S&T BANCORP INC
Form 10-Q
November 01, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 0-12508

S&T BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

800-325-2265
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x 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	x	Accelerated filer	¨
Non-accelerated filer	¨	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 x
APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.
Common Stock, $2.50 Par Value - 35,006,587 shares as of October 31, 2018

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S&T BANCORP, INC. AND SUBSIDIARIES

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

(dollars in thousands, except per share data)	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Cash and due from banks, including interest-bearing deposits of $68,018 and $61,965 at September 30, 2018 and December 31, 2017	$132,650	$117,152
Securities, at fair value	682,535	698,291
Loans held for sale	4,207	4,485
Portfolio loans, net of unearned income	5,807,807	5,761,449
Allowance for loan losses	(60,556)	(56,390)
Portfolio loans, net	5,747,251	5,705,059
Bank owned life insurance	73,626	72,150
Premises and equipment, net	41,403	42,702
Federal Home Loan Bank and other restricted stock, at cost	31,178	29,270
Goodwill	287,446	291,670
Other intangible assets, net	2,725	3,677
Other assets	102,342	95,799
Total Assets	$7,105,363	$7,060,255
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$1,412,127	$1,387,712
Interest-bearing demand	561,191	603,141
Money market	1,367,181	1,146,156
Savings	817,545	893,119
Certificates of deposit	1,309,465	1,397,763
Total Deposits	5,467,509	5,427,891
Securities sold under repurchase agreements	45,200	50,161
Short-term borrowings	535,000	540,000
Long-term borrowings	45,434	47,301
Junior subordinated debt securities	45,619	45,619
Other liabilities	46,820	65,252
Total Liabilities	6,185,582	6,176,224
SHAREHOLDERS' EQUITY		
Common stock ($2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at September 30, 2018 and December 31, 2017	90,326	90,326
Outstanding— 35,006,587 shares at September 30, 2018 and 34,971,929 shares at December 31, 2017		
Additional paid-in capital	209,685	216,106
Retained earnings	684,361	628,107
Accumulated other comprehensive loss	(33,253)	(18,427)
Treasury stock (1,123,893 shares at September 30, 2018 and 1,158,551 shares at December 31, 2017, at cost)	(31,338)	(32,081)

Total Shareholders’ Equity	919,781	884,031
Total Liabilities and Shareholders’ Equity	$7,105,363	$7,060,255

See Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands, except per share data)	2018	2017	2018	2017
INTEREST INCOME				
Loans, including fees	$68,631	$62,450	$198,296	$179,908
Investment Securities:				
Taxable	3,649	2,988	10,597	8,783
Tax-exempt	857	896	2,603	2,744
Dividends	490	389	1,741	1,352
Total Interest Income	73,627	66,723	213,237	192,787
INTEREST EXPENSE				
Deposits	10,871	6,748	27,883	18,103
Borrowings and junior subordinated debt securities	3,494	2,519	10,758	6,779
Total Interest Expense	14,365	9,267	38,641	24,882
NET INTEREST INCOME	59,262	57,456	174,596	167,905
Provision for loan losses	462	2,850	12,279	12,901
Net Interest Income After Provision for Loan Losses	58,800	54,606	162,317	155,004
NONINTEREST INCOME				
Net gain on sale of securities	—	—	—	3,987
Service charges on deposit accounts	3,351	3,207	9,765	9,218
Debit and credit card	3,141	3,067	9,487	8,952
Wealth management	2,483	2,406	7,782	7,237
Mortgage banking	700	872	2,133	2,280
Insurance	101	1,318	404	4,232
Gain on sale of a majority interest of insurance business	—	—	1,873	—
Other	2,266	2,681	6,642	6,906
Total Noninterest Income	12,042	13,551	38,086	42,812
NONINTEREST EXPENSE				
Salaries and employee benefits	19,769	20,325	57,195	60,770
Data processing and information technology	2,906	2,284	7,610	6,670
Net occupancy	2,722	2,692	8,399	8,258
Furniture, equipment and software	2,005	1,890	6,096	5,746
Other taxes	1,341	1,208	4,928	3,268
Professional services and legal	1,181	869	3,120	2,868
Marketing	1,023	766	2,916	2,468
FDIC insurance	746	1,152	2,592	3,461
Other	5,392	5,367	16,174	16,451
Total Noninterest Expense	37,085	36,553	109,030	109,960
Income Before Taxes	33,757	31,604	91,373	87,856
Provision for income taxes	2,876	8,883	12,893	24,182
Net Income	$30,881	$22,721	$78,480	$63,674
Earnings per share—basic	$0.89	$0.65	$2.26	$1.83
Earnings per share—diluted	$0.88	$0.65	$2.24	$1.82
Dividends declared per share	$0.25	$0.20	$0.72	$0.60

