S&T BANCORP INC

FORM 10-Q
(Quarterly Report)

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Address	800 PHILADELPHIA STREET PO BOX 190 INDIANA, PA, 15701
Telephone	724-427-2347
CIK	0000719220
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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 September 30, 2017

OR

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

For the transition period from To

Commission file number 0-12508

S&T BANCORP, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-1434426**
(State or other jurisdiction of 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 ☒ No ☐

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, $2.50 Par Value - 34,979,192 shares as of October 31, 2017

S&T BANCORP, INC. AND SUBSIDIARIES

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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, 2017 (Unaudited)		December 31, 2016 (Audited)
ASSETS				
Cash and due from banks, including interest-bearing deposits of $59,725 and $87,201 at September 30, 2017 and December 31, 2016	$	114,440	$	139,486
Securities available-for-sale, at fair value		697,954		693,487
Loans held for sale		47,936		3,793
Portfolio loans, net of unearned income		5,820,758		5,611,419
Allowance for loan losses		(56,712)		(52,775)
Portfolio loans, net		5,764,046		5,558,644
Bank owned life insurance		71,639		72,081
Premises and equipment, net		42,888		44,999
Federal Home Loan Bank and other restricted stock, at cost		33,120		31,817
Goodwill		291,670		291,670
Other intangible assets, net		3,956		4,910
Other assets		102,530		102,166
Total Assets	**$**	**7,170,179**	**$**	**6,943,053**
LIABILITIES				
Deposits:				
Noninterest-bearing demand	$	1,348,939	$	1,263,833
Interest-bearing demand		646,195		638,300
Money market		1,036,726		936,461
Savings		940,989		1,050,131
Certificates of deposit		1,431,431		1,383,652
Deposits held for sale		38,960		—
Total Deposits		**5,443,240**		**5,272,377**
Securities sold under repurchase agreements		39,923		50,832
Short-term borrowings		685,000		660,000
Long-term borrowings		12,911		14,713
Junior subordinated debt securities		45,619		45,619
Other liabilities		55,910		57,556
Total Liabilities		**6,282,603**		**6,101,097**
SHAREHOLDERS' EQUITY				
Common stock ($2.50 par value) Authorized—50,000,000 shares Issued—36,130,480 shares at September 30, 2017 and December 31, 2016 Outstanding— 34,979,192 shares at September 30, 2017 and 34,913,023 shares at December 31, 2016		90,326		90,326
Additional paid-in capital		215,451		213,098
Retained earnings		626,283		585,891
Accumulated other comprehensive (loss) income		(12,604)		(13,784)
Treasury stock (1,151,288 shares at September 30, 2017 and 1,217,457 shares at December 31, 2016, at cost)		(31,880)		(33,575)
Total Shareholders' Equity		**887,576**		**841,956**
Total Liabilities and Shareholders' Equity	**$**	**7,170,179**	**$**	**6,943,053**

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)	**2017**	**2016**	**2017**	**2016**
INTEREST INCOME				
Loans, including fees	$ 62,450	$ 53,956	$ 179,908	$ 157,133
Investment Securities:				
Taxable	2,988	2,570	8,783	7,704
Tax-exempt	896	907	2,744	2,764
Dividends	389	375	1,352	1,077
Total Interest Income	**66,723**	**57,808**	**192,787**	**168,678**
INTEREST EXPENSE				
Deposits	6,748	5,119	18,103	14,403
Borrowings and junior subordinated debt securities	2,519	1,234	6,779	3,474
Total Interest Expense	**9,267**	**6,353**	**24,882**	**17,877**
NET INTEREST INCOME	**57,456**	**51,455**	**167,905**	**150,801**
Provision for loan losses	2,850	2,516	12,901	12,379
Net Interest Income After Provision for Loan Losses	**54,606**	**48,939**	**155,004**	**138,422**
NONINTEREST INCOME				
Securities gains (losses), net	—	—	3,987	—
Service charges on deposit accounts	3,207	3,208	9,218	9,272
Debit and credit card	3,067	3,163	8,952	8,818
Wealth management	2,406	2,565	7,237	7,947
Insurance	1,333	1,208	4,258	4,187
Bank owned life insurance	1,209	532	2,249	1,569
Mortgage banking	872	1,077	2,280	2,185
Gain on sale of credit card portfolio	—	—	—	2,066
Other	1,457	1,695	4,631	5,669
Total Noninterest Income	**13,551**	**13,448**	**42,812**	**41,713**
NONINTEREST EXPENSE				
Salaries and employee benefits	20,325	19,011	60,770	57,539
Net occupancy	2,692	2,776	8,258	8,413
Data processing	2,284	2,128	6,670	6,758
Furniture and equipment	1,890	1,932	5,746	5,580
Other taxes	1,208	1,080	3,268	3,076
FDIC insurance	1,152	1,005	3,461	2,938
Professional services and legal	870	817	2,871	2,545
Marketing	766	896	2,468	2,872
Other	5,366	4,794	16,448	17,886
Total Noninterest Expense	**36,553**	**34,439**	**109,960**	**107,607**
Income Before Taxes	**31,604**	**27,948**	**87,856**	**72,528**
Provision for income taxes	8,883	7,367	24,182	18,795
Net Income	**$ 22,721**	**$ 20,581**	**$ 63,674**	**$ 53,733**
Earnings per share—basic	$ 0.65	$ 0.59	$ 1.83	$ 1.55
Earnings per share—diluted	$ 0.65	$ 0.59	$ 1.82	$ 1.54
Dividends declared per share	$ 0.20	$ 0.19	$ 0.60	$ 0.57
Comprehensive Income	**$ 22,975**	**$ 19,686**	**$ 64,854**	**$ 64,547**

See Notes to Consolidated Financial Statements

S&T BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

(dollars in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Treasury Stock	Total
Balance at January 1, 2016	**$ 90,326**	**$ 210,545**	**$ 544,228**	**$ (16,457)**	**$ (36,405)**	**$ 792,237**
Net income for Nine months ended September 30, 2016	—	—	53,733	—	—	53,733
Other comprehensive income (loss), net of tax	—	—	—	10,814	—	10,814
Cash dividends declared ($0.57 per share)	—	—	(19,824)	—	—	(19,824)
Treasury stock issued for restricted awards (110,643 shares, net of 5,717 forfeitures)	—	—	(2,945)	—	2,830	(115)
Recognition of restricted stock compensation expense	—	1,862	—	—	—	1,862
Balance at September 30, 2016	**$ 90,326**	**$ 212,407**	**$ 575,192**	**$ (5,643)**	**$ (33,575)**	**$ 838,707**
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 (loss), 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**

See Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30,	
(dollars in thousands)	**2017**	**2016**
OPERATING ACTIVITIES		
Net income	$ 63,674	$ 53,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	12,901	12,379
Net (decrease) increase in Provision for unfunded loan commitments	(546)	90
Depreciation, amortization and accretion	1,597	2,858
Net amortization of discounts and premiums on securities	3,065	2,816
Stock-based compensation expense	2,353	1,862
Securities gains	(3,987)	—
Mortgage loans originated for sale	(66,535)	(75,505)
Proceeds from the sale of mortgage loans	66,604	77,009
Gain on the sale of mortgage loans, net	(1,061)	(1,154)
Gain on the sale of credit card portfolio	—	(2,066)
Pension plan curtailment gain	—	(1,017)
Net increase in interest receivable	(3,886)	(4,019)
Net increase in interest payable	448	1,117
Net decrease in other assets	8,735	702
Net increase in other liabilities	69	3,586
Net Cash Provided by Operating Activities	**83,431**	**72,391**
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(69,699)	(53,282)
Proceeds from maturities, prepayments and calls of securities available-for-sale	58,601	52,049
Proceeds from sales of securities available-for-sale	7,751	—
Net proceeds from (purchases of) Federal Home Loan Bank stock	1,304	(5,298)
Net increase in loans	(268,132)	(406,370)
Proceeds from sale of loans not originated for resale	3,581	8,433
Purchases of premises and equipment	(3,646)	(2,744)
Proceeds from the sale of premises and equipment	376	20
Proceeds from the sale of credit card portfolio	—	25,019
Net Cash Used in Investing Activities	**(269,864)**	**(382,173)**
FINANCING ACTIVITIES		
Net increase in deposits	109,637	169,751
Net increase in certificates of deposit	61,048	99,612
Net decrease in securities sold under repurchase agreements	(10,909)	(21,138)
Net increase in short-term borrowings	25,000	209,000
Repayments of long-term borrowings	(1,802)	(101,740)
Treasury shares issued-net	(688)	(115)
Cash dividends paid to common shareholders	(20,899)	(19,824)
Net Cash Provided by Financing Activities	**161,387**	**335,546**
Net (decrease) increase in cash and cash equivalents	(25,046)	25,764
Cash and cash equivalents at beginning of period	139,486	99,399
Cash and Cash Equivalents at End of Period	**$ 114,440**	**$ 125,163**
Supplemental Disclosures		
Loans transferred to held for sale, net	$ 43,151	$ 1,540
Deposits transferred to held for sale	$ 38,960	$ —
Interest paid	$ 24,682	$ 16,761
Income taxes paid, net of refunds	$ 21,096	$ 17,974
Transfers of loans to other real estate owned	$ 2,116	$ 581

See Notes to Consolidated Financial Statements

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

NOTE 1. BASIS OF PRESENTATION

Principles of Consolidation

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

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of S&T have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2016 , filed with the Securities and Exchange Commission, or SEC, on February 24, 2017. In the opinion of management, the accompanying interim financial information reflects all adjustments, consisting of normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.
We previously reported in our annual report on Form 10-K, three reportable operating segments: Community Banking, Insurance and Wealth Management. We have reevaluated our segment reporting as of January 1, 2017 and have determined that Insurance and Wealth Management activities are not material to our consolidated financial results, therefore, we are no longer reporting segment information.

Reclassification

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

Use of Estimates

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

Recently Adopted Accounting Standards Updates, or ASU or Update

Stock Compensation - Improvements to Employee Share-Based Payment Accounting

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

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

In March 2016, the FASB issued ASU No. 2016-07, Simplifying the Transition to the Equity Method of Accounting, which eliminates the requirement for an investor to retroactively apply the equity method when its increase in ownership interest (or degree of influence) in an investee triggers equity method accounting. This ASU is effective for annual and interim periods in fiscal years beginning after December 15, 2016. The amendments will be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. The adoption of this ASU had no impact on our results of operations or financial position.

NOTE 1. BASIS OF PRESENTATION - continued

Receivables - Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities

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

Recently Issued Accounting Standards Updates not yet Adopted

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

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

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

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

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

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

NOTE 1. BASIS OF PRESENTATION - continued

Business Combinations - Clarifying the Definition of a Business

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations - Clarifying the Definition of a Business (Topic 805). The main objective 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 will result in fewer acquisitions being accounted for as business combinations than under existing guidance. The definition of a business is significant because it affects the accounting for acquisitions, the identification of reporting units, consolidation evaluations and the accounting for dispositions. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted for transactions not yet reflected in financial statements that have been issued or made available for issuance. The provisions of this ASU will have no impact on our results of operations and financial position.

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

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

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

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

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendments of this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The collective changes to the recognition and measurement accounting standards for financial instruments and their anticipated impact on the allowance for credit losses modeling have been universally referred to as the CECL, or current expected credit loss, model. This Update is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2019. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the provisions of this ASU to determine the potential impact on our results of operations and financial position.

Revenue from Contracts with Customers

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

NOTE 1. BASIS OF PRESENTATION - continued

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

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

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

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

ASU 2014-09, including transition requirements for all amendments, is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the original effective date for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Our revenue is comprised of net interest income, which is excluded from the scope of ASU 2014-09, and noninterest income. We are substantially complete with our overall assessment of revenue streams and reviewing of related contracts potentially affected by the ASU, including trust and asset management fees, deposit related fees, interchange fees, merchant income and annuity and insurance commissions. Our assessment suggests that adoption of this ASU should not materially change the method in which we currently recognize revenue for these revenue streams. We are also substantially complete with our evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue. In addition, we are evaluating the ASU's expanded disclosure requirements. We plan to adopt ASU No. 2014-09 on January 1, 2018 utilizing the modified retrospective approach with a cumulative effect adjustment to opening retained earnings, if such adjustment is deemed to be material.

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

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

NOTE 1. BASIS OF PRESENTATION - continued

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 is effective for annual and interim periods in fiscal years beginning after December 15, 2017. The provisions of this ASU will not materially impact our results of operations and financial position.

