact on our results of operations or financial position.

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 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

Recently Issued Accounting Standards Updates not yet Adopted

Share-Based Payment Awards with Performance Targets

In June 2014, the FASB issued ASU No. 2014-12, Share-Based Payment Awards with Performance Targets. The main provisions of ASU 2014-12 require that a performance target included in a share-based payment award that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Therefore, under the existing stock compensation guidance in Topic 718, the performance target should not be reflected in estimating the grant-date fair value of the award. The standard is effective for annual periods and interim periods beginning after December 15, 2015. We do not expect that this ASU will have a material impact on our results of operations or financial position.

Repurchase-To-Maturity Transactions, Repurchase Financings and New Disclosures

In June 2014, the FASB issued ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and New Disclosures to change the accounting for repurchase-to-maturity transactions and certain linked repurchase financings. This will result in accounting for both types of arrangements as secured borrowings on the balance sheet and require new disclosures to (i) increase transparency about the types of collateral pledged in secured borrowing transactions and (ii) enable users to better understand transactions in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. The disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. All other accounting and disclosure amendments in the ASU are effective for the first interim or annual period beginning after December 15, 2014. Earlier application for a public business entity is prohibited. We do not expect that this ASU will have a material impact on our results of operations or financial position.

Revenues from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenues from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2016. The provisions do not apply to lease contracts, insurance contracts, financial instruments and other contractual rights or obligations (e.g. receivables, debt and equity securities, liabilities, debt, derivatives transfers, and servicing, etc.), guarantees, or non-monetary exchanges between entities. We are currently evaluating the impact of the adoption of this pronouncement on our consolidated financial statements.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance applies to all entities that dispose of components. It will significantly change current practices for assessing discontinued operations and affect an entity's income and earnings per share from continuing operations. An entity is required to reclassify assets and liabilities of a discontinued operation that are classified as held for sale or disposed of in the current period for all comparative periods presented. The ASU requires that an entity present in the statement of cash flows or disclose in a note either total operating and investing cash flows for discontinued operations, or depreciation, amortization, capital expenditures and significant operating and investing noncash items related to discontinued operations. Additional

disclosures are required when an entity retains significant continuing involvement with a discontinued operation after its disposal, including the amount of cash flows to and from a discontinued operation. The new standard applies prospectively after the effective date of December 15, 2014, and early adoption is permitted. We do not expect that this ASU will have a material 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

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The ASU clarifies that an in substance repossession or foreclosure has occurred and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The new standard is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. We do not expect that this ASU will have a material impact on our results of operations or financial position.

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The ASU permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The proportional amortization method permits the amortization of the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The new standard is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. We do not expect that this ASU will have a material 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 2. EARNINGS PER SHARE

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

(dollars in thousands, except shares and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator for Earnings per Share—Basic:				
Net income	\$ 14,720	\$ 14,103	\$ 28,753	\$ 26,433
Less: Income allocated to participating shares	29	36	64	81
Net Income Allocated to Shareholders	\$ 14,691	\$ 14,067	\$ 28,689	\$ 26,352
Numerator for Earnings per Share—Diluted:				
Net income	14,720	14,103	\$ 28,753	\$ 26,433
Net Income Available to Shareholders	\$ 14,720	\$ 14,103	\$ 28,753	\$ 26,433
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	29,684,300	29,654,018	29,672,611	29,637,825
Add: Dilutive potential shares	16,894	23,858	27,559	41,319
Denominator for Treasury Stock Method—Diluted	29,701,194	29,677,876	29,700,170	29,679,144
Weighted Average Shares Outstanding—Basic	29,684,300	29,654,018	29,672,611	29,637,825
Add: Average participating shares outstanding	58,973	74,994	66,563	91,530
Denominator for Two-Class Method—Diluted	29,743,273	29,729,012	29,739,174	29,729,355
Earnings per share—basic	\$ 0.49	\$ 0.47	\$ 0.97	\$ 0.89
Earnings per share—diluted	\$ 0.49	\$ 0.47	\$ 0.97	\$ 0.89
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	428,493	629,570	428,676	642,499
Restricted stock considered anti-dilutive excluded from dilutive potential shares	42,079	51,136	39,005	50,211

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

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

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

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

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

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

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

Recurring Basis

Securities Available-for-Sale

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

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.

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 affecting 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.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – 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 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 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 discounted cash flow analyses that utilize 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.

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.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

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.