Comprehensive Income	$28,573	$22,975	$67,943	$64,854

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, 2017	$90,326	$213,098	$585,891	$ (13,784)	$(33,575)	$841,956
Net income for nine months ended September 30, 2017	—	—	63,674	—	—	63,674
Other comprehensive income, net of tax	—	—	—	1,180	—	1,180
Cash dividends declared ($0.60 per share)	—	—	(20,899)	—	—	(20,899)
Treasury stock issued for restricted awards (90,115 shares, net of 23,946 forfeitures)	—	—	(2,383)	—	1,695	(688)
Recognition of restricted stock compensation expense	—	2,353	—	—	—	2,353
Balance at September 30, 2017	$90,326	$215,451	$626,283	$ (12,604)	$(31,880)	$887,576
Balance at January 1, 2018	$90,326	$216,106	$628,107	$ (18,427)	$(32,081)	$884,031
Net income for nine months ended September 30, 2018	—	—	78,480	—	—	78,480
Other comprehensive loss, net of tax	—	—	—	(10,537)	—	(10,537)
Reclassification of tax effects from the Tax Act[(1)]	—	—	3,427	(3,427)	—	—
Reclassification of net unrealized gains on equity securities[(2)]	—	—	862	(862)	—	—
Cash dividends declared ($0.72 per share)	—	—	(25,115)	—	—	(25,115)
Treasury stock issued for restricted awards (75,608 shares, net of 40,950 forfeitures)	—	—	(1,400)	—	743	(657)
Repurchase of warrant	—	(7,652)	—	—	—	(7,652)
Recognition of restricted stock compensation expense	—	1,231	—	—	—	1,231
Balance at September 30, 2018	$90,326	$209,685	$684,361	$ (33,253)	$(31,338)	$919,781

See Notes to Consolidated Financial Statements

[(1)]Reclassification due to the adoption of ASU No. 2018-02, $(3,660) relates to funded status of pension and $233 relates to net unrealized gains on available-for-sale securities.

[(2)]Reclassification due to the adoption of ASU No. 2016-01.

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

	Nine Months Ended September 30,	
(dollars in thousands)	2018	2017
OPERATING ACTIVITIES		
Net income	$78,480	$63,674
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	12,279	12,901
Recovery for unfunded loan commitments	(39)	(546)
Net depreciation, amortization and accretion	3,309	1,597
Net amortization of discounts and premiums on securities	2,387	3,065
Stock-based compensation expense	1,231	2,353
Gain on sale of securities	—	(3,987)
Mortgage loans originated for sale	(68,898)	(66,535)
Proceeds from the sale of mortgage loans	70,371	66,604
Gain on the sale of mortgage loans, net	(1,195)	(1,061)
Gain on the sale of majority interest of insurance business	(1,873)	—
Pension contribution	(20,420)	—
Net increase in interest receivable	(1,506)	(3,886)
Net increase in interest payable	803	448
Net decrease in other assets	352	8,735
Net increase in other liabilities	9,904	69
Net Cash Provided by Operating Activities	85,185	83,431
INVESTING ACTIVITIES		
Purchases of securities	(79,068)	(69,699)
Proceeds from maturities, prepayments and calls of securities	71,433	58,601
Proceeds from sales of securities	—	7,751
Net (purchases) sales of Federal Home Loan Bank stock	(1,909)	1,304
Net increase in loans	(64,387)	(268,132)
Proceeds from sale of loans not originated for resale	7,695	3,581
Purchases of premises and equipment	(2,588)	(3,646)
Proceeds from the sale of premises and equipment	135	376
Proceeds from the sale of majority interest of insurance business	4,540	—
Net Cash Used in Investing Activities	(64,149)	(269,864)
FINANCING ACTIVITIES		
Net increase in core deposits	127,917	109,637
Net (decrease) increase in certificates of deposit	(88,203)	61,048
Net decrease in securities sold under repurchase agreements	(4,961)	(10,909)
Net (decrease) increase in short-term borrowings	(5,000)	25,000
Repayments of long-term borrowings	(1,867)	(1,802)
Treasury shares issued-net	(657)	(688)
Cash dividends paid to common shareholders	(25,115)	(20,899)
Repurchase of warrant	(7,652)	—
Net Cash (Used) Provided by Financing Activities	(5,538)	161,387
Net increase (decrease) in cash and cash equivalents	15,498	(25,046)
Cash and cash equivalents at beginning of period	117,152	139,486

Cash and Cash Equivalents at End of Period	$132,650	$114,440
Supplemental Disclosures		
Loans transferred to held for sale	$7,695	$43,151
Deposits transferred to held for sale	$—	$38,960
Interest paid	$37,838	$24,682
Income taxes paid, net of refunds	$15,728	$21,096
Transfer net assets to investment in insurance company partnership	$1,917	$—
Transfers of loans to other real estate owned	$647	$2,116

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, 2017, filed with the Securities and Exchange Commission, or SEC, on March 1, 2018. 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.