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NOTE 2. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except shares and per share data)	**2017**	**2016**	**2017**	**2016**
Numerator for Earnings per Share—Basic:				
Net income	$ 22,721	$ 20,581	$ 63,674	$ 53,733
Less: Income allocated to participating shares	73	68	214	167
Net Income Allocated to Shareholders	**$ 22,648**	**$ 20,513**	**$ 63,460**	**$ 53,566**
Numerator for Earnings per Share—Diluted:				
Net income	$ 22,721	$ 20,581	$ 63,674	$ 53,733
Net Income Available to Shareholders	**$ 22,721**	**$ 20,581**	**$ 63,674**	**$ 53,733**
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	**34,751,266**	**34,687,487**	**34,722,370**	**34,674,453**
Add: Potentially dilutive shares	208,873	81,018	208,139	72,724
Denominator for Treasury Stock Method—Diluted	**34,960,139**	**34,768,505**	**34,930,509**	**34,747,177**
Weighted Average Shares Outstanding—Basic	**34,751,266**	**34,687,487**	**34,722,370**	**34,674,453**
Add: Average participating shares outstanding	111,821	114,746	116,969	108,414
Denominator for Two-Class Method—Diluted	**34,863,087**	**34,802,233**	**34,839,339**	**34,782,867**
Earnings per share—basic	$ 0.65	$ 0.59	$ 1.83	$ 1.55
Earnings per share—diluted	$ 0.65	$ 0.59	$ 1.82	$ 1.54
Warrants considered anti-dilutive excluded from potentially dilutive shares - exercise price $31.53 per share, expires January 2019	443,575	517,012	452,188	517,012
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	92,577	146,695	95,707	134,983

NOTE 3. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

Recurring Basis

Securities Available-for-Sale

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

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.

NOTE 3. FAIR VALUE MEASUREMENTS – continued

Other Assets

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

Financial Instruments

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

Cash and Cash Equivalents

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

Loans

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

Bank Owned Life Insurance

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

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

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

Deposits

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

Short-Term Borrowings

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

Long-Term Borrowings

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

NOTE 3. FAIR VALUE MEASUREMENTS – continued

Junior Subordinated Debt Securities

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

Loan Commitments and Standby Letters of Credit

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

Other

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

	September 30, 2017			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	$ —	$ 24,894	$ —	$ 24,894
Obligations of U.S. government corporations and agencies	—	196,008	—	196,008
Collateralized mortgage obligations of U.S. government corporations and agencies	—	114,895	—	114,895
Residential mortgage-backed securities of U.S. government corporations and agencies	—	35,197	—	35,197
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	192,604	—	192,604
Obligations of states and political subdivisions	—	129,304	—	129,304
Marketable equity securities	—	5,052	—	5,052
Total securities available-for-sale	**—**	**697,954**	**—**	**697,954**
Trading securities held in a Rabbi Trust	5,039	—	—	5,039
Total securities	**5,039**	**697,954**	**—**	**702,993**
Derivative financial assets:				
Interest rate swap contracts - commercial loans	—	4,814	—	4,814
Interest rate lock commitments - mortgage loans	—	452	—	452
Total Assets	**$ 5,039**	**$ 703,220**	**$ —**	**$ 708,259**
LIABILITIES				
Derivative financial liabilities:				
Interest rate swap contracts - commercial loans	$ —	$ 4,786	$ —	$ 4,786
Forward sale contracts - mortgage loans	—	16	—	16
Total Liabilities	**$ —**	**$ 4,802**	**$ —**	**$ 4,802**

NOTE 3. FAIR VALUE MEASUREMENTS – continued

	December 31, 2016			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
U.S. Treasury securities	$ —	$ 24,811	$ —	$ 24,811
Obligations of U.S. government corporations and agencies	—	232,179	—	232,179
Collateralized mortgage obligations of U.S. government corporations and agencies	—	129,777	—	129,777
Residential mortgage-backed securities of U.S. government corporations and agencies	—	37,358	—	37,358
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	125,604	—	125,604
Obligations of states and political subdivisions	—	132,509	—	132,509
Marketable equity securities	—	11,249	—	11,249
Total securities available-for-sale	**—**	**693,487**	**—**	**693,487**
Trading securities held in a Rabbi Trust	4,410	—	—	4,410
Total securities	**4,410**	**693,487**	**—**	**697,897**
Derivative financial assets:				
Interest rate swap contracts - commercial loans	—	6,960	—	6,960
Interest rate lock commitments - mortgage loans	—	236	—	236
Total Assets	**$ 4,410**	**$ 700,683**	**$ —**	**$ 705,093**
LIABILITIES				
Derivative financial liabilities:				
Interest rate swap contracts - commercial loans	$ —	$ 6,958	$ —	$ 6,958
Forward sale contracts - mortgage loans	—	27	—	27
Total Liabilities	**$ —**	**$ 6,985**	**$ —**	**$ 6,985**

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, 2017 or December 31, 2016 . 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, 2017				December 31, 2016			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS [(1)]								
Loans held for sale	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,802	$ 1,802
Impaired loans	—	—	11,407	11,407	—	—	10,329	10,329
Other real estate owned	—	—	718	718	—	—	396	396
Mortgage servicing rights	—	—	481	481	—	—	538	538
Total Assets	**$ —**	**$ —**	**$ 12,606**	**$ 12,606**	**$ —**	**$ —**	**$ 13,065**	**$ 13,065**

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

NOTE 3. FAIR VALUE MEASUREMENTS – continued

The carrying values and fair values of our financial instruments at September 30, 2017 and December 31, 2016 are presented in the following tables:

		Fair Value Measurements at September 30, 2017			
(dollars in thousands)	Carrying Value [(1)]	Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$ 114,440	$ 114,400	$ 114,400	$ —	$ —
Securities available-for-sale	697,954	697,954	—	697,954	—
Loans held for sale	47,936	48,045	—	—	48,045
Portfolio loans, net of unearned income	5,820,758	5,758,326	—	—	5,758,326
Bank owned life insurance	71,639	71,639	—	71,639	—
FHLB and other restricted stock	33,120	33,120	—	—	33,120
Trading securities held in a Rabbi Trust	5,039	5,039	5,039	—	—
Mortgage servicing rights	3,992	4,286	—	—	4,286
Interest rate swap contracts - commercial loans	4,814	4,814	—	4,814	—
Interest rate lock commitments - mortgage loans	452	452	—	452	—
LIABILITIES					
Deposits	$ 5,443,240	$ 5,448,025	$ —	$ —	$ 5,448,025
Securities sold under repurchase agreements	39,923	39,923	—	—	39,923
Short-term borrowings	685,000	685,000	—	—	685,000
Long-term borrowings	12,911	13,318	—	—	13,318
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swap contracts - commercial loans	4,786	4,786	—	4,786	—
Forward sale contracts - mortgage loans	16	16	—	16	—

[(1)] *As reported in the Consolidated Balance Sheets*

		Fair Value Measurements at December 31, 2016			
(dollars in thousands)	Carrying Value [(1)]	Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$ 139,486	$ 139,486	$ 139,486	$ —	$ —
Securities available-for-sale	693,487	693,487	—	693,487	—
Loans held for sale	3,793	3,815	—	—	3,815
Portfolio loans, net of unearned income	5,611,419	5,551,266	—	—	5,551,266
Bank owned life insurance	72,081	72,081	—	72,081	—
FHLB and other restricted stock	31,817	31,817	—	—	31,817
Trading securities held in a Rabbi Trust	4,410	4,410	4,410	—	—
Mortgage servicing rights	3,744	4,098	—	—	4,098
Interest rate swap contracts - commercial loans	6,960	6,960	—	6,960	—
Interest rate lock commitments - mortgage loans	236	236	—	236	—
LIABILITIES					
Deposits	$ 5,272,377	$ 5,276,499	$ —	$ —	$ 5,276,499
Securities sold under repurchase agreements	50,832	50,832	—	—	50,832
Short-term borrowings	660,000	660,000	—	—	660,000
Long-term borrowings	14,713	15,267	—	—	15,267
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swap contracts - commercial loans	6,958	6,958	—	6,958	—
Forward sale contracts - mortgage loans	27	27	—	27	—

[(1)] *As reported in the Consolidated Balance Sheets*

NOTE 4. SECURITIES AVAILABLE-FOR-SALE

The following table presents the amortized cost and fair value of available-for-sale securities as of the dates presented:

	September 30, 2017				December 31, 2016			
(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	$ 24,930	$ 2	$ (38)	$ 24,894	$ 24,891	$ 47	$ (127)	$ 24,811
Obligations of U.S. government corporations and agencies	195,194	1,171	(357)	196,008	230,989	1,573	(383)	232,179
Collateralized mortgage obligations of U.S. government corporations and agencies	115,027	476	(608)	114,895	130,046	465	(734)	129,777
Residential mortgage-backed securities of U.S. government corporations and agencies	34,452	896	(151)	35,197	36,606	984	(232)	37,358
Commercial mortgage-backed securities of U.S. government corporations and agencies	193,382	511	(1,289)	192,604	127,311	243	(1,950)	125,604
Obligations of states and political subdivisions	123,672	5,632	—	129,304	128,783	3,772	(46)	132,509
Debt Securities	**686,657**	**8,688**	**(2,443)**	**692,902**	**678,626**	**7,084**	**(3,472)**	**682,238**
Marketable equity securities	3,815	1,237	—	5,052	7,579	3,670	—	11,249
Total	**$ 690,472**	**$ 9,925**	**$ (2,443)**	**$ 697,954**	**$ 686,205**	**$ 10,754**	**$ (3,472)**	**$ 693,487**

NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

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

	September 30, 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	2	$ 14,903	$ (38)	—	$ —	$ —	2	$ 14,903	$ (38)
Obligations of U.S. government corporations and agencies	8	72,102	(357)	—	—	—	8	72,102	(357)
Collateralized mortgage obligations of U.S. government corporations and agencies	8	62,408	(608)	—	—	—	8	62,408	(608)
Residential mortgage-backed securities of U.S. government corporations and agencies	2	9,071	(151)	—	—	—	2	9,071	(151)
Commercial mortgage-backed securities of U.S. government corporations and agencies	10	100,322	(1,057)	1	7,586	(232)	11	107,908	(1,289)
Obligations of states and political subdivisions	—	—	—	—	—	—	—	—	—
Debt Securities	**30**	**258,806**	**(2,211)**	**1**	**7,586**	**(232)**	**31**	**266,392**	**(2,443)**
Marketable equity securities	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Securities	**30**	**$ 258,806**	**$ (2,211)**	**1**	**$ 7,586**	**$ (232)**	**31**	**$ 266,392**	**$ (2,443)**

	December 31, 2016								
	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	$ 9,811	$ (127)	—	$ —	$ —	1	$ 9,811	$ (127)
Obligations of U.S. government corporations and agencies	7	62,483	(383)	—	—	—	7	62,483	(383)
Collateralized mortgage obligations of U.S. government corporations and agencies	10	83,031	(734)	—	—	—	10	83,031	(734)
Residential mortgage-backed securities of U.S. government corporations and agencies	2	10,022	(232)	—	—	—	2	10,022	(232)
Commercial mortgage-backed securities of U.S. government corporations and agencies	10	96,576	(1,950)	—	—	—	10	96,576	(1,950)
Obligations of states and political subdivisions	1	5,577	(46)	—	—	—	1	5,577	(46)
Debt Securities	**31**	**267,500**	**(3,472)**	—	—	—	**31**	**267,500**	**(3,472)**
Marketable equity securities	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Securities	**31**	**$ 267,500**	**$ (3,472)**	—	**$ —**	**$ —**	**31**	**$ 267,500**	**$ (3,472)**

We do not believe any individual unrealized loss as of September 30, 2017 represents an other than temporary impairment, or OTTI. At September 30, 2017 and December 31, 2016 there were 31 debt securities in an unrealized loss position. There were no marketable equity securities at September 30, 2017 and December 31, 2016 with unrealized losses. 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 are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. 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 in an unrealized loss position before recovery of their amortized cost.

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NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

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

	September 30, 2017			December 31, 2016		
(dollars in thousands)	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	$ 9,925	$ (2,443)	$ 7,482	$ 10,754	$ (3,472)	$ 7,282
Income tax expense/(benefit)	(3,485)	858	(2,627)	(3,776)	1,219	(2,557)
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	**$ 6,440**	**$ (1,585)**	**$ 4,855**	**$ 6,978**	**$ (2,253)**	**$ 4,725**

The amortized cost and fair value of securities available-for-sale at September 30, 2017 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, 2017	
(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	$ 63,576	$ 63,646
Due after one year through five years	177,864	180,087
Due after five years through ten years	56,875	58,890
Due after ten years	45,481	47,583
	343,796	**350,206**
Collateralized mortgage obligations of U.S. government corporations and agencies	115,027	114,895
Residential mortgage-backed securities of U.S. government corporations and agencies	34,452	35,197
Commercial mortgage-backed securities of U.S. government corporations and agencies	193,382	192,604
Debt Securities	**686,657**	**692,902**
Marketable equity securities	3,815	5,052
Total	**$ 690,472**	**$ 697,954**

At September 30, 2017 and December 31, 2016 , securities with carrying values of $ 274 million and $342 million were pledged for various regulatory and legal requirements.