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, 2014 and December 31, 2013. 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, 2014			
	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	\$—	\$270,248	\$—	\$270,248
Collateralized mortgage obligations of U.S. government corporations and agencies	—	94,604	—	94,604
Residential mortgage-backed securities of U.S. government corporations and agencies	—	46,389	—	46,389
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	39,920	—	39,920
Obligations of states and political subdivisions	—	128,313	—	128,313
Marketable equity securities	179	8,835	—	9,014
Total securities available-for-sale	179	588,309	—	588,488
Trading securities held in a Rabbi Trust	3,117	—	—	3,117
Total securities	3,296	588,309	—	591,605
Derivative financial assets:				
Interest rate swaps	—	14,082	—	14,082
Interest rate lock commitments	—	292	—	292
Forward sale contracts	—	—	—	—
Total Assets	\$3,296	\$602,683	\$—	\$605,979
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	\$—	\$14,050	\$—	\$14,050
Forward sale contracts	—	59	—	\$59
Total Liabilities	\$—	\$14,109	\$—	\$14,109

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

(dollars in thousands)	December 31, 2013			Total
	Level 1	Level 2	Level 3	
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	\$—	\$234,751	\$—	\$234,751
Collateralized mortgage obligations of U.S. government corporations and agencies	—	63,774	—	63,774
Residential mortgage-backed securities of U.S. government corporations and agencies	—	48,669	—	48,669
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	39,052	—	39,052
Obligations of states and political subdivisions	—	114,264	—	114,264
Marketable equity securities	202	8,713	—	8,915
Total securities available-for-sale	202	509,223	—	509,425
Trading securities held in a Rabbi Trust	2,864	—	—	2,864
Total securities	3,066	509,223	—	512,289
Derivative financial assets:				
Interest rate swaps	—	13,698	—	13,698
Interest rate lock commitments	—	85	—	85
Forward sale contracts	—	34	—	34
Total Assets	\$3,066	\$523,040	\$—	\$526,106
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	\$—	\$13,647	\$—	\$13,647
Total Liabilities	\$—	\$13,647	\$—	\$13,647

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

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Balance at beginning of period	\$—	\$312	\$—	\$300
Total gains included in other comprehensive income ⁽¹⁾	—	32	—	44
Net purchases, sales, issuances and settlements	—	—	—	—
Transfers out of Level 3	—	(344)	—	(344)
Balance at end of period	\$—	\$—	\$—	\$—

⁽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.

We may be required to measure certain assets and liabilities on a nonrecurring basis. The following table presents our assets that were measured at fair value on a nonrecurring basis by the fair value hierarchy level at June 30, 2014 and December 31, 2013. There were no liabilities measured at fair value on a nonrecurring basis during these periods.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

(dollars in thousands)	June 30, 2014				December 31, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								
Loans held for sale	\$—	\$—	\$1,300	\$1,300	\$—	\$—	\$1,516	\$1,516
Impaired loans	—	—	14,483	14,483	—	—	19,197	19,197
Other real estate owned	—	—	317	317	—	—	317	317
Mortgage servicing rights	—	—	1,211	1,211	—	—	1,025	1,025
Total Assets	\$—	\$—	\$17,311	\$17,311	\$—	\$—	\$22,055	\$22,055

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

The carrying values and fair values of our financial instruments at June 30, 2014 and December 31, 2013 are presented in the following tables:

(dollars in thousands)	Carrying Value ⁽¹⁾	Fair Value Measurements at June 30, 2014			
		Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	\$ 130,235	\$ 130,235	\$ 130,235	\$—	\$—
Securities available-for-sale	588,488	588,488	179	588,309	—
Loans held for sale	3,102	3,121	—	—	3,121
Portfolio loans, net of unearned income	3,725,079	3,691,807	—	—	3,691,807
Bank owned life insurance	61,348	61,348	—	61,348	—
FHLB and other restricted stock	15,818	15,818	—	—	15,818
Trading securities held in a Rabbi Trust	3,117	3,117	3,117	—	—
Mortgage servicing rights	2,743	2,890	—	—	2,890
Interest rate swaps	14,082	14,082	—	14,082	—
Interest rate lock commitments	292	292	—	292	—
LIABILITIES					
Deposits	\$ 3,865,246	\$ 3,867,540	\$—	\$—	\$ 3,867,540
Securities sold under repurchase agreements	25,269	25,269	—	—	25,269
Short-term borrowings	185,000	185,000	—	—	185,000
Long-term borrowings	20,636	21,779	—	—	21,779
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	14,050	14,050	—	14,050	—
Forward sale contracts	59	59	—	59	—