On January 1, 2018, we sold a 70 percent majority interest in the assets of our wholly-owned subsidiary S&T Evergreen Insurance, LLC. We transferred our remaining 30 percent ownership interest in the net assets of S&T Evergreen Insurance, LLC to a new entity for a 30 percent ownership interest in a new insurance entity (see Note 13: Sale of a Majority Interest of Insurance Business). We use the equity method of accounting to recognize our partial ownership interest in the new entity.

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.

Revenue from Contracts with Customers

We earn revenue from contracts with our customers when we have completed our performance obligations and recognize that revenue when services are provided to our customers. Our contracts with customers are primarily in the form of account agreements. Generally our services are transferred at a point in time in response to transactions initiated and controlled by our customers under service agreements with an expected duration of one year or less. Our customers have the right to terminate their services agreements at any time.

We do not defer incremental direct costs to obtain contracts with customers that would be amortized in one year or less. These costs are primarily salaries and employee benefits recognized as expense in the period incurred.

Service charges on deposit accounts - We recognize monthly service charges for both commercial and personal banking customers based on account fee schedules. Our performance obligation is generally satisfied and the related revenue recognized over the period in which the service is provided. Other fees are earned based on specific transactions or customer activity within the customers' deposit accounts. These are earned at the time the transaction or customer activity occurs.

Debit and credit card services - Interchange fees are earned whenever debit and credit cards are processed through third-party card payment networks. ATM fees are based on transactions by our customers' and other customers' use of our ATMs or other ATMs. Debit and credit card revenue is recognized at a point in time when the transaction is settled.

Wealth management services - Wealth management services is primarily comprised of fees earned from the management and administration of trusts, assets under management, brokerage and other financial advisory services. Fees are earned over a period of time per the related fee schedules. The fees are based on a fixed amount or a scale based on the level of services provided or assets under management.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Recently Adopted Accounting Standards Updates, or ASU or Update
Income Statement - Reporting Comprehensive Income - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
In February 2018, the Financial Accounting Standards Board, or FASB, issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220), Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this Update allow a reclassification from accumulated other comprehensive income, or AOCI, to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act, or Tax Act. The amendments eliminate the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users and will require certain disclosures about the stranded tax effects. This Update is effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period, for public business entities for reporting periods for which financial statements have not been issued or made available for issuance. We have elected to reclassify all tax effects related to the Tax Act from AOCI to retained earnings as of January 1, 2018. As such, we have early adopted this Update and reclassified $3.4 million for the release of stranded income tax effects relating to unrealized gains and losses on our securities portfolio and our pension plan from AOCI to retained earnings as of March 31, 2018. The adoption of this ASU had no impact on our Consolidated Statements of Comprehensive Income. Our policy for releasing income tax effects from AOCI is to release them as investments are sold or mature and liabilities are extinguished.
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 was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption was 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 adoption of this ASU had no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.
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 of this ASU is to provide greater detail on what types of transactions should be accounted for as partial sales of nonfinancial assets. This ASU, as originally issued in ASU No. 2014-09, 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 interests to another entity. This Update was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017 which is the same time that ASU No. 2014-09 was effective. Early adoption was permitted, but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The adoption of this ASU was applied to the partial sale of our insurance subsidiary in January 2018. As such, the subsidiary is no longer included in our Consolidated Financial Statements and we recognized a $1.9 million gain on the transaction.
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 of 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 results in fewer acquisitions being accounted for as business combinations than under previous 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 was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption was permitted for transactions not

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NOTE 1. BASIS OF PRESENTATION - continued

yet reflected in financial statements that have been issued or made available for issuance. The adoption of this ASU had no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

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 previous guidance, which required 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 requires companies to defer the income tax effects only of intercompany transfers of inventory. This Update was effective for annual periods beginning after December 15, 2017. Early adoption was permitted as of the beginning of an annual period. If an entity chose to early adopt the amendments in the ASU, it had to do so in the first interim period of its annual financial statements. That is, an entity could not have adopted 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. The adoption of this ASU had no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

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 was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption was permitted, provided that all of the amendments are adopted in the same period. The adoption of this ASU had no material impact to the presentation of activities in our Consolidated Statements of Cash Flows.

Revenue from Contracts with Customers

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This revenue pronouncement established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded most previous revenue recognition guidance in GAAP. We adopted the new standard as of January 1, 2018. Our primary sources of revenue are derived from interest and dividends earned on loans, investment securities and other financial instruments that are not within the scope of ASU No. 2014-09. We evaluated the nature of our contracts with customers and related revenue streams, including service charges on deposit accounts, debit and credit cards and wealth management and determined that revenue recognition did not change significantly from current practice. We evaluated certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue. The adoption of this ASU had no material impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

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 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 was

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NOTE 1. BASIS OF PRESENTATION - continued

effective for annual and interim periods in fiscal years beginning after December 15, 2017. We adopted ASU No. 2016-01 as of January 1, 2018 and have concluded that the provisions of this ASU did not materially impact our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income. The new guidance resulted in a change in the fair value measurement of our loan portfolio as of March 31, 2018 using an exit price notion (see Note 3: Fair Value Measurements). The new guidance also resulted in a cumulative-effect adjustment of $0.9 million from AOCI to retained earnings at January 1, 2018 for net unrealized gains on our marketable equities portfolio. As a result of the new guidance, we recognized $0.1 million of net unrealized losses during the three months ended September 30, 2018 and $0.2 million of net unrealized gains during the nine months ended September 30, 2018 on our marketable equity securities portfolio in our Consolidated Statements of Comprehensive Income.