NOTE 5. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of $3.6 million and $5.2 million at September 30, 2017 and December 31, 2016 and net of a discount related to purchase accounting fair value adjustments of $4.6 million and $7.1 million at September 30, 2017 and December 31, 2016 . The following table indicates the composition of loans as of the dates presented:

(dollars in thousands)	September 30, 2017	December 31, 2016
Commercial		
Commercial real estate	$ 2,681,693	$ 2,498,476
Commercial and industrial	1,446,811	1,401,035
Commercial construction	432,887	455,884
Total Commercial Loans	**4,561,391**	**4,355,395**
Consumer		
Residential mortgage	697,367	701,982
Home equity	487,806	482,284
Installment and other consumer	69,644	65,852
Consumer construction	4,550	5,906
Total Consumer Loans	**1,259,367**	**1,256,024**
Total Portfolio Loans	**5,820,758**	**5,611,419**
Loans held for sale	47,936	3,793
Total Loans	**$ 5,868,694**	**$ 5,615,212**

As of September 30, 2017, our acquired loans from the 2015 Integrity Bancshares, Inc. merger, or the Merger, were $415 million which included $219 million of Commercial Real Estate, or CRE, $103 million of Commercial & Industrial, or C&I, $15 million of commercial construction, $60 million of residential mortgage and $18 million of home equity, installment and other consumer construction. As of December 31, 2016 acquired loans were $543 million which included $273 million of CRE, $141 million of C&I, $33.0 million of commercial construction, $74.0 million of residential mortgage and $22.0 million of home equity, installment and other consumer construction.

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 monitor 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 78 percent of total portfolio loans at September 30, 2017 and December 31, 2016 . Within our commercial portfolio, the CRE and commercial construction portfolios comprised $3.1 billion or 68 percent of total commercial loans and 54 percent of total portfolio loans at September 30, 2017 and comprised of $3.0 billion or 68 percent of total commercial loans and 53 percent of total portfolio loans at December 31, 2016 . Further segmentation of the CRE and Commercial Construction portfolios by collateral type reveals no concentration in excess of 14 percent of total CRE and Commercial Construction loans at September 30, 2017 and December 31, 2016 .

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 regional 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 as well as information supplied by our customers. Our CRE and Commercial Construction portfolios have out-of-market exposure of 5.1 percent of the total CRE and Commercial Construction portfolios and 2.7 percent of total loans at September 30, 2017 . This compares to 5.2 percent of the total CRE and Commercial Construction portfolios and 2.7 percent of total loans at December 31, 2016 .

The increase in loans held for sale of $44.1 million related to $43.4 million of loans that were held for sale due to a branch sale that is expected to close in the fourth quarter of 2017.

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 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

NOTE 5. LOANS AND LOANS HELD FOR SALE - continued

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 restructured loans as of the dates presented:

	September 30, 2017			December 31, 2016		
(dollars in thousands)	**Performing TDRs**	**Nonperforming TDRs**	**Total TDRs**	**Performing TDRs**	**Nonperforming TDRs**	**Total TDRs**
Commercial real estate	$ 2,618	$ 1,083	$ 3,701	$ 2,994	$ 646	$ 3,640
Commercial and industrial	4,063	3,580	7,643	1,387	4,493	5,880
Commercial construction	2,914	421	3,335	2,966	430	3,396
Residential mortgage	2,096	4,095	6,191	2,375	5,068	7,443
Home equity	3,871	1,013	4,884	3,683	954	4,637
Installment and other consumer	43	11	54	18	7	25
Total	**$ 15,605**	**$ 10,203**	**$ 25,808**	**$ 13,423**	**$ 11,598**	**$ 25,021**

There were no TDRs that returned to accruing status during the three months ended September 30, 2017 and one TDR, totaling $2.0 million , that returned to accruing status during the nine months ended September 30, 2017 . There were no TDRs returned to accruing status during the three and nine months ended September 30, 2016 .

The following tables present details related to loans identified as TDRs during the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30, 2017				Three months ended September 30, 2016			
(dollars in thousands)	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment (1)**	**Post-Modification Outstanding Recorded Investment (1)**	**Total Difference in Recorded Investment**	**Number of Loans**	**Pre-Modification Outstanding Recorded Investment (1)**	**Post-Modification Outstanding Recorded Investment (1)**	**Total Difference in Recorded Investment**
Commercial real estate								
Interest rate reduction	—	—	—	—	1	248	250	2
Maturity date extension	1	400	400	—	—	—	—	—
Commercial and industrial								
Maturity date extension	1	274	816	542	2	4,105	4,162	57
Residential mortgage								
Chapter 7 bankruptcy(2)	1	148	—	(148)	3	153	152	(1)
Maturity date extension and interest rate reduction	—	—	—	—	1	280	280	—
Home equity								
Chapter 7 bankruptcy(2)	4	72	70	(2)	7	163	161	(2)
Installment and other consumer								
Chapter 7 bankruptcy(2)	8	200	185	(15)	—	—	—	—
Total by Concession Type								
Chapter 7 bankruptcy(2)	13	420	255	(165)	10	316	313	(3)
Interest rate reduction	—	—	—	—	1	248	250	2
Maturity date extension and interest rate reduction	—	—	—	—	1	280	280	—
Maturity date extension	2	674	1,216	542	2	4,105	4,162	57
Total	**15**	**$ 1,094**	**$ 1,471**	**$ 377**	**14**	**$ 4,949**	**$ 5,005**	**$ 56**

(1) Excludes loans that were fully paid off or fully charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.
(2) Chapter 7 bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not reaffirmed.

NOTE 5. LOANS AND LOANS HELD FOR SALE - continued

	Nine Months Ended September 30, 2017				Nine Months Ended September 30, 2016			
(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment [(1)]	Post-Modification Outstanding Recorded Investment [(1)]	Total Difference in Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment [(1)]	Post-Modification Outstanding Recorded Investment [(1)]	Total Difference in Recorded Investment
Commercial real estate								
Principal deferral	1	$ 100	$ 100	$ —	1	$ 4,721	$ 2,270	$ (2,451)
Chapter 7 bankruptcy [(2)]	—	—	—	—	1	709	681	(28)
Interest rate reduction	—	—	—	—	1	250	248	(2)
Maturity date extension	1	400	400	—	—	—	—	—
Commercial and industrial								
Principal deferral	1	429	429	—	5	985	985	—
Maturity Date extension and interest rate reduction	2	1,799	1,799	—	—	—	—	—
Maturity date extension	1	274	816	542	5	4,860	4,891	31
Commercial Construction								
Maturity date extension	—	—	—	—	5	1,357	1,302	(55)
Residential mortgage								
Principal deferral	—	—	—	—	1	3,273	3,273	—
Chapter 7 bankruptcy [(2)]	2	181	32	(149)	7	439	433	(6)
Maturity date extension	—	—	—	—	1	483	483	—
Maturity date extension and interest rate reduction	—	—	—	—	1	280	280	—
Home equity								
Principal deferral	—	—	—	—	1	47	46	(1)
Chapter 7 bankruptcy [(2)]	13	380	375	(5)	16	481	470	(11)
Maturity date extension and interest rate reduction	1	173	120	(53)	1	130	128	(2)
Maturity date extension	1	231	231	—	4	274	272	(2)
Installment and other consumer								
Chapter 7 bankruptcy [(2)]	10	237	220	(17)	2	16	13	(3)
Total by Concession Type								
Principal deferral	2	529	529	—	8	9,026	6,574	(2,452)
Chapter 7 bankruptcy [(2)]	25	798	627	(171)	26	1,645	1,597	(48)
Interest rate reduction	—	—	—	—	1	250	248	(2)
Maturity date extension and interest rate reduction	3	1,972	1,919	(53)	2	410	408	(2)
Maturity date extension	3	905	1,447	542	15	6,974	6,948	(26)
Total	**33**	**$ 4,204**	**$ 4,522**	**$ 318**	**52**	**$ 18,305**	**$ 15,775**	**$ (2,530)**

(1) *Excludes loans that were fully paid off or fully charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.*
(2) *Chapter 7 bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not reaffirmed.*

For the three months ended September 30, 2017 , we modified one CRE loan totaling $1.0 million that was not considered to be a TDR. For the nine months ended September 30, 2017, we modified 13 loans totaling $11.8 million of which nine were C&I loans totaling $10.3 million and four CRE loans totaling $1.5 million that were not considered to be TDRs. The 2017 modifications primarily represented insignificant delays in the timing of payments, concessions where we were adequately compensated through principal pay downs, fees or additional collateral or we concluded that no concession was granted. These modifications compare to 12 C&I loans totaling $16.9 million and one CRE loan totaling $1.9 million for the three months ended September 30, 2016 and 15 C&I loans totaling $25.6 million and two CRE loans totaling $2.5 million for the nine months ended September 30, 2016 that were not considered to be TDRs. The 2016 modifications were administrative

NOTE 5. LOANS AND LOANS HELD FOR SALE - continued

extensions of maturity dates that were determined not to be a concession. As of September 30, 2017 , we had no commitments to lend additional funds on TDRs.

Defaulted TDRs are defined as loans having a payment default of 90 days or more after the restructuring takes place. There were no TDRs that defaulted during the three and nine months ended September 30, 2017 and September 30, 2016.

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

	Nonperforming Assets	
(dollars in thousands)	**September 30, 2017**	**December 31, 2016**
Nonperforming Assets		
Nonaccrual loans	$ 19,290	$ 31,037
Nonaccrual TDRs	10,203	11,598
Total nonaccrual loans	29,493	42,635
OREO	1,033	679
Total Nonperforming Assets	**$ 30,526**	**$ 43,314**

NOTE 6. ALLOWANCE FOR LOAN LOSSES

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

The following are key risks within each portfolio segment:

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

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

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

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

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

We further assess risk within each portfolio segment by pooling loans with similar risk characteristics. For the commercial loan classes, the most important indicator of risk is the internally assigned risk rating, including pass, special mention and substandard. Consumer loans are pooled by type of collateral, lien position and loan to value, or LTV, for Consumer Real Estate loans. Historical loss rates are applied to these loan pools to determine the reserve for loans collectively evaluated for impairment.

The ALL methodology for groups of loans collectively evaluated for impairment is comprised of both a quantitative and qualitative analysis. A key assumption in the quantitative component of the reserve is the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from the point at which a loss is incurred on a loan to the point at which the loss is confirmed. Another key assumption is the look-back period, or LBP, which represents the historical data period utilized to calculate loss rates.

Management monitors various credit quality indicators for both the commercial and consumer loan portfolios, including delinquency, nonperforming status and changes in risk ratings on a monthly basis.

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following tables present the age analysis of past due loans segregated by class of loans as of the dates presented:

	September 30, 2017					
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	$ 2,674,171	$ 530	$ 421	$ 6,571	$ 7,522	$ 2,681,693
Commercial and industrial	1,438,224	499	739	7,349	8,587	1,446,811
Commercial construction	428,744	75	—	4,068	4,143	432,887
Residential mortgage	684,848	3,872	865	7,782	12,519	697,367
Home equity	482,000	1,616	515	3,675	5,806	487,806
Installment and other consumer	69,316	228	52	48	328	69,644
Consumer construction	4,550	—	—	—	—	4,550
Loans held for sale	47,936	—	—	—	—	47,936
Total	**$ 5,829,789**	**$ 6,820**	**$ 2,592**	**$ 29,493**	**$ 38,905**	**$ 5,868,694**

	December 31, 2016					
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	$ 2,479,513	$ 2,032	$ 759	$ 16,172	$ 18,963	$ 2,498,476
Commercial and industrial	1,391,475	1,061	428	8,071	9,560	1,401,035
Commercial construction	450,410	547	—	4,927	5,474	455,884
Residential mortgage	689,635	1,312	1,117	9,918	12,347	701,982
Home equity	476,866	1,470	509	3,439	5,418	482,284
Installment and other consumer	65,525	176	43	108	327	65,852
Consumer construction	5,906	—	—	—	—	5,906
Loans held for sale	3,793	—	—	—	—	3,793
Total	**$ 5,563,123**	**$ 6,598**	**$ 2,856**	**$ 42,635**	**$ 52,089**	**$ 5,615,212**

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

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

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

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

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

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

	September 30, 2017							
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	$ 2,587,393	96.5%	$ 1,354,269	93.6%	$ 411,379	95.0%	$ 4,353,041	95.4%
Special mention	55,218	2.1%	53,853	3.7%	11,503	2.7%	120,574	2.6%
Substandard	39,082	1.4%	38,689	2.7%	10,005	2.3%	87,776	2.0%
Total	**$ 2,681,693**	**100.0%**	**$ 1,446,811**	**100.0%**	**$ 432,887**	**100.0%**	**$ 4,561,391**	**100.0%**

	December 31, 2016							
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total
Pass	$ 2,423,742	97.0%	$ 1,315,507	93.9%	$ 430,472	94.4%	$ 4,169,721	95.7%
Special mention	33,098	1.3%	40,409	2.9%	14,691	3.2%	88,198	2.0%
Substandard	41,636	1.7%	45,119	3.2%	10,721	2.4%	97,476	2.3%
Total	**$ 2,498,476**	**100.0%**	**$ 1,401,035**	**100.0%**	**$ 455,884**	**100.0%**	**$ 4,355,395**	**100.0%**

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

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

	September 30, 2017									
(dollars in thousands)	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	$ 689,585	98.9%	$ 484,131	99.2%	$ 69,596	99.9%	$ 4,550	100.0%	$ 1,247,862	99.1%
Nonperforming	7,782	1.1%	3,675	0.8%	48	0.1%	—	—%	11,505	0.9%
Total	**$ 697,367**	**100.0%**	**$ 487,806**	**100.0%**	**$ 69,644**	**100.0%**	**$ 4,550**	**100.0%**	**$ 1,259,367**	**100.0%**

	December 31, 2016									
(dollars in thousands)	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	$ 692,064	98.6%	$ 478,845	99.3%	$ 65,744	99.8%	$ 5,906	100.0%	$ 1,242,559	98.9%
Nonperforming	9,918	1.4%	3,439	0.7%	108	0.2%	—	—%	13,465	1.1%
Total	**$ 701,982**	**100.0%**	**$ 482,284**	**100.0%**	**$ 65,852**	**100.0%**	**$ 5,906**	**100.0%**	**$ 1,256,024**	**100.0%**

We individually evaluate all substandard and nonaccrual commercial loans greater than $0.5 million for impairment. Loans are considered to be impaired when based upon current information and events it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. All TDRs will be reported as an impaired loan for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is expected that the remaining principal and interest will be fully collected according to the restructured agreement. For all TDRs, regardless of size, as well as all other impaired loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate.