⁽¹⁾ As reported in the Consolidated Balance Sheets

(dollars in thousands)	Carrying Value ⁽¹⁾	Fair Value Measurements at December 31, 2013			
		Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	\$ 108,356	\$ 108,356	\$ 108,356	\$—	\$—
Securities available-for-sale	509,425	509,425	202	509,223	—
Loans held for sale	2,136	2,139	—	—	2,139
Portfolio loans, net of unearned income	3,566,199	3,538,072	—	—	3,538,072
Bank owned life insurance	60,480	60,480	—	60,480	—
FHLB and other restricted stock	13,629	13,629	—	—	13,629
Trading securities held in a Rabbi Trust	2,864	2,864	2,864	—	—
Mortgage servicing rights	2,919	3,143	—	—	3,143
Interest rate swaps	13,698	13,698	—	13,698	—
Interest rate lock commitments	85	85	—	85	—
Forward sale contracts	34	34	—	34	—
LIABILITIES					
Deposits	\$ 3,672,308	\$ 3,673,624	\$—	\$—	\$ 3,673,624

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Securities sold under repurchase agreements	33,847	33,847	—	—	33,847
Short-term borrowings	140,000	140,000	—	—	140,000
Long-term borrowings	21,810	22,924	—	—	22,924
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	13,647	13,647	—	13,647	—

(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:

(dollars in thousands)	June 30, 2014				December 31, 2013			
	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	\$268,614	\$2,733	\$(1,099)	)\$270,248	\$235,181	\$2,151	\$(2,581)	)\$234,751
Collateralized mortgage obligations of U.S. government corporations and agencies	93,787	1,035	(218)	)94,604	63,776	601	(603)	)63,774
Residential mortgage-backed securities of U.S. government corporations and agencies	44,900	1,720	(231)	)46,389	47,934	1,420	(685)	)48,669
Commercial mortgage-backed securities of U.S. government corporations and agencies	40,098	224	(402)	)39,920	40,357	—	(1,305)	)39,052
Obligations of states and political subdivisions	124,648	4,017	(352)	)128,313	115,572	1,294	(2,602)	)114,264
Debt Securities	572,047	9,729	(2,302)	)579,474	502,820	5,466	(7,776)	)500,510
Marketable equity securities	7,579	1,435	—	9,014	7,579	1,336	—	8,915
Total	\$579,626	\$11,164	\$(2,302)	)\$588,488	\$510,399	\$6,802	\$(7,776)	)\$509,425

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

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Gross realized gains	\$40	\$—	\$41	\$2
Gross realized losses	—	—	—	—
Net Realized Gains	\$40	\$—	\$41	\$2

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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:

(dollars in thousands)	June 30, 2014		12 Months or More		Total		Number of Securities	Unrealized Losses	
	Less Than 12 Months	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses			Fair Value
Obligations of U.S. government corporations and agencies	2	\$19,741	\$(78)	8	\$63,265	\$(1,021)	\$83,006	10	\$(1,099)
Collateralized mortgage obligations of U.S. government corporations and agencies	1	11,420	(218)	—	—	—	11,420	1	(218)
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—	—	1	9,414	(231)	9,414	1	(231)
Commercial mortgage-backed securities of U.S. government corporations and agencies	1	10,009	(16)	2	20,837	(386)	30,846	3	(402)
Obligations of states and political subdivisions	1	264	(1)	3	15,975	(351)	16,239	4	(352)
Debt Securities	5	41,434	(313)	14	109,491	(1,989)	150,925	19	(2,302)
Marketable equity securities	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Securities	5	\$41,434	\$(313)	14	\$109,491	\$(1,989)	\$150,925	19	\$(2,302)
	December 31, 2013		12 Months or More		Total				
(dollars in thousands)	Less Than 12 Months	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses
Obligations of U.S. government	16	\$126,017	\$(2,581)	—	\$—	\$—	\$126,017	16	\$(2,581)

corporations and agencies Collateralized mortgage obligations of U.S. government corporations and agencies	3	39,522	(603)	—	—	—	39,522	3	(603)
Residential mortgage-backed securities of U.S. government corporations and agencies	2	22,822	(685)	—	—	—	22,822	2	(685)
Commercial mortgage-backed securities of U.S. government corporations and agencies	4	39,052	(1,305)	—	—	—	39,052	4	(1,305)
Obligations of states and political subdivisions	16	47,529	(1,739)	2	10,088	(863)	57,617	18	(2,602)
Debt Securities	41	274,942	(6,913)	2	10,088	(863)	285,030	43	(7,776)
Marketable equity securities	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Securities	41	\$274,942	\$(6,913)	2	\$10,088	\$(863)	\$285,030	43	\$(7,776)

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

We do not believe any individual unrealized loss as of June 30, 2014 represents an other than temporary impairment, or OTTI. As of June 30, 2014, the unrealized losses on 19 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 June 30, 2014. We do not intend to sell and it is not more likely than not 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.