Accounting Standards Issued But Not Yet Adopted

Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this ASU apply to entities that are a customer in a hosting arrangement that is a service contract. These amendments relate to accounting for implementation costs (e.g. implementation, setup and other upfront costs.) These amendments require an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which cost to capitalize and which costs to expense. These amendments require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement. This ASU is effective for annual and interim periods beginning after December 15, 2019. Early adoption of the amendments is permitted, including adoption in any interim period. We are evaluating the amendments in this ASU; however, we do not anticipate that these amendments will materially impact our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued ASU No. 2018-14, Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this ASU apply to all employers that sponsor defined benefit pension or other postretirement plans. These amendments remove certain disclosures from Topic 715-20 and require additional disclosures. The amendments in this ASU will require S&T to update our employee benefits disclosures beginning with our Form 10-Q for the period ended March 31, 2021. The amendments in this ASU will have no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

Fair Value Measurement - Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this ASU remove certain disclosures from Topic 820, modify and/or require additional disclosures. The amendments in this Update will require us to change our Fair Value disclosures beginning with our Form 10-Q for the period ended March 31, 2020. The amendments in this ASU will have no impact on our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

Leases - Land Easement Practical Expedient for Transition to Topic 842

In January 2018, the FASB issued ASU No. 2018-01, Leases - Land Easement Practical Expedient for Transition to Topic 842. The amendments in this ASU permit an entity to elect an optional transition practical expedient to not evaluate under Topic 842 land easements that existed or expired before the entity's adoption of Topic 842 and that were not previously accounted for as leases under Topic 840. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. We are evaluating the amendments in this ASU; however, we do not anticipate that these amendments will materially impact our Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

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 of this ASU is 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 Consolidated Balance Sheets or Consolidated Statements of Comprehensive Income.
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 form 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 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 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We have created a CECL Committee to govern the implementation of these amendments consisting of key stakeholders from Credit Administration, Finance, Risk Management and Internal Audit. We have engaged a third-party to assist us in developing our CECL methodology. We continue to evaluate the provisions of this ASU to determine the potential impact on our Consolidated Balance Sheets and Consolidated Statements of Comprehensive Income.
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 No. 2016-02 supersedes Topic 840, Leases. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2018. ASU No. 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 Sheets. We have approximately 50 lease agreements for our branch and loan production offices, which are currently accounted for as operating leases. We expect the new guidance will require recognition of right-to-use assets and corresponding lease liabilities in the range of $30 million to $35 million on our Consolidated Balance Sheets in the first quarter of 2019. We expect that these changes to our Consolidated Balance Sheets will have a minor impact to our regulatory capital ratios. We have compiled a preliminary inventory of our leases and continue to evaluate the standard as additional lease accounting guidance continues to be released. We anticipate that this ASU will impact total assets and total liabilities presented on our Balance Sheets; however, we do not believe that it will materially impact our Consolidated Statements of Comprehensive Income.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 2. EARNINGS PER SHARE

Diluted earnings per share is calculated using both the two-class and the treasury stock methods with the more dilutive method used to determine diluted earnings per share. For both the three months and nine months ended September 30, 2018, the treasury stock method is more dilutive and was used to determine diluted earnings per share. The following table reconciles the numerators and denominators of basic and diluted earnings per share calculations for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except share and per share data)	2018	2017	2018	2017
Numerator for Earnings per Share—Basic:				
Net income	$ 30,881	$ 22,721	$ 78,480	$ 63,674
Less: Income allocated to participating shares	87	73	229	214
Net Income Allocated to Shareholders	$ 30,794	$ 22,648	$ 78,251	$ 63,460
Numerator for Earnings per Share—Diluted:				
Net income	$ 30,881	$ 22,721	$ 78,480	$ 63,674
Net Income Available to Shareholders	$ 30,881	$ 22,721	$ 78,480	$ 63,674
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	34,799,174	34,751,266	34,783,175	34,722,370
Add: Potentially dilutive shares	220,118	208,873	228,909	208,139
Denominator for Treasury Stock Method—Diluted	35,019,292	34,960,139	35,012,084	34,930,509
Weighted Average Shares Outstanding—Basic	34,799,174	34,751,266	34,783,175	34,722,370
Add: Average participating shares outstanding	98,579	111,821	101,808	116,969
Denominator for Two-Class Method—Diluted	34,897,753	34,863,087	34,884,983	34,839,339
Earnings per share—basic	$ 0.89	$ 0.65	$ 2.26	$ 1.83
Earnings per share—diluted	$ 0.88	$ 0.65	$ 2.24	$ 1.82
Warrants considered anti-dilutive excluded from potentially dilutive shares - exercise price $31.53 per share, expires January 2019 (1)	285,915	443,575	351,166	452,188
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	113,451	92,577	113,390	95,707