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NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following table summarizes investments in loans considered to be impaired and related information on those impaired loans as of the dates presented:

	September 30, 2017			December 31, 2016		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With a related allowance recorded:						
Commercial real estate	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	2,468	2,501	260	964	2,433	771
Commercial construction	—	—	—	—	—	—
Consumer real estate	22	22	22	26	26	26
Other consumer	30	30	30	1	1	1
Total with a Related Allowance Recorded	**2,520**	**2,553**	**312**	**991**	**2,460**	**798**
Without a related allowance recorded:						
Commercial real estate	6,341	6,985	—	16,352	17,654	—
Commercial and industrial	6,075	8,245	—	5,902	7,699	—
Commercial construction	5,974	8,629	—	6,613	10,306	—
Consumer real estate	11,054	11,979	—	12,053	12,849	—
Other consumer	24	30	—	24	31	—
Total without a Related Allowance Recorded	**29,468**	**35,868**	**—**	**40,944**	**48,539**	**—**
Total:						
Commercial real estate	6,341	6,985	—	16,352	17,654	—
Commercial and industrial	8,543	10,746	260	6,866	10,132	771
Commercial construction	5,974	8,629	—	6,613	10,306	—
Consumer real estate	11,076	12,001	22	12,079	12,875	26
Other consumer	54	60	30	25	32	1
Total	**$ 31,988**	**$ 38,421**	**$ 312**	**$ 41,935**	**$ 50,999**	**$ 798**

As of September 30, 2017 , we had $32.0 million of impaired loans, which included $6.5 million of acquired loans from the Merger that experienced credit deterioration since the acquisition date. This compares to $41.9 million of impaired loans at December 31, 2016, which included $18.4 million of acquired loans from the Merger.

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following table summarizes average recorded investment in and interest income recognized on loans considered to be impaired for the periods presented:

	For the Three Months Ended			
	September 30, 2017		September 30, 2016	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:				
Commercial real estate	$ —	$ —	$ —	$ —
Commercial and industrial	2,406	37	2,437	37
Commercial construction	—	—	—	—
Consumer real estate	23	1	28	—
Other consumer	32	2	2	—
Total with a Related Allowance Recorded	**2,461**	**40**	**2,467**	**37**
Without a related allowance recorded:				
Commercial real estate	6,415	105	7,582	38
Commercial and industrial	9,074	130	7,326	52
Commercial construction	7,140	154	8,039	49
Consumer real estate	11,149	250	11,686	159
Other consumer	28	—	32	—
Total without a Related Allowance Recorded	**33,806**	**639**	**34,665**	**298**
Total:				
Commercial real estate	6,415	105	7,582	38
Commercial and industrial	11,480	167	9,763	89
Commercial construction	7,140	154	8,039	49
Consumer real estate	11,172	251	11,714	159
Other consumer	60	2	34	—
Total	**$ 36,267**	**$ 679**	**$ 37,132**	**$ 335**

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

	Nine Months Ended			
	September 30, 2017		September 30, 2016	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With a related allowance recorded:				
Commercial real estate	$ —	$ —	$ —	$ —
Commercial and industrial	1,218	44	2,492	100
Commercial construction	—	—	—	—
Consumer real estate	24	1	29	2
Other consumer	35	1	2	—
Total with a Related Allowance Recorded	**1,277**	**46**	**2,523**	**102**
Without a related allowance recorded:				
Commercial real estate	6,577	140	7,551	106
Commercial and industrial	11,001	164	7,447	156
Commercial construction	7,222	194	8,498	143
Consumer real estate	11,488	382	11,831	400
Other consumer	33	1	38	1
Total without a Related Allowance Recorded	**36,321**	**881**	**35,365**	**806**
Total:				
Commercial real estate	6,577	140	7,551	106
Commercial and industrial	12,219	208	9,939	256
Commercial construction	7,222	194	8,498	143
Consumer real estate	11,512	383	11,860	402
Other consumer	68	2	40	1
Total	**$ 37,598**	**$ 927**	**$ 37,888**	**$ 908**

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

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

	Three Months Ended September 30, 2017					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$ 24,358	$ 9,256	$ 13,944	$ 5,803	$ 1,990	$ 55,351
Charge-offs	(37)	(644)	(1,453)	(101)	(425)	(2,660)
Recoveries	182	243	473	91	182	1,171
Net (Charge-offs)/ Recoveries	**145**	**(401)**	**(980)**	**(10)**	**(243)**	**(1,489)**
Provision for loan losses	472	859	1,951	(262)	(170)	2,850
Balance at End of Period	**$ 24,975**	**$ 9,714**	**$ 14,915**	**$ 5,531**	**$ 1,577**	**$ 56,712**

	Three Months Ended September 30, 2016					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$ 15,978	$ 14,771	$ 11,701	$ 8,418	$ 1,345	$ 52,213
Charge-offs	(93)	(414)	(163)	(369)	(461)	(1,500)
Recoveries	264	169	17	44	70	564
Net (Charge-offs)/ Recoveries	**171**	**(245)**	**(146)**	**(325)**	**(391)**	**(936)**
Provision for loan losses	4,244	(2,232)	1,356	(1,760)	908	2,516
Balance at End of Period	**$ 20,393**	**$ 12,294**	**$ 12,911**	**$ 6,333**	**$ 1,862**	**$ 53,793**

	Nine Months Ended September 30, 2017					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$ 19,976	$ 10,810	$ 13,999	$ 6,095	$ 1,895	$ 52,775
Charge-offs	(2,100)	(4,041)	(2,097)	(1,957)	(1,228)	(11,423)
Recoveries	415	499	842	270	433	2,459
Net (Charge-offs)/Recoveries	**(1,685)**	**(3,542)**	**(1,255)**	**(1,687)**	**(795)**	**(8,964)**
Provision for loan losses	6,684	2,446	2,171	1,123	477	12,901
Balance at End of Period	**$ 24,975**	**$ 9,714**	**$ 14,915**	**$ 5,531**	**$ 1,577**	**$ 56,712**

	Nine Months Ended September 30, 2016					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$ 15,043	$ 10,853	$ 12,625	$ 8,400	$ 1,226	$ 48,147
Charge-offs	(1,808)	(3,244)	(1,108)	(891)	(1,572)	(8,623)
Recoveries	662	589	20	342	277	1,890
Net (Charge-offs)/Recoveries	**(1,146)**	**(2,655)**	**(1,088)**	**(549)**	**(1,295)**	**(6,733)**
Provision for loan losses	6,496	4,096	1,374	(1,518)	1,931	12,379
Balance at End of Period	**$ 20,393**	**$ 12,294**	**$ 12,911**	**$ 6,333**	**$ 1,862**	**$ 53,793**

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

The following tables present the ALL and recorded investments in loans by category as of the periods presented:

	September 30, 2017					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ —	$ 24,975	$ 24,975	$ 6,341	$ 2,675,352	$ 2,681,693
Commercial and industrial	260	9,454	9,714	8,543	1,438,268	1,446,811
Commercial construction	—	14,915	14,915	5,974	426,913	432,887
Consumer real estate	22	5,509	5,531	11,076	1,178,647	1,189,723
Other consumer	30	1,547	1,577	54	69,590	69,644
Total	**$ 312**	**$ 56,400**	**$ 56,712**	**$ 31,988**	**$ 5,788,770**	**$ 5,820,758**

	December 31, 2016					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ —	$ 19,976	$ 19,976	$ 16,352	$ 2,482,124	$ 2,498,476
Commercial and industrial	771	10,039	10,810	6,866	1,394,169	1,401,035
Commercial construction	—	13,999	13,999	6,613	449,271	455,884
Consumer real estate	26	6,069	6,095	12,079	1,178,093	1,190,172
Other consumer	1	1,894	1,895	25	65,827	65,852
Total	**$ 798**	**$ 51,977**	**$ 52,775**	**$ 41,935**	**$ 5,569,484**	**$ 5,611,419**

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

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Swaps

In accordance with applicable accounting guidance for derivatives and hedging, all derivatives are recognized as either assets or liabilities on the balance sheet at fair value. Interest rate swaps are contracts in which a series of interest rate flows (fixed and variable) are exchanged over a prescribed period. The notional amounts on which the interest payments are based are not exchanged. These derivative positions relate to transactions in which we enter into an interest rate swap with a commercial customer while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each transaction, we agree to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed rate. At the same time, we agree to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our customer to effectively convert a variable rate loan to a fixed rate loan with us receiving a variable rate. These agreements could have floors or caps on the contracted interest rates.

Pursuant to our agreements with various financial institutions, we may receive collateral or may be required to post collateral based upon mark-to-market positions. Beyond unsecured threshold levels, collateral in the form of cash or securities may be made available to counterparties of interest rate swap transactions. Based upon our current positions and related future collateral requirements relating to them, we believe any effect on our cash flow or liquidity position to be immaterial.

Derivatives contain an element of credit risk, the possibility that we will incur a loss because a counterparty, which may be a financial institution or a customer, fails to meet its contractual obligations. All derivative contracts with financial institutions may be executed only with counterparties approved by our Asset and Liability Committee, or ALCO, and derivatives with customers may only be executed with customers within credit exposure limits approved by our Senior Loan Committee. Interest rate swaps are considered derivatives, but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives are recorded in current earnings and included in other noninterest income in the Consolidated Statements of Comprehensive Income.

Interest Rate Lock Commitments and Forward Sale Contracts

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

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

	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
(dollars in thousands)	**September 30, 2017**	**December 31, 2016**	**September 30, 2017**	**December 31, 2016**
Derivatives not Designated as Hedging Instruments:				
Interest Rate Swap Contracts- Commercial Loans				
Fair value	$ 4,814	$ 6,960	$ 4,786	$ 6,958
Notional amount	209,572	232,396	209,572	232,396
Collateral posted	—	—	3,046	14,340
Interest Rate Lock Commitments- Mortgage Loans				
Fair value	452	236	—	—
Notional amount	13,939	8,490	—	—
Forward Sale Contracts- Mortgage Loans				
Fair value	—	—	16	27
Notional amount	$ —	$ —	$ 14,564	$ 8,216

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – continued

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

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

	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
(dollars in thousands)	**September 30, 2017**	**December 31, 2016**	**September 30, 2017**	**December 31, 2016**
Derivatives not Designated as Hedging Instruments:				
Gross amounts recognized	$ 6,124	$ 8,590	$ 6,096	$ 8,588
Gross amounts offset	(1,310)	(1,630)	(1,310)	(1,630)
Net amounts presented in the Consolidated Balance Sheets	4,814	6,960	4,786	6,958
Gross amounts not offset [(1)]	—	—	(3,505)	(14,340)
Net Amount	**$ 4,814**	**$ 6,960**	**$ 1,281**	**$ (7,382)**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2017**	**2016**	**2017**	**2016**
Derivatives not Designated as Hedging Instruments				
Interest rate swap contracts—commercial loans	$ 9	$ (87)	$ 25	$ 34
Interest rate lock commitments—mortgage loans	(4)	97	216	478
Forward sale contracts—mortgage loans	(30)	106	10	(93)
Total Derivatives (Loss)/Gain	**$ (25)**	**$ 116**	**$ 251**	**$ 419**

NOTE 8. BORROWINGS

Short-term borrowings are for terms under or equal to one year and are comprised of securities sold under repurchase agreements, or REPOs, and Federal Home Loan Bank, or FHLB, advances. All REPOs are overnight short-term investments and are not insured by the Federal Deposit Insurance Corporation. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and therefore, the REPOs are accounted for as a secured borrowing. Mortgage-backed securities with a total carrying value of $46.7 million at September 30, 2017 and $53.2 million at December 31, 2016 were pledged as collateral for these secured transactions. The pledged securities are held in safekeeping at the Federal Reserve. Due to the overnight short-term nature of REPOs, potential risk due to a decline in the value of the pledged collateral is low. Collateral pledging requirements with REPOs are monitored daily. FHLB advances are for various terms and are secured by a blanket lien on residential mortgages and other real estate secured loans.