The following table displays net unrealized gains and losses, net of tax on securities available for sale included in accumulated other comprehensive income/(loss) for the periods presented.

(dollars in thousands)	June 30, 2014			December 31, 2013		
	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/ (Losses)	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/ (Losses)
Total unrealized gains/(losses) on securities available-for-sale	\$ 11,164	\$(2,302)	)\$8,862	\$ 6,802	\$(7,776)	)\$ (974)
Income tax expense/(benefit)	3,907	(806)	)3,101	2,381	(2,722)	) (341)
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	\$ 7,257	\$(1,496)	)\$5,761	\$ 4,421	\$(5,054)	)\$ (633)

The amortized cost and fair value of securities available-for-sale at June 30, 2014, 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)	June 30, 2014 Amortized Cost	Fair Value
Obligations of U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	\$ 24,049	\$ 24,289
Due after one year through five years	182,816	184,074
Due after five years through ten years	98,068	99,420
Due after ten years	88,329	90,778
	393,262	398,561
Collateralized mortgage obligations of U.S. government corporations and agencies	93,787	94,604
Residential mortgage-backed securities of U.S. government corporations and agencies	44,900	46,389
Commercial mortgage-backed securities of U.S. government corporations and agencies	40,098	39,920
Debt Securities	572,047	579,474
Marketable equity securities	7,579	9,014
Total	\$ 579,626	\$ 588,488

At June 30, 2014 and December 31, 2013, securities with carrying values of \$273.5 million and \$243.2 million were pledged for various regulatory and legal requirements.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of \$1.8 million and \$1.3 million at June 30, 2014 and December 31, 2013. The following table indicates the composition of the loans as of the dates presented:

(dollars in thousands)	June 30, 2014	December 31, 2013
Commercial		
Commercial real estate	\$1,636,383	\$1,607,756
Commercial and industrial	922,191	842,449
Commercial construction	188,311	143,675
Total Commercial Loans	2,746,885	2,593,880
Consumer		
Residential mortgage	492,589	487,092
Home equity	416,226	414,195
Installment and other consumer	65,838	67,883
Consumer construction	3,541	3,149
Total Consumer Loans	978,194	972,319
Total Portfolio Loans	3,725,079	3,566,199
Loans held for sale	3,102	2,136
Total Loans	\$3,728,181	\$3,568,335

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 74 percent of total portfolio loans at June 30, 2014 and 73 percent of total portfolio loans at December 31, 2013. Within our commercial portfolio, the commercial real estate, or CRE, and commercial construction portfolios combined comprised 66 percent of total commercial loans and 49 percent of total portfolio loans at June 30, 2014 and 68 percent of total commercial loans and 49 percent of total portfolio loans at December 31, 2013. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type revealed no concentration in excess of nine percent of total loans at either June 30, 2014 or December 31, 2013. 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 26 percent of the combined portfolio and 13 percent of total loans being out-of-state loans at June 30, 2014 and 23 percent of the combined portfolio and 11 percent of total loans being out-of-state loans at December 31, 2013. Our CRE and commercial construction portfolios combined out-of-state exposure, excluding the contiguous states of Ohio, West Virginia, New York and Maryland, was 7.2 percent of the combined portfolio and 3.6 percent of total loans at June 30, 2014 and 7.9 percent of the combined portfolio and 3.9 percent of total loans at December 31, 2013.

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 have 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

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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

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:

(dollars in thousands)	June 30, 2014			December 31, 2013		
	Accruing TDRs	Nonaccruing TDRs	Total TDRs	Accruing TDRs	Nonaccruing TDRs	Total TDRs
Commercial real estate	\$16,934	\$1,431	\$18,365	\$19,711	\$3,898	\$23,609
Commercial and industrial	7,390	1,170	8,560	7,521	1,884	9,405
Commercial construction	6,310	1,869	8,179	5,338	2,708	8,046
Residential mortgage	2,647	645	3,292	2,581	1,356	3,937
Home equity	3,712	125	3,837	3,924	218	4,142
Installment and other consumer	127	1	128	154	3	157