(1)We repurchased our outstanding warrant on September 11, 2018 for $7.7 million. Prior to the repurchase, the warrant provided the holder the right to 517,012 shares of common stock at a strike price of $31.53 per share via cashless exercise.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS

We use fair value measurements when recording and disclosing certain financial assets and liabilities. Debt securities, equity securities, 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 are 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

Debt Securities Available-for-Sale

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 provide 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, vast descriptive terms and conditions databases, and extensive quality control programs.

Equity Securities

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 MSRs is determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor driving the value of MSRs. MSRs are considered impaired if the carrying value exceeds fair value. The valuation model includes significant unobservable inputs; therefore, MSRs are classified as Level 3. MSRs 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 a 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
The carrying amounts reported in the Consolidated Balance Sheets for cash and due from banks, including interest-bearing deposits, approximate fair value.
Loans
With the adoption of ASU No. 2016-01, Accounting for Financial Instruments - Overall: Classification and Measurement, on January 1, 2018, we refined our methodology to estimate the fair value of our loan portfolio to use the exit price notion as required by the standard. The guidance was applied on a prospective basis resulting in prior periods no longer being comparable.
The fair value of variable rate loans that may reprice frequently at short-term market rates is based on carrying values adjusted for liquidity and credit risk. The fair value of variable rate 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 liquidity and credit risk. The fair value of fixed rate loans is estimated using a discounted cash flow analysis that utilizes interest rates currently being offered for similar loans adjusted for liquidity and credit risk.
Bank Owned Life Insurance
Fair value approximates net cash surrender value of bank owned life insurance, or BOLI.
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; it 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.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

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 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 September 30, 2018 and December 31, 2017. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

	September 30, 2018			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Debt securities available-for-sale:				
U.S. Treasury securities	$—	$9,556	$ —	$9,556
Obligations of U.S. government corporations and agencies	—	136,984	—	136,984
Collateralized mortgage obligations of U.S. government corporations and agencies	—	137,660	—	137,660
Residential mortgage-backed securities of U.S. government corporations and agencies	—	26,450	—	26,450
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	244,596	—	244,596
Obligations of states and political subdivisions	—	121,975	—	121,975
Total Debt Securities Available-for-Sale	—	677,221	—	677,221
Marketable equity securities(1)	—	5,314	—	5,314
Total Securities	—	682,535	—	682,535
Trading securities held in a Rabbi Trust	5,377	—	—	5,377
Derivative financial assets:				
Interest rate swaps	—	7,448	—	7,448
Interest rate lock commitments	—	229	—	229
Forward sale contracts - mortgage loans	—	61	—	61
Total Assets	$5,377	$690,273	$ —	$695,650
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$—	$7,483	$ —	$7,483

Total Liabilities	$—	$7,483	$ —	$7,483

(1) ASU No. 2016-01 was adopted January 1, 2018, resulting in separate classification of our marketable equity securities previously included in available-for-sale securities.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

	December 31, 2017			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Debt securities available-for-sale:				
U.S. Treasury securities	$—	$19,789	$ —	$19,789
Obligations of U.S. government corporations and agencies	—	162,193	—	162,193
Collateralized mortgage obligations of U.S. government corporations and agencies	—	108,688	—	108,688
Residential mortgage-backed securities of U.S. government corporations and agencies	—	32,854	—	32,854
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	242,221	—	242,221
Obligations of states and political subdivisions	—	127,402	—	127,402
Total Debt Securities Available-for-Sale	—	693,147	—	693,147
Marketable equity securities	—	5,144	—	5,144
Total Securities	—	698,291	—	698,291
Trading securities held in a Rabbi Trust	5,080	—	—	5,080
Derivative financial assets:				
Interest rate swaps	—	3,074	—	3,074
Interest rate lock commitments	—	226	—	226
Total Assets	$5,080	$701,591	$ —	$706,671
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$—	$3,055	$ —	$3,055
Forward sale contracts	—	5	—	5
Total Liabilities	$—	$3,060	$ —	$3,060

We classify financial instruments as Level 3 when valuation models are used because significant inputs are not observable in the market.

We may be required to measure certain assets and liabilities at fair value on a nonrecurring basis. Nonrecurring assets are recorded at the lower of cost or fair value in our financial statements. There were no liabilities measured at fair value on a nonrecurring basis at either September 30, 2018 or December 31, 2017.