Long-term borrowings are for original terms greater than one year and are comprised of FHLB advances, a capital lease and junior subordinated debt securities. Long-term FHLB advances are secured by the same loans as short-term FHLB advances. We had total long-term borrowings outstanding of $9.7 million at a fixed rate and $3.1 million at a variable rate at September 30, 2017 , excluding our capital lease of $0.1 million .

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

	September 30, 2017		December 31, 2016	
(dollars in thousands)	**Balance**	**Weighted Average Rate**	**Balance**	**Weighted Average Rate**
Short-term borrowings				
Securities sold under repurchase agreements	$ 39,923	0.16%	$ 50,832	0.01%
Short-term borrowings	685,000	1.31%	660,000	0.76%
Total short-term borrowings	724,923	1.25%	710,832	0.70%
Long-term borrowings				
Other long-term borrowings	12,911	2.97%	14,713	2.91%
Junior subordinated debt securities	45,619	3.74%	45,619	3.42%
Total long-term borrowings	58,530	3.57%	60,332	3.30%
Total Borrowings	**$ 783,453**	**1.42%**	**$ 771,164**	**0.90%**

We had total borrowings at September 30, 2017 and December 31, 2016 at the FHLB of Pittsburgh of $698 million and $675 million . The $698 million at September 30, 2017 consisted of $685 million in short-term borrowings and $12.9 million in long-term borrowings. Our maximum borrowing capacity with the FHLB of Pittsburgh was $2.5 billion at September 30, 2017 . We utilized $902 million of our borrowing capacity at September 30, 2017 consisting of $698 million for borrowings and $204 million for letters of credit to collateralize public funds. Our remaining borrowing availability at September 30, 2017 is $1.6 billion .

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

NOTE 9. COMMITMENTS AND CONTINGENCIES

Commitments

In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event the customer does not satisfy the terms of the agreement, equals the contractual amount of the obligation less the value of any collateral. We apply the same credit policies in making commitments and standby letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Our allowance for unfunded commitments totaled $2.1 million at September 30, 2017 and $2.6 million at December 31, 2016 . The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets. The allowance for unfunded commitments is determined using a similar methodology as our ALL methodology. The reserve is calculated by applying historical loss rates and qualitative adjustments to our unfunded commitments.

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

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

(dollars in thousands)		September 30, 2017		December 31, 2016
Commitments to extend credit	$	1,421,906	$	1,509,696
Standby letters of credit		85,389		84,534
Total	**$**	**1,507,295**	**$**	**1,594,230**

Litigation

In the normal course of business, we are subject to various legal and administrative proceedings and claims. While any type of litigation contains a level of uncertainty, we believe that no outcome of any such proceedings or claims pending will have a material adverse effect on our consolidated financial position or results of operations.

NOTE 10. OTHER COMPREHENSIVE INCOME

The following table presents the change in components of other comprehensive income (loss) for the periods presented, net of tax effects.

	Three Months Ended September 30, 2017			Three months ended September 30, 2016		
(dollars in thousands)	**Pre-Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax Amount**	**Pre-Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax Amount**
Change in net unrealized gains/(losses) on securities available-for-sale	$ (148)	$ 52	$ (96)	$ (1,921)	$ 672	$ (1,249)
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income [(1)]	—	—	—	—	—	—
Adjustment to funded status of employee benefit plans	539	(189)	350	544	(190)	354
Other Comprehensive Income/(Loss)	**$ 391**	**$ (137)**	**$ 254**	**$ (1,377)**	**$ 482**	**$ (895)**

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

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
(dollars in thousands)	**Pre-Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax Amount**	**Pre-Tax Amount**	**Tax (Expense) Benefit**	**Net of Tax Amount**
Change in net unrealized gains/(losses) on securities available-for-sale	$ 4,186	$ (1,470)	$ 2,716	$ 11,748	$ (4,112)	$ 7,636
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income [(1)]	(3,987)	1,400	(2,587)	—	—	—
Adjustment to funded status of employee benefit plans	1,617	(566)	1,051	4,889	(1,711)	3,178
Other Comprehensive Income	**$ 1,816**	**$ (636)**	**$ 1,180**	**$ 16,637**	**$ (5,823)**	**$ 10,814**

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

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

NOTE 11. EMPLOYEE BENEFITS

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. We recorded a curtailment gain for the three months ended March 31, 2016 resulting from the amendment. The curtailment gain was $1.0 million and represented the unrecognized benefits associated with prior plan amendments that would have been amortized into income over the next seven years . The qualified plan was previously closed to new participants effective December 31, 2007. We will continue recording pension expense related to this plan, primarily representing interest costs on the accumulated benefit obligation and amortization of actuarial losses accumulated in the plan, as well as income from expected investment returns on pension assets.

Prior to March 31, 2016, the accrued benefits were based on years of service and the employee's compensation for the highest five consecutive years in the last ten years . Contributions were intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future. The expected long-term rate of return on plan assets is 7.50 percent .

The following table summarizes the components of net periodic pension cost for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2017**	**2016**	**2017**	**2016**
Components of Net Periodic Pension Cost				
Service cost—benefits earned during the period	$ —	$ (6)	$ —	$ 469
Interest cost on projected benefit obligation	1,025	1,099	3,075	3,200
Expected return on plan assets	(1,582)	(1,444)	(4,746)	(4,337)
Amortization of prior service credit	475	29	1,424	(41)
Recognized net actuarial loss	—	638	—	1,708
Net Periodic Pension Expense	**$ (82)**	**$ 316**	**$ (247)**	**$ 999**

NOTE 12. QUALIFIED AFFORDABLE HOUSING PROJECTS

We invest in affordable housing projects primarily to help satisfy our Community Reinvestment Act requirements. As a limited partner in these operating partnerships, we receive tax credits and tax deductions for losses incurred by the underlying properties. We use the cost method to account for these partnerships. Our total investment in qualified affordable housing projects was $10.0 million at September 30, 2017 and $11.7 million at December 31, 2016 . We had no open commitments to fund current or future investments in qualified affordable housing projects at September 30, 2017 or December 31, 2016 . Amortization expense, included in other noninterest expense in the Consolidated Statements of Comprehensive Income, was $0.8 million for the three months ended September 30, 2017 and 2016 and $2.3 million and $2.5 million for the nine months ended September 30, 2017 and 2016. The amortization expense was offset by tax credits of $0.9 million and $2.6 million for the three and nine months ended September 30, 2017 and $0.9 million and $2.7 million for the three and nine months ended September 30, 2016 as a reduction to our federal tax provision.

NOTE 13. SALE OF RETAIL BRANCH OFFICE

On July 27, 2017, we entered into a definitive agreement to sell our State College retail branch office to First Citizens Community Bank, a wholly owned subsidiary of Citizens Financial Services, Inc. The retail branch office will remain open for business throughout the transition and will continue to offer all products and services to customers. The all-cash transaction is expected to close in the fourth quarter of 2017, subject to regulatory approvals and other customary closing conditions. At September 30, 2017, $43.4 million of loans and $39.0 million of deposits were held for sale related to this transaction.

S&T BANCORP, INC. AND SUBSIDIARIES
Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, represents an overview of our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations at and for the three and nine month periods ended September 30, 2017 and 2016 . Our MD&A should be read in conjunction with our Consolidated Financial Statements and notes thereto. The results of operations

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

Important Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains or incorporates statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally relate to our financial condition, results of operations, plans, objectives, outlook for earnings, revenues, expenses, capital and liquidity levels and ratios, asset levels, asset quality, financial position, and other matters regarding or affecting S&T and its future business and operations. Forward looking statements are typically identified by words or phrases such as "will likely result," "expect," "anticipate," "estimate," "forecast," "project," "intend," " believe," "assume," "strategy," "trend," "plan," "outlook," "outcome," "continue," "remain," "potential," "opportunity," "believe," "comfortable," "current," "position," "maintain," "sustain," "seek," "achieve" and variations of such words and similar expressions, or future or conditional verbs such as will, would, should, could or may. Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The matters discussed in these forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results and trends to differ materially from those made, projected, or implied in or by the forward-looking statements depending on a variety of uncertainties or other factors including, but not limited to: credit losses; cyber-security concerns; rapid technological developments and changes; sensitivity to the interest rate environment including a prolonged period of low interest rates, a rapid increase in interest rates or a change in the shape of the yield curve; a change in spreads on interest-earning assets and interest-bearing liabilities; regulatory supervision and oversight; legislation affecting the financial services industry as a whole, and S&T, in particular; the outcome of pending and future litigation and governmental proceedings; increasing price and product/service competition; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; managing our internal growth and acquisitions; the possibility that the anticipated benefits from acquisitions cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or costly than anticipated; containing costs and expenses; reliance on significant customer relationships; general economic or business conditions; deterioration of the housing market and reduced demand for mortgages; deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income; re-emergence of turbulence in significant portions of the global financial and real estate markets that could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities, and indirectly, by affecting the economy generally and access to capital in the amounts, at the times and on the terms required to support our future businesses. Many of these factors, as well as other factors, are described in our Annual Report on Form 10-K for the year ended December 31, 2016, including Part I, Item 1A, Risk Factors and any of our subsequent filings with the SEC. Forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. We caution you not to unduly rely on forward-looking statements because the assumptions, beliefs, expectations and projections about future events may, and often do, differ materially from actual results. Any forward-looking statement speaks only as to the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

Critical Accounting Policies and Estimates

Our critical accounting policies involving significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of September 30, 2017 have remained unchanged from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2016 under the section "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Overview

We are a bank holding company headquartered in Indiana, Pennsylvania with assets of $7.2 billion at September 30, 2017 . We operate bank branches in Pennsylvania and Ohio and loan production offices in Pennsylvania, Ohio and New York. We provide a full range of financial services with retail and commercial banking products, cash management services, insurance and trust and brokerage services. Our common stock trades on the NASDAQ Global Select Market under the symbol "STBA."

We earn revenue primarily from interest on loans and securities and fees charged for financial services provided to our customers. We incur expenses for the cost of deposits and other funding sources, provision for loan losses and other operating costs such as salaries and employee benefits, data processing, occupancy and tax expense.

Our mission is to become the financial services provider of choice within the markets that we serve. We strive to do this by delivering exceptional service and value, one customer at a time. Our strategic plan focuses on organic growth, which includes both growth within our current footprint and growth through market expansion. We also actively evaluate acquisition opportunities as another source of growth. Our strategic plan includes a collaborative model that combines expertise from all areas of our business and focuses on satisfying each customer's individual financial objectives.

Our focus continues to be on loan and deposit growth and implementing opportunities to increase fee income while closely monitoring our operating expenses and asset quality. We are focused on executing our strategy to successfully build our brand and grow our business in all of our markets. While we have benefited from recent increases in short term interest rates, the low interest rate environment still remains a challenge for our net interest income. We have been able to mitigate the impact of lower rates through organic loan growth and expect to benefit from any future increases in interest rates.

Earnings Summary

Net income increased $2.1 million, or 10.4 percent, for the three months ended September 30, 2017 and increased $9.9 million, or 18.5 percent, for the nine months ended September 30, 2017 compared to the same periods in 2016. Net income for the three and nine months ended September 30, 2017 was $22.7 million and $63.7 million, or $0.65 and $1.82 diluted earnings per share, as compared to net income of $20.6 million and $53.7 million, or $0.59 and $1.54 diluted earnings per share, for the same periods in 2016. The increases in net income for the three and nine months ended September 30, 2017 were primarily driven by increases in net interest income of $6.0 million and $17.1 million. The increases for the three and nine month periods were partially offset by increases of $2.1 million and $2.4 million of noninterest expenses and increases of $1.5 million and $5.4 million in income taxes.

Net interest income increased $6.0 million and $17.1 million, or 11.7 percent and 11.3 percent, for the three and nine months ended September 30, 2017 compared to the same periods in 2016. The increases were primarily due to average interest-earning asset increases of $438 million and $524 million, or 7.2 percent and 8.7 percent, for the three and nine month periods ended September 30, 2017 compared to the same periods in 2016. The increases in average interest-earning assets were due to our successful efforts in growing our loan portfolio. The increases in short-term interest rates positively impacted both net interest income and net interest margin. The increase in net interest income was partially offset by increases in average interest-bearing liabilities of $297 million and $409 million, or 6.6 percent and 9.3 percent, for the three and nine months ended September 30, 2017 compared to the same periods in 2016. The increases in average interest-bearing liabilities were mainly due to deposit growth and an increase in short-term borrowings.

The provision for loan losses was $2.9 million and $12.9 million for the three and nine months ended September 30, 2017 compared to $2.5 million and $12.4 million for the same periods in 2016. Net charge-offs were $1.5 million and $9.0 million for the three and nine months ended September 30, 2017 compared to $0.9 million and $6.7 million in the same periods in the prior year. Annualized net loan charge-offs to average loans were 0.10 percent and 0.21 percent for the three and nine months ended September 30, 2017 compared to 0.07 percent and 0.17 percent for the same periods in 2016. Specific reserves on impaired loans decreased $1.9 million to $0.3 million at September 30, 2017 compared to $2.2 million at September 30, 2016.

Noninterest income increased $0.1 million to $13.6 million for the three months ended September 30, 2017 and increased $1.1 million to $42.8 million for the nine months ended September 30, 2017 compared to $13.4 million and $41.7 million for the same periods in 2016. The increase of $0.1 million in noninterest income for the three months ended September 30, 2017 compared to the same period in 2016 primarily related to a bank owned life insurance, or BOLI, claim, partially offset by lower interest rate swap fees from our commercial customers included in other income and lower mortgage banking income. The increase in noninterest income for the nine month period was primarily due to security gains of $4.0 million and a $0.7 million BOLI claim noted above, partially offset by a decrease due to a $2.1 million gain on the sale of our credit card portfolio recognized in 2016 and a $1.0 million decrease of other noninterest income. The decrease in other noninterest income primarily related to a curtailment gain of $1.0 million resulting from the amendment to freeze benefit accruals for all participants in our defined benefit plans effective March 31, 2016.

Noninterest expense increased $2.1 million to $36.6 million and $2.4 million to $110 million for the three and nine months ended September 30, 2017 compared to $34.5 million and $108 million for the same periods in 2016. The increases in noninterest expense were primarily due to increases of $1.3 million and $3.2 million in salaries and employee benefits expense due to annual merit increases, higher incentive costs and medical claims in 2017, offset by lower pension expense. Other noninterest expense increased $0.6 million for the three months ended September 30, 2017 due to higher loan related expenses in 2017. Other noninterest expense decreased $1.4 million for the nine months ended September 30, 2017 due to various lower operating expenses. FDIC insurance expense increased in both the three and nine months ended September 30, 2017 due to growth.

The provision for income taxes increased $1.5 million and $5.4 million for the three and nine months ended September 30, 2017 compared to the same periods in 2016, primarily due to $3.7 million and $15.3 million increases in pretax income. The effective tax rate for the three and nine months ended September 30, 2017 was 28.1 percent and 27.5 percent compared to 26.4 percent and 25.9 percent for the same periods in 2016.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with generally accepted accounting principles, or GAAP, in the United States, management uses, and this quarterly report references, net interest income on a fully taxable equivalent, or FTE, basis, which is a non-GAAP financial measure. Management believes this measure provides information useful to investors in understanding our underlying business, operational performance and performance trends as it facilitates comparisons with the performance of other companies in the financial services industry. Although management believes that this non-GAAP financial measure enhances investors' understanding of our business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP or considered to be more important than financial results determined in accordance with GAAP, nor is it necessarily comparable with non-GAAP measures which may be presented by other companies.

We believe the presentation of net interest income on an FTE basis ensures the comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Consolidated Statements of Comprehensive Income is reconciled to net interest income adjusted to an FTE basis in the Net Interest Income section of the "Results of Operations - Three and Nine Months Ended September 30, 2017 Compared to Three and Nine Months Ended September 30, 2016."

RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2017 Compared to
Three and Nine Months Ended September 30, 2016

Net Interest Income

Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our Asset and Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to produce what we believe is an acceptable level of net interest income.

The interest income on interest-earning assets and the net interest margin are presented on an FTE basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and securities using the federal statutory tax rate of 35 percent for each period and the dividend-received deduction for equity securities. We believe this to be the preferred industry measurement of net interest income that provides a relevant comparison between taxable and non-taxable sources of interest income.

The following table reconciles interest income per the Consolidated Statements of Comprehensive Income to net interest income and rates on an FTE basis for the periods presented:

	Three months ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	**2017**	**2016**	**2017**	**2016**
Total interest income	$ 66,723	$ 57,808	$ 192,787	$ 168,678
Total interest expense	9,267	6,353	24,882	17,877
Net interest income per consolidated statements of comprehensive income	57,456	51,455	167,905	150,801
Adjustment to FTE basis	1,867	1,771	5,614	5,254
Net Interest Income on an FTE basis (non-GAAP)	**$ 59,323**	**$ 53,226**	**$ 173,519**	**$ 156,055**
Net interest margin	3.48%	3.34%	3.44%	3.36%
Adjustment to FTE basis	0.11%	0.12%	0.11%	0.11%
Net Interest Margin on an FTE basis (non-GAAP)	**3.59%**	**3.46%**	**3.55%**	**3.47%**

Income amounts are annualized for rate calculations.

Average Balance Sheet and Net Interest Income Analysis (FTE)

The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the periods presented:

	Three months ended September 30, 2017			Three months ended September 30, 2016		
(dollars in thousands)	Average Balance	Interest	Rate	Average Balance	Interest	Rate
ASSETS						
Interest-bearing deposits with banks	$ 53,794	$ 168	1.25%	$ 37,852	$ 49	0.52%
Securities available-for-sale, at fair value [(2)(3)]	690,986	4,255	2.46%	678,910	4,052	2.39%
Loans held for sale	15,789	152	3.88%	9,443	100	4.20%
Commercial real estate	2,678,835	29,554	4.38%	2,411,533	24,982	4.12%
Commercial and industrial	1,404,047	15,750	4.45%	1,344,071	13,655	4.04%
Commercial construction	425,228	4,574	4.27%	389,019	3,556	3.64%
Total commercial loans	**4,508,110**	**49,878**	**4.39%**	**4,144,623**	**42,193**	**4.05%**
Residential mortgage	702,702	7,223	4.10%	681,925	7,101	4.14%
Home equity	485,501	5,354	4.37%	480,527	4,764	3.94%
Installment and other consumer	70,118	1,161	6.57%	60,052	985	6.52%
Consumer construction	4,486	51	4.49%	5,946	58	3.86%
Total consumer loans	**1,262,807**	**13,789**	**4.34%**	**1,228,450**	**12,908**	**4.18%**
Total portfolio loans	**5,770,917**	**63,667**	**4.38%**	**5,373,073**	**55,101**	**4.08%**
Total loans [(1)(2)]	**5,786,706**	**63,819**	**4.38%**	**5,382,516**	**55,201**	**4.08%**
Federal Home Loan Bank and other restricted stock	30,184	348	4.61%	24,454	277	4.52%
Total Interest-earning Assets	**6,561,670**	**68,590**	**4.15%**	**6,123,732**	**59,579**	**3.87%**
Noninterest-earning assets	510,681			519,011		
Total Assets	**$ 7,072,351**			**$ 6,642,743**		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing demand	$ 647,442	$ 406	0.25%	$ 670,807	$ 295	0.17%
Money market	999,892	2,200	0.87%	732,820	854	0.46%
Savings	979,767	525	0.21%	1,034,018	507	0.20%
Certificates of deposit	1,457,649	3,617	0.98%	1,490,106	3,463	0.92%
Total Interest-bearing Deposits	**4,084,750**	**6,748**	**0.66%**	**3,927,751**	**5,119**	**0.52%**
Securities sold under repurchase agreements	45,158	18	0.16%	44,927	1	0.01%
Short-term borrowings	600,893	1,975	1.30%	459,043	761	0.66%
Long-term borrowings	13,162	99	3.01%	15,545	111	2.85%
Junior subordinated debt securities	45,619	427	3.71%	45,619	361	3.15%
Total borrowings	**704,832**	**2,519**	**1.42%**	**565,134**	**1,234**	**0.87%**
Total Interest-bearing Liabilities	**4,789,582**	**9,267**	**0.77%**	**4,492,885**	**6,353**	**0.56%**
Noninterest-bearing liabilities:						
Noninterest-bearing liabilities	1,401,755			1,318,683		
Shareholders' equity	881,014			831,175		
Total Liabilities and Shareholders' Equity	**$ 7,072,351**			**$ 6,642,743**		
Net Interest Income [(2)(3)]		**$ 59,323**			**$ 53,226**	
Net Interest Margin [(2) (3)]			**3.59%**			**3.46%**

(1) Nonaccruing loans are included in the daily average loan amounts outstanding.
(2) Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 35 percent for 2017 and 2016.
(3) Taxable investment income is adjusted for the dividend-received deduction for equity securities.

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
(dollars in thousands)	Average Balance	Interest	Rate	Average Balance	Interest	Rate
ASSETS						
Interest-bearing deposits with banks	$ 56,126	$ 418	0.99%	$ 41,402	$ 159	0.51%
Securities available-for-sale, at fair value [(2)(3)]	699,150	12,918	2.46%	675,690	12,205	2.41%
Loans held for sale	7,734	210	3.63%	16,033	716	5.97%
Commercial real estate	2,623,360	84,559	4.31%	2,305,795	71,329	4.13%
Commercial and industrial	1,415,941	45,588	4.30%	1,340,629	39,656	3.95%
Commercial construction	433,748	13,030	4.02%	392,520	10,864	3.70%
Total commercial loans	**4,473,049**	**143,177**	**4.28%**	**4,038,944**	**121,849**	**4.03%**
Residential mortgage	700,996	21,520	4.10%	659,942	20,466	4.14%
Home equity	482,336	15,514	4.30%	474,293	14,445	4.07%
Installment and other consumer	69,401	3,377	6.51%	65,217	3,091	6.33%
Consumer construction	4,807	156	4.33%	7,200	220	4.09%
Total consumer loans	**1,257,540**	**40,567**	**4.31%**	**1,206,652**	**38,222**	**4.23%**
Total portfolio loans	**5,730,589**	**183,744**	**4.29%**	**5,245,596**	**160,071**	**4.08%**
Total loans [(1)(2)]	**5,738,323**	**183,954**	**4.29%**	**5,261,629**	**160,787**	**4.08%**
Federal Home Loan Bank and other restricted stock	31,977	1,111	4.63%	23,027	781	4.52%
Total Interest-earning Assets	**6,525,576**	**198,401**	**4.06%**	**6,001,748**	**173,932**	**3.87%**
Noninterest-earning assets	509,750			519,913		
Total Assets	**$ 7,035,326**			**$ 6,521,661**		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing demand	$ 643,423	$ 1,034	0.21%	$ 649,515	$ 798	0.16%
Money market	958,619	5,295	0.74%	677,891	2,051	0.40%
Savings	1,013,318	1,599	0.21%	1,041,802	1,474	0.19%
Certificates of deposit	1,439,715	10,175	0.94%	1,488,732	10,080	0.90%
Total Interest-bearing Deposits	**4,055,075**	**18,103**	**0.60%**	**3,857,940**	**14,403**	**0.50%**
Securities sold under repurchase agreements	48,031	26	0.07%	53,858	4	0.01%
Short-term borrowings	651,494	5,224	1.07%	385,394	1,855	0.64%
Long-term borrowings	13,759	305	2.96%	62,109	563	1.21%
Junior subordinated debt securities	45,619	1,224	3.59%	45,619	1,052	3.08%
Total borrowings	**758,903**	**6,779**	**1.19%**	**546,980**	**3,474**	**0.85%**
Total Interest-bearing Liabilities	**4,813,978**	**24,882**	**0.69%**	**4,404,920**	**17,877**	**0.54%**
Noninterest-bearing liabilities:						
Noninterest-bearing liabilities	1,355,636			1,298,847		
Shareholders' equity	865,712			817,894		
Total Liabilities and Shareholders' Equity	**$ 7,035,326**			**$ 6,521,661**		
Net Interest Income [(2)(3)]		**$ 173,519**			**$ 156,055**	
Net Interest Margin [(2) (3)]			**3.55%**			**3.47%**

(1) Nonaccruing loans are included in the daily average loan amounts outstanding.
(2) Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 35 percent for 2017 and 2016.
(3) Taxable investment income is adjusted for the dividend-received deduction for equity securities.

Net interest income on an FTE basis increased $6.1 million, or 11.5 percent, for the three months and increased $17.5 million, or 11.2 percent, for the nine months ended September 30, 2017 compared to the same periods in 2016. The increases were primarily due to organic loan growth and higher short-term interest rates. The net interest margin on an FTE basis increased 13 and eight basis points for the three and nine months ended September 30, 2017 compared to the same periods in 2016.

Interest income on an FTE basis increased $9.0 million, or 28 percent, for the three months and increased $24.5 million, or 19 percent, for the nine months ended September 30, 2017 compared to the same periods in 2016. The increases were primarily due to increases in average interest-earning assets of $438 million and $524 million and higher short-term rates. Average loan balances increased $404 million and $477 million due to organic loan growth, primarily in the commercial loan portfolio. The rates earned on loans increased 30 and 21 basis points primarily due to the three Federal Funds rate increases that occurred between December 2016 and June 2017. Average interest-bearing deposits with banks, which is primarily cash at the Federal Reserve, increased $15.9 million and $14.7 million and the rates increased 73 and 48 basis points due to the previously mentioned Federal Funds rate increases. Average securities increased $12.1 million and $23.5 million with no significant changes to the rates. Overall, the FTE rate on interest-earning assets increased 28 and 19 basis points for the three and nine months ended September 30, 2017 compared to the same periods in 2016.