The following table presents our assets that are measured at fair value on a nonrecurring basis by the fair value hierarchy level as of the dates presented:

	September 30, 2018				December 31, 2017			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS[1]								
Impaired loans	$—	$ —	$3,577	$3,577	$—	$ —	$6,759	$6,759
Other real estate owned	—	—	2,871	2,871	—	—	444	444
Mortgage servicing rights	—	—	85	85	—	—	178	178
Total Assets	$—	$ —	$6,533	$6,533	$—	$ —	$7,381	$7,381

[1]This table presents only the nonrecurring items that are recorded at fair value in our financial statements.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENTS – continued

The carrying values and fair values of our financial instruments at September 30, 2018 and December 31, 2017 are presented in the following tables:

(dollars in thousands)	Carrying Value[1]	Fair Value Measurements at September 30, 2018 Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$132,650	$132,650	$132,650	$ —	$—
Securities	682,535	682,535	—	682,535	—
Loans held for sale	4,207	4,377	—	—	4,377
Portfolio loans, net	5,747,251	5,585,934	—	—	5,585,934
Bank owned life insurance	73,626	73,626	—	73,626	—
FHLB and other restricted stock	31,178	31,178	—	—	31,178
Trading securities held in a Rabbi Trust	5,377	5,377	5,377	—	—
Mortgage servicing rights	4,421	5,456	—	—	5,456
Interest rate swaps	7,448	7,448	—	7,448	—
Interest rate lock commitments	229	229	—	229	—
Forward sale contracts - mortgage loans	61	61	—	61	—
LIABILITIES					
Deposits	$5,467,509	$5,451,776	$—	$ —	$5,451,776
Securities sold under repurchase agreements	45,200	45,200	—	—	45,200
Short-term borrowings	535,000	535,000	—	—	535,000
Long-term borrowings	45,434	45,564	—	—	45,564
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	7,483	7,483	—	7,483	—

[1] As reported in the Consolidated Balance Sheets

(dollars in thousands)	Carrying Value[1]	Fair Value Measurements at December 31, 2017 Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$117,152	$117,152	$117,152	$ —	$—
Securities	698,291	698,291	—	698,291	—
Loans held for sale	4,485	4,583	—	—	4,583
Portfolio loans, net	5,705,059	5,690,292	—	—	5,690,292
Bank owned life insurance	72,150	72,150	—	72,150	—
FHLB and other restricted stock	29,270	29,270	—	—	29,270
Trading securities held in a Rabbi Trust	5,080	5,080	5,080	—	—
Mortgage servicing rights	4,133	4,571	—	—	4,571
Interest rate swaps	3,074	3,074	—	3,074	—
Interest rate lock commitments	226	226	—	226	—
LIABILITIES					
Deposits	$5,427,891	$5,426,928	$—	$ —	$5,426,928
Securities sold under repurchase agreements	50,161	50,161	—	—	50,161
Short-term borrowings	540,000	540,000	—	—	540,000
Long-term borrowings	47,301	47,618	—	—	47,618

Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	3,055	3,055	—	3,055	—
Forward sales contracts	5	5	—	5	—

(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

The following table presents the fair values of our securities portfolio at the dates presented:

(dollars in thousands)	September 30, 2018	December 31, 2017
Debt securities available-for-sale	$ 677,221	$ 693,147
Marketable equity securities	5,314	5,144
Total Securities	$ 682,535	$ 698,291

Debt Securities Available-for-Sale

The following tables present the amortized cost and fair value of debt securities available-for-sale as of September 30, 2018 and debt and equity securities available-for-sale as of December 31, 2017:

	September 30, 2018				December 31, 2017			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$9,956	$—	$(400)	$9,556	$19,943	$—	$(154)	$19,789
Obligations of U.S. government corporations and agencies	139,272	—	(2,288)	136,984	162,045	341	(193)	162,193
Collateralized mortgage obligations of U.S. government corporations and agencies	141,283	—	(3,623)	137,660	109,916	93	(1,321)	108,688
Residential mortgage-backed securities of U.S. government corporations and agencies	26,837	219	(606)	26,450	32,388	679	(213)	32,854
Commercial mortgage-backed securities of U.S. government corporations and agencies [(1)]	253,090	—	(8,494)	244,596	244,018	247	(2,044)	242,221
Obligations of states and political subdivisions	120,396	1,741	(162)	121,975	123,159	4,285	(42)	127,402
Total Debt Securities Available-for-Sale	690,834	1,960	(15,573)	677,221	691,469	5,645	(3,967)	693,147
Total equity securities [(2)]	—	—	—	—	3,815	1,330	(1)	5,144
Total Securities	$690,834	$1,960	$(15,573)	$677,221	$695,284	$6,975	$(3,968)	$698,291

[(1)] Includes a $5.9 million security purchase that was pending settlement as of December 31, 2017.

(2) ASU No. 2016-01 was adopted January 1, 2018, resulting in separate classification of our marketable equity securities previously included in available-for-sale securities.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. SECURITIES – continued

The following tables present the fair value and the age of gross unrealized losses on debt securities available-for-sale by investment category as of the dates presented:

	September 30, 2018								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	—	$—	$—	1	$9,556	$(400)	1	$9,556	$(400)
Obligations of U.S. government corporations and agencies	17	135,988	(2,280)	1	995	(8)	18	136,983	(2,288)
Collateralized mortgage obligations of U.S. government corporations and agencies	10	64,732	(1,365)	8	48,308	(2,258)	18	113,040	(3,623)
Residential mortgage-backed securities of U.S. government corporations and agencies	4	9,361	(182)	2	7,194	(424)	6	16,555	(606)
Commercial mortgage-backed securities of U.S. government corporations and agencies	17	148,398	(4,474)	10	96,198	(4,020)	27	244,596	(8,494)
Obligations of states and political subdivisions	7	28,998	(162)	—	—	—	7	28,998	(162)
Total Temporarily Impaired Debt Securities	55	$387,477	$(8,463)	22	$162,251	$(7,110)	77	$549,728	$(15,573)

	December 31, 2017								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	3	$19,789	$(154)	—	$—	$—	3	$19,789	$(154)
Obligations of U.S. government corporations and agencies	9	63,635	(144)	1	10,017	(49)	10	73,652	(193)
Collateralized mortgage obligations of U.S. government corporations and agencies	7	47,465	(248)	7	45,809	(1,073)	14	93,274	(1,321)
Residential mortgage-backed securities of U.S.	1	2,333	(10)	2	8,638	(203)	3	10,971	(213)

government corporations and agencies														
Commercial mortgage-backed securities of U.S. government corporations and agencies	14	128,300	(775	)	5	48,746	(1,269	)	19	177,046	(2,044	)		
Obligations of states and political subdivisions	2	10,330	(42	)	—	—	—		2	10,330	(42	)		
Total Temporarily Impaired Debt Securities	36	$271,852	$(1,373	)	15	$113,210	$(2,594	)	51	$385,062	$(3,967	)		

We do not believe any individual unrealized loss as of September 30, 2018 represents an other than temporary impairment, or OTTI. At September 30, 2018 there were 77 debt securities and at December 31, 2017 there were 51 debt securities in an unrealized loss position. The unrealized losses on debt securities were primarily attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities were determined to be investment grade and paying principal and interest according to the contractual terms of the security. We do not intend to sell and it is more likely than not that we will not be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. SECURITIES – continued

The following table presents net unrealized gains and losses, net of tax, on debt securities available-for-sale included in accumulated other comprehensive loss, for the periods presented:

	September 30, 2018			December 31, 2017		
(dollars in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized (Losses)/Gains	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/(Losses)
Total unrealized gains/(losses) on debt securities available-for-sale [(1)]	$1,960	$(15,573)	$(13,613)	$5,645	$(3,967)	$1,678
Income tax (expense) benefit	(416)	3,307	2,891	(1,982)	1,393	(589)
Net Unrealized (Losses)/Gains, Net of Tax Included in Accumulated Other Comprehensive Loss	$1,544	$(12,266)	$(10,722)	$3,663	$(2,574)	$1,089

[(1)] Gross unrealized gains and losses of $862 at December 31, 2017 have been restated to reflect the reclassifications from OCI to retained earnings due to the adoption of ASU No. 2016-01

The amortized cost and fair value of debt securities available-for-sale at September 30, 2018 by contractual maturity are included in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2018	
(dollars in thousands)	Amortized Cost	Fair Value
Obligations of the U.S. Treasury, U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	$20,871	$20,878
Due after one year through five years	147,573	146,653
Due after five years through ten years	72,590	71,938
Due after ten years	28,590	29,046
Debt Securities Available-for-Sale With Maturities	269,624	268,515
Collateralized mortgage obligations of U.S. government corporations and agencies	141,283	137,660
Residential mortgage-backed securities of U.S. government corporations and agencies	26,837	26,450
Commercial mortgage-backed securities of U.S. government corporations and agencies	253,090	244,596
Total Debt Securities Available-for-Sale	$690,834	$677,221

At September 30, 2018 and December 31, 2017, debt securities with carrying values of $270 million and $249 million were pledged for various regulatory and legal requirements.

Marketable Equity Securities

The following table presents realized and unrealized net gains and losses for our marketable equity securities for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2018	2017	2018	2017
Marketable Equity Securities				
Net market (losses)/gains recognized	$(111)	$318	$171	$5,542

Less: Net gains recognized for equity securities sold	—	—	—	3,987
Unrealized (Losses)/Gains on Equity Securities Still Held	$(111)	$318	$171	$1,555

Prior to January 1, 2018, net unrealized gains and losses, net of tax, on marketable equity securities were included in AOCI for the periods presented. Net unrealized gains and losses, net of tax, on marketable equity securities of $0.9 million were reclassified from AOCI to retained earnings at January 1, 2018. As of January 1, 2018, gains and losses on marketable equity securities are included in other noninterest income on the Consolidated Statements of Comprehensive Income.