Interest expense increased $2.9 million for the three months and increased $7.0 million for the nine months ended September 30, 2017 compared to the same periods in 2016. The increases were primarily due to increases in average interest-bearing liabilities of $297 million and $409 million and higher short-term rates. Average interest-bearing deposits increased $157 million and $197 million due to sales efforts and rate promotions. Average money market account balances increased $267 million and $281 million and the average rates paid increased 41 and 34 basis points. Average total borrowings increased $140 million and $212 million to provide funding for loan growth. Short-term borrowings increased $142 million and $266 million and the average rates paid increased 64 and 43 basis points due to the previously mentioned Federal Funds rate increases. Overall, the cost of interest-bearing liabilities increased 21 and 15 basis points for the three and nine months ended September 30, 2017 compared to the same periods in 2016.

The following table sets forth for the periods presented a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rates:

	Three Months Ended September 30, 2017 compared to September 30, 2016			Nine Months Ended September 30, 2017 compared to September 30, 2016		
(dollars in thousands)	**Volume [4]**	**Rate [4]**	**Total**	**Volume [4]**	**Rate [4]**	**Total**
Interest earned on:						
Interest-bearing deposits with banks	$ 21	$ 98	$ 119	$ 57	$ 202	$ 259
Securities available-for-sale, at fair value [2][3]	72	131	203	424	289	713
Loans held for sale	67	(15)	52	(371)	(135)	(506)
Commercial real estate	2,769	1,803	4,572	9,824	3,406	13,230
Commercial and industrial	609	1,486	2,095	2,228	3,704	5,932
Commercial construction	331	687	1,018	1,141	1,025	2,166
Total commercial loans	3,709	3,976	7,685	13,193	8,135	21,328
Residential mortgage	216	(94)	122	1,273	(219)	1,054
Home equity	49	541	590	245	824	1,069
Installment and other consumer	165	11	176	198	88	286
Consumer construction	(14)	7	(7)	(73)	9	(64)
Total consumer loans	416	465	881	1,643	702	2,345
Total portfolio loans	4,125	4,441	8,566	14,836	8,837	23,673
Total loans [1][2]	**4,192**	**4,426**	**8,618**	**14,465**	**8,702**	**23,167**
Federal Home Loan Bank and other restricted stock	65	6	71	304	26	330
Change in Interest Earned on Interest-earning Assets	**$ 4,350**	**$ 4,661**	**$ 9,011**	**$ 15,250**	**$ 9,219**	**$ 24,469**
Interest paid on:						
Interest-bearing demand	$ (10)	$ 121	$ 111	($7)	$243	$236
Money market	311	1,035	1,346	849	2,395	3,244
Savings	(27)	45	18	(40)	165	125
Certificates of deposit	(75)	229	154	(332)	427	95
Total interest-bearing deposits	**199**	**1,430**	**1,629**	**470**	**3,230**	**3,700**
Securities sold under repurchase agreements	—	17	17	—	22	22
Short-term borrowings	235	979	1,214	1,281	2,088	3,369
Long-term borrowings	(17)	5	(12)	(438)	180	(258)
Junior subordinated debt securities	—	66	66	—	172	172
Total borrowings	**218**	**1,067**	**1,285**	**843**	**2,462**	**3,305**
Change in Interest Paid on Interest-bearing Liabilities	**417**	**2,497**	**2,914**	**1,313**	**4,902**	**6,215**
Change in Net Interest Income	**$ 3,933**	**$ 2,164**	**$ 6,097**	**$ 13,937**	**$ 7,716**	**$ 18,254**

[1] Nonaccruing loans are included in the daily average loan amounts outstanding.
[2] Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 35 percent for 2017 and 2016.
[3] Taxable investment income is adjusted for the dividend-received deduction for equity securities.
[4] Changes to rate/volume are allocated to both rate and volume on a proportionate dollar basis.

Provision for Loan Losses

The provision for loan losses is the amount to be added to the allowance for loan losses, or ALL, after considering loan charge-offs and recoveries, to bring the ALL to a level determined to be appropriate in management's judgment to absorb probable losses inherent in the loan portfolio. The provision for loan losses remained relatively consistent at $2.9 million and $12.9 million for the three and nine months ended September 30, 2017 compared to $2.5 million and $12.4 million for the same periods in 2016. Higher net charge-offs in 2017 were offset by lower specific reserves on impaired loans compared to 2016. Net charge-offs increased $0.6 million and $2.2 million to $1.5 million and $9.0 million for the three and nine months ended September 30, 2017 compared to $0.9 million and $6.8 million for the same periods in 2016. Annualized net loan charge-offs to average loans were 0.10 percent and 0.21 percent for the three and nine months ended September 30, 2017 compared to 0.07 percent and 0.17 percent for the same periods in 2016. Specific reserves decreased $1.9 million to $0.3 million at September 30, 2017 compared to $2.2 million at September 30, 2016. Nonperforming loans decreased at September 30, 2017 by $11.0 million, or 27.2 percent, compared to September 30, 2016.

The ALL at September 30, 2017 was $56.7 million compared to $53.8 million at September 30, 2016. The ALL as a percent of total portfolio loans was 0.97 percent at September 30, 2017 and 0.99 percent at September 30, 2016. Refer to "Financial Condition - Allowance for Loan Losses" in this MD&A for additional information.

Noninterest Income

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	**2017**	**2016**	**$ Change**	**% Change**	**2017**	**2016**	**$ Change**	**% Change**
Securities gains (losses), net	$ —	$ —	$ —	— %	$ 3,987	$ —	$ 3,987	NM
Service charges on deposit accounts	3,207	3,208	(1)	—	9,218	9,272	(54)	(0.6)
Debit and credit card	3,067	3,163	(96)	(3.0)%	8,952	8,818	134	1.5 %
Wealth management	2,406	2,565	(159)	(6.2)	7,237	7,947	(710)	(8.9)
Insurance	1,333	1,208	125	10.3	4,258	4,187	71	1.7
Bank owned life insurance	1,209	532	677	127.3	2,249	1,569	680	43.3
Mortgage banking	872	1,077	(205)	(19.0)	2,280	2,185	95	4.3
Gain on sale of credit card portfolio	—	—	—	—	—	2,066	(2,066)	NM
Other	1,457	1,695	(238)	(14.0)	4,631	5,669	(1,038)	(18.3)
Total Noninterest Income	**$ 13,551**	**$ 13,448**	**$ 103**	**0.8 %**	**$ 42,812**	**$ 41,713**	**$ 1,099**	**2.6 %**

NM- Not meaningful

Noninterest income was relatively unchanged for the three months ended September 30, 2017 and increased $1.1 million, or 2.6 percent, to $42.8 million for the nine months ended September 30, 2017 compared to the same periods in 2016. The increase of $1.1 million for the nine months ended September 30, 2017 compared to the same period in 2016 primarily related to $4.0 million of securities gains and a $0.7 million increase in BOLI income. The increase in BOLI income related to a $0.7 million claim during the third quarter of 2017. These increases were offset in part by decreases due to a $2.1 gain on the sale of our credit card portfolio and a $1.0 million curtailment gain resulting from the amendment to freeze benefit accruals for all participants in our defined benefit plans, both of which occurred in 2016. The decrease in wealth management fees of $0.7 million for the nine months ended September 30, 2017 compared to the same periods in 2016 was primarily due to a decline in brokerage service revenue and advisory fees.

The increase of $0.1 million in noninterest income for the three months ended September 30, 2017 compared to the same period in 2016 primarily related to the previously mentioned BOLI claim partially offset by lower interest rate swap fees from our commercial customers included within other income and lower mortgage banking income.

Noninterest Expense

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	**2017**	**2016**	**$ Change**	**% Change**	**2017**	**2016**	**$ Change**	**% Change**
Salaries and employee benefits	$ 20,325	$ 19,011	$ 1,314	6.9 %	$ 60,770	$ 57,539	$ 3,231	5.6 %
Net occupancy	2,692	2,776	(84)	(3.0)	8,258	8,413	(155)	(1.8)
Data processing	2,284	2,128	156	7.3	6,670	6,758	(88)	(1.3)
Furniture and equipment	1,890	1,932	(42)	(2.2)	5,746	5,580	166	3.0
Other taxes	1,208	1,080	128	11.9	3,268	3,076	192	6.2
FDIC insurance	1,152	1,005	147	14.6	3,461	2,938	523	17.8
Professional services and legal	870	817	53	6.5	2,871	2,545	326	12.8
Marketing	766	896	(130)	(14.5)	2,468	2,872	(404)	(14.1)
Other	5,366	4,794	572	11.9	16,448	17,886	(1,438)	(8.0)
Total Noninterest Expense	**$ 36,553**	**$ 34,439**	**$ 2,114**	**6.1 %**	**$ 109,960**	**$ 107,607**	**$ 2,353**	**2.2 %**

NM - not meaningful

Noninterest expense increased $2.1 million, or 6.1 percent, to $36.6 million for the three months and increased $2.4 million, or 2.2 percent, to $110 million for the nine months ended September 30, 2017 compared to the same periods in 2016.

Salaries and employee benefits expense increased $1.3 million and $3.2 primarily due to annual merit increases, higher incentive costs and higher medical claims in 2017. These increases were offset by decreases in pension expense of $0.5 million for the three months ended September 30, 2017 and $1.4 million for the nine months ended September 30, 2017 due to the amendment to freeze benefit accruals for all participants in our defined benefit plans that occurred during three months ended March 31, 2016. Other noninterest expense increased $0.6 million and decreased $1.4 million for the three and nine months ended September 30, 2017 compared to the same periods of 2016. The increase for the three month period related to higher loan related expenses due to expense recoveries on impaired loans that paid off in third quarter of 2016. The decrease of $1.4 million for the nine months ended September 30, 2017 primarily related to lower processing charges for credit cards due to the sale of the credit card portfolio in 2016, lower loan related expenses and decreases in amortization of both our core deposit intangible asset and qualified affordable housing projects. FDIC insurance expense increased $0.1 million and $0.5 million due to growth. The decrease of $0.1 million and $0.4 million in marketing expense related to the timing of various promotions. Professional services and legal expense increased $0.1 million during the three months ended and $0.4 million during the nine months ended September 30, 2017 due to higher consulting expenses.

Provision for Income Taxes

The provision for income taxes increased $1.5 million and $5.4 million for the three and nine months ended September 30, 2017 compared to the same periods in 2016 primarily due to increases of $3.7 million and $15.3 million in pre-tax income for the three and nine months ended September 30, 2017. The effective tax rate for the three and nine months ended September 30, 2017 was 28.1 percent and 27.5 percent compared to 26.4 percent and 25.9 percent for the same periods in 2016.

Financial Condition
September 30, 2017

Total assets increased $227 million, or 3.3 percent, to $7.2 billion at September 30, 2017 compared to $6.9 billion at December 31, 2016. Total portfolio loans increased $209 million, or 3.7 percent primarily due to a $183 million increase in the Commercial Real Estate, or CRE, portfolio and a $45.8 million increase in the commercial and industrial, or C&I, portfolio. Loans held for sale increased $44.1 million to $47.9 million compared to $3.8 million at December 31, 2016 due to a branch sale that is expected to close in the fourth quarter of 2017. Securities increased $4.5 million to $698 million from $693 million at December 31, 2016 primarily due to normal purchases offset by sales of investments in our equity portfolio.

Our deposits increased $171 million, or 3.2 percent, to $5.4 billion at September 30, 2017 compared to $5.3 billion at December 31, 2016. The increase in deposits was primarily due to increases in money market accounts of $100 million, noninterest-bearing demand accounts of $85.1 million, certificates of deposit of $47.8 million and interest-bearing demand of $7.9 million, offset by a decrease of $109 million in savings accounts. The increase in certificates of deposits, or CDs, was mainly due to a $56.3 million increase in brokered CDs primarily for funding needs to support our asset growth. The increases in both noninterest-bearing demand accounts and money market accounts are due to sales efforts to support our strategic goal to grow our customer deposits. The decrease in savings accounts is a result of repositioning by our customers. At September 30, 2017, $39.0 million of deposits were held for sale due to a branch sale that is expected to close in the fourth quarter of 2017.

Total borrowings increased $12.3 million from December 31, 2016 to support asset growth.

Total shareholders' equity increased by $45.6 million, or 5.4 percent, at September 30, 2017 compared to December 31, 2016. The increase was primarily due to net income of $63.7 million offset by dividends of $20.9 million.

Securities Activity

(dollars in thousands)	September 30, 2017	December 31, 2016	$ Change
U.S. treasury securities	$ 24,894	$ 24,811	$ 83
Obligations of U.S. government corporations and agencies	196,008	232,179	(36,171)
Collateralized mortgage obligations of U.S. government corporations and agencies	114,895	129,777	(14,882)
Residential mortgage-backed securities of U.S. government corporations and agencies	35,197	37,358	(2,161)
Commercial mortgage-backed securities of U.S. government corporations and agencies	192,604	125,604	67,000
Obligations of states and political subdivisions	129,304	132,509	(3,205)
Debt Securities Available-for-Sale	**692,902**	**682,238**	**10,664**
Marketable equity securities	5,052	11,249	(6,197)
Total Securities Available-for-Sale	**$ 697,954**	**$ 693,487**	**$ 4,467**

We invest in various securities in order to maintain a source of liquidity, to satisfy various pledging requirements, to increase net interest income and as a tool of the ALCO to reposition the balance sheet for interest rate risk purposes. Securities are subject to market risks that could negatively affect the level of liquidity available to us. Security purchases are subject to an investment policy approved annually by our Board of Directors and administered through ALCO and our treasury function. Securities increased $4.5 million to $698 million from $693 million at December 31, 2016 primarily due to normal purchases offset by sales of investments in our equity portfolio.