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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 $5.4 million and $5.2 million at September 30, 2018 and December 31, 2017.
The following table indicates the composition of loans as of the dates presented:

(dollars in thousands)	September 30, 2018	December 31, 2017
Commercial		
Commercial real estate	$ 2,826,372	$ 2,685,994
Commercial and industrial	1,451,371	1,433,266
Commercial construction	283,783	384,334
Total Commercial Loans	4,561,526	4,503,594
Consumer		
Residential mortgage	699,867	698,774
Home equity	472,451	487,326
Installment and other consumer	67,542	67,204
Consumer construction	6,421	4,551
Total Consumer Loans	1,246,281	1,257,855
Total Portfolio Loans	5,807,807	5,761,449
Loans held for sale	4,207	4,485
Total Loans	$ 5,812,014	$ 5,765,934

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, geography, collateral and industry and actively managing concentrations. When concentrations exist in certain segments, we mitigate this risk by reviewing the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 79 percent of total portfolio loans at September 30, 2018 and 78 percent at December 31, 2017. Within our commercial portfolio, the Commercial Real Estate, or CRE, and Commercial Construction portfolios combined comprised $3.1 billion or 68 percent of total commercial loans at both September 30, 2018 and December 31, 2017 and 54 percent of total portfolio loans at September 30, 2018 and 53 percent at December 31, 2017. Further segmentation of the CRE and Commercial Construction portfolios by collateral type reveals no concentration in excess of 14 percent of both total CRE and Commercial Construction loans at September 30, 2018 and December 31, 2017.
Our market area includes Pennsylvania and the contiguous states of Ohio, West Virginia, New York and Maryland. The majority of our commercial and consumer loans are made to businesses and individuals in this market area, resulting in a geographic concentration. We believe our knowledge and familiarity with customers and conditions locally outweighs this geographic concentration risk. The conditions of the local and regional economies are monitored closely through publicly available data and information supplied by our customers. Our CRE and Commercial Construction portfolios have out-of-market exposure of 5.5 percent of their combined portfolios and 2.9 percent of total portfolio loans at September 30, 2018. This compares to 5.2 percent of their combined portfolios and 2.8 percent of total portfolio loans at December 31, 2017.
We individually evaluate all substandard commercial loans that have experienced a forbearance or change in terms agreement, and 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 troubled debt restructurings, or TDRs.
All TDRs are considered to be impaired loans and will be reported as impaired loans for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal

and interest will be collected according to the restructured agreement. Further, all impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

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S&T BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE - continued

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

(dollars in thousands)	September 30, 2018 Performing TDRs	Nonperforming TDRs	Total TDRs	December 31, 2017 Performing TDRs	Nonperforming TDRs	Total TDRs
Commercial real estate	$2,095	$ 1,152	$3,247	$2,579	$ 967	$3,546
Commercial and industrial	11,874	2,260	14,134	3,946	3,197	7,143
Commercial construction	2,400	408	2,808	2,420	2,413	4,833
Residential mortgage	2,229	1,913	4,142	2,039	3,585	5,624
Home equity	3,612	1,404	5,016	3,885	979	4,864
Installment and other consumer	16	6	22	32	9	41
Total	$22,226	$ 7,143	$29,369	$14,901	$ 11,150	$26,051

There were no TDRs that returned to accruing status during the three and nine months ended September 30, 2018. There were no TDRs that returned to accruing status during the three months ended September 30, 2017 and one TDR that returned to accruing status totaling $2.0 million during the nine months ended September 30, 2017.

The following tables present the restructured loans by loan segment and by type of concession for the three and nine months ended September 30, 2018 and 2017:

(dollars in thousands)	Three Months Ended September 30, 2018 Number of Loans	Pre-Modification Outstanding Recorded Investment(1)	Post-Modification Outstanding Recorded Investment(1)	Total Difference in Recorded Investment	Three Months Ended September 30, 2017 Number of Loans	Pre-Modification Outstanding Recorded Investment(1)	Post-Modification Outstanding Recorded Investment(1)	Total Difference in Recorded Investment
Totals by Loan Segment								
Commercial real estate								
Maturity date extension	1	$ 256	$ 250	$ (6)	1	$ 400	$ 400	$ —
Total Commercial Real Estate	1	256	250	(6)	1	400	400	—
Commercial and industrial								
Maturity date extension	—	—	—	—	1	274	816	542
Total Commercial and Industrial	—	—	—	—	1	274	816	542
Residential Mortgage								
Chapter 7 bankruptcy(2)	2	188	186	(2)	1	148	—	(148)
Total Residential Mortgage	2	188	186	(2)	1	148	—	(148)
Home equity								
Chapter 7 bankruptcy(2)	6	193	191	(2)	4	72	70	(2)
Total Home Equity	6	193	191	(2)	4	72	70	(2)
Installment and other consumer								
Chapter 7 bankruptcy(2)	1	12	6	(6)	8	200	185	(15)
Total Installment and Other Consumer	1	12	6	(6)	8	200	185	(15)
Totals by Concession Type								
Maturity date extension	1	256	250					