At September 30, 2017 our bond portfolio was in a net unrealized gain position of $6.3 million compared to a net unrealized gain position of $3.6 million at December 31, 2016. At September 30, 2017, total gross unrealized gains in the bond portfolio were $8.7 million offset by $2.4 million of gross unrealized losses, compared to December 31, 2016, when total gross unrealized gains were $7.1 million offset by gross unrealized losses of $3.5 million. Total unrealized gains on marketable equity securities at September 30, 2017 were $1.2 million compared to $3.7 million at December 31, 2016. The decrease in unrealized gains on marketable equity securities was primarily due to recognized gains of $4.0 million on marketable equity securities sold during nine months ended September 30, 2017. Management evaluates the securities portfolio for other than temporary impairment, or OTTI, on a quarterly basis. During the nine months ended September 30, 2017 and 2016, we did not record any OTTI. The performance of the debt and equity securities markets could generate impairments in future periods requiring realized losses to be reported.

Loan Composition

	September 30, 2017		December 31, 2016	
(dollars in thousands)	Amount	% of Loans	Amount	% of Loans
Commercial				
Commercial real estate	$ 2,681,693	46.1%	$ 2,498,476	44.5%
Commercial and industrial	1,446,811	24.9	1,401,035	25.0
Construction	432,887	7.4	455,884	8.1
Total Commercial Loans	**4,561,391**	**78.4%**	**4,355,395**	**77.6%**
Consumer				
Residential mortgage	697,367	11.9%	701,982	12.5%
Home equity	487,806	8.4	482,284	8.6
Installment and other consumer	69,644	1.2	65,852	1.2
Construction	4,550	0.1	5,906	0.1
Total Consumer Loans	**1,259,367**	**21.6%**	**1,256,024**	**22.4%**
Total Portfolio Loans	**5,820,758**	**100.0%**	**5,611,419**	**100.0%**
Loans Held for Sale	47,936		3,793	
Total Loans	**$ 5,868,694**		**$ 5,615,212**	

Our loan portfolio represents our most significant source of interest income. The risk that borrowers will be unable to pay such obligations is inherent in the loan portfolio. Other conditions such as downturns in the borrower's industry or the overall economic climate can significantly impact the borrower's ability to pay.

Total portfolio loans increased $209 million, or 3.7 percent, to $5.8 billion at September 30, 2017 compared to $5.6 billion at December 31, 2016. Loan growth was primarily in our commercial loan portfolio and mainly in our newer markets of New York, Ohio and central Pennsylvania. The increase in commercial loans primarily related to growth in CRE of $183 million, or 7.3 percent, and C&I of $45.8 million, or 3.3 percent. Loans held for sale increased $44.1 million to $47.9 million compared to $3.8 million at December 31, 2016 due to a branch sale that is expected to close in the fourth quarter of 2017.

Allowance for Loan Losses

We maintain an ALL at a level determined to be adequate to absorb estimated probable credit losses inherent within the loan portfolio as of the balance sheet date, and it is presented as a reserve against loans in the Consolidated Balance Sheets. Determination of an adequate ALL is inherently subjective and may be subject to significant changes from period to period. The methodology for determining the ALL has two main components: evaluation and impairment tests of individual loans and evaluation and impairment tests of certain groups of homogeneous loans with similar risk characteristics.

An inherent risk to the loan portfolio as a whole is the condition of the economy in our markets. In addition, each loan segment carries with it risks specific to the segment. We develop and document a systematic ALL methodology based on the following portfolio segments: 1. CRE, 2. C&I, 3. Commercial Construction, 4. Consumer Real Estate and 5. Other Consumer. The following is a discussion of the key risks by portfolio segment that management assesses in preparing the ALL.

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

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

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

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

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

The following tables summarize the ALL and recorded investments in loans by category for the dates presented:

	September 30, 2017					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ —	$ 24,975	$ 24,975	$ 6,341	$ 2,675,352	$ 2,681,693
Commercial and industrial	260	9,454	9,714	8,543	1,438,268	1,446,811
Commercial construction	—	14,915	14,915	5,974	426,913	432,887
Consumer real estate	22	5,509	5,531	11,076	1,178,647	1,189,723
Other consumer	30	1,547	1,577	54	69,590	69,644
Total	**$ 312**	**$ 56,400**	**$ 56,712**	**$ 31,988**	**$ 5,788,770**	**$ 5,820,758**

	December 31, 2016					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$ —	$ 19,976	$ 19,976	$ 16,352	$ 2,482,124	$ 2,498,476
Commercial and industrial	771	10,039	10,810	6,866	1,394,169	1,401,035
Commercial construction	—	13,999	13,999	6,613	449,271	455,884
Consumer real estate	26	6,069	6,095	12,079	1,178,093	1,190,172
Other consumer	1	1,894	1,895	25	65,827	65,852
Total	**$ 798**	**$ 51,977**	**$ 52,775**	**$ 41,935**	**$ 5,569,484**	**$ 5,611,419**

	September 30, 2017	December 31, 2016
Ratio of net charge-offs to average loans outstanding	0.21% *	0.25%
Allowance for loan losses as a percentage of total loans	0.97%	0.94%
Allowance for loan losses to nonperforming loans	192%	124%

* *Annualized*

The ALL was $56.7 million, or 0.97 percent of total portfolio loans at September 30, 2017 compared to $52.8 million, or 0.94 percent of total portfolio loans at December 31, 2016. The increase in the ALL of $3.9 million was primarily due to a $4.4 million increase in the reserve for loans collectively evaluated for impairment at September 30, 2017 compared to December 31, 2016. This increase was primarily due to loan growth and an increase in loss rates in our CRE portfolio, which was partially offset by a decrease of $0.5 million in specific reserves for loans individually evaluated for impairment. Impaired loans decreased $9.9 million, or 23.7 percent, from December 31, 2016 to $32.0 million at September 30, 2017. The decrease was primarily due to $16.2 million in loan pay downs and charge-offs primarily related to our acquired loan portfolio, which were offset by newly identified impaired loans of $6.3 million.

Net loan charge-offs were $9.0 million for the nine months ended September 30, 2017 comprised primarily of $7.6 million in charge-offs of acquired loans and $2.4 million in charge-offs related to two originated C&I relationships which were partially offset by $2.2 million in loan recoveries. Commercial special mention, substandard and doubtful loans at September 30, 2017 increased by $22.7 million to $208 million compared to $186 million at December 31, 2016, with an increase of $32.4 million in special mention and a decrease of $9.7 million in substandard. The increase in special mention loans of $32.4 million primarily related to a $19.8 million CRE relationship.

We individually evaluate all substandard and nonaccrual commercial loans greater than $0.5 million for impairment. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Our methodology for evaluating whether a loan is impaired includes risk-rating credits on an individual basis and consideration of the borrower's overall financial condition, payment history and available cash resources. In measuring impairment, we primarily utilize fair market value of the collateral; however, we also use discounted cash flow when warranted.

Troubled debt restructurings, or TDRs, whether on accrual or nonaccrual status, are also classified as impaired loans. TDRs are loans where we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we would not otherwise 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 by the borrower as TDRs.

An accruing loan that is modified into a TDR can remain in accrual status if, based on a current credit analysis, collection of principal and interest in accordance with the modified terms is reasonably assured, and the borrower has demonstrated sustained historical repayment performance for a reasonable period before the modification. All TDRs are considered to be impaired loans and will be reported as impaired loans for their remaining lives, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and we fully expect that the remaining principal and interest will be collected according to the restructured agreement. For all TDRs, regardless of size, as well as all other impaired loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate. 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.

As an example, consider a substandard commercial construction loan that is currently 90 days past due where the loan is restructured to extend the maturity date for a period longer than would be considered an insignificant period of time. The post-modification interest rate given to the borrower is considered to be lower than the current market rate for new debt with similar risk and all other terms remain the same according to the original loan agreement. This loan will be considered a TDR as the borrower is experiencing financial difficulty and a concession has been granted due to the long extension, resulting in payment delay as well as the rate being lower than current market rate for new debt with similar risk. The loan will be reported as a nonaccrual TDR and an impaired loan. In addition, the loan could be charged down to the fair value of the collateral if a confirmed loss exists. If the loan subsequently performs, by means of making on-time principal and interest payments according to the newly restructured terms for a period of six months, and it is expected that all remaining principal and interest will be collected according to the terms of the restructured agreement, the loan will be returned to accrual status and reported as an accruing TDR. The loan will remain an impaired loan for the remaining life of the loan because the interest rate was not adjusted to be equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk.

TDRs increased $0.8 million to $25.8 million at September 30, 2017 compared to $25.0 million at December 31, 2016. The increase is primarily due to new TDRs totaling $4.5 million, which were offset by principal reductions and charge-offs. Total TDRs of $25.8 million at September 30, 2017 included $15.6 million, or 60.5 percent, that were accruing and $10.2 million, or 39.5 percent, that were nonaccrual.

Our charge-off policy for commercial loans requires that loans and other obligations that are not collectible be promptly charged-off when the loss becomes probable, regardless of the delinquency status of the loan. We may elect to recognize a partial charge-off when management has determined that the value of collateral is less than the remaining investment in the loan. A loan or obligation does not need to be charged-off, regardless of delinquency status, if (i) management has determined there exists sufficient collateral to protect the remaining loan balance and (ii) there exists a strategy to liquidate the collateral. Management may also consider a number of other factors to determine when a charge-off is appropriate. These factors may include, but are not limited to:

- The status of a bankruptcy proceeding
- The value of collateral and probability of successful liquidation; and/or
- The status of adverse proceedings or litigation that may result in collection

Consumer unsecured loans and secured loans are evaluated for charge-off after the loan becomes 90 days past due. Unsecured loans are fully charged-off and secured loans are charged-off to the estimated fair value of the collateral less the cost to sell.

Our allowance for lending-related commitments is determined using a methodology similar to that used for the ALL. Amounts are added to the allowance for lending-related commitments by a charge to current earnings through noninterest expense. The reserve is calculated by applying historical loss rates to unfunded commitments and considering qualitative factors. The allowance for unfunded loan commitments was $2.1 million at September 30, 2017 compared to $2.6 million at December 31, 2016. The decrease primarily related to a decline in the historic loss rate for C&I commitments and a decrease in the balance of total unfunded commitments. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets.

Nonperforming assets consist of nonaccrual loans, nonaccrual TDRs and OREO. The following table summarizes nonperforming assets for the dates presented:

(dollars in thousands)	September 30, 2017	December 31, 2016	$ Change
Nonaccrual Loans			
Commercial real estate	$ 5,488	$ 15,526	$ (10,038)
Commercial and industrial	3,769	3,578	191
Commercial construction	3,647	4,497	(850)
Residential mortgage	3,687	4,850	(1,163)
Home equity	2,662	2,485	177
Installment and other consumer	37	101	(64)
Consumer construction	—	—	—
Total Nonaccrual Loans	**19,290**	**31,037**	**(11,747)**
Nonaccrual Troubled Debt Restructurings			
Commercial real estate	1,083	646	437
Commercial and industrial	3,580	4,493	(913)
Commercial construction	421	430	(9)
Residential mortgage	4,095	5,068	(973)
Home equity	1,013	954	59
Installment and other consumer	11	7	4
Total Nonaccrual Troubled Debt Restructurings	**10,203**	**11,598**	**(1,395)**
Total Nonaccrual Loans	**29,493**	**42,635**	**(13,142)**
OREO	1,033	679	354
Total Nonperforming Assets	**$ 30,526**	**$ 43,314**	**$ (12,788)**

Asset Quality Ratios:			
Nonperforming loans as a percent of total loans	0.50%	0.76%	
Nonperforming assets as a percent of total loans plus OREO	0.52%	0.77%	

Our policy is to place loans in all categories in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due.

Nonperforming assets, or NPAs, decreased $12.8 million to $30.5 million at September 30, 2017 compared to $43.3 million at December 31, 2016. The decrease was due to a $13.1 million decline in nonperforming loans which primarily related to $25.1 million of principal reductions and loan charge-offs offset by new nonperforming loans of $12.0 million. Included in the decline was $13.4 million in loan charge-offs and payoffs from our acquired loan portfolio. Total nonperforming loans included $8.5 million of acquired loans at September 30, 2017, all of which became 90 days past due subsequent to the Merger date.

Deposits

(dollars in thousands)	September 30, 2017	December 31, 2016	$ Change
Customer deposits			
Noninterest-bearing demand	$ 1,348,939	$ 1,263,833	$ 85,106
Interest-bearing demand	641,970	633,293	8,677
Money market	760,410	617,961	142,449
Savings	940,989	1,050,131	(109,142)
Certificates of deposit	1,303,830	1,355,303	(51,473)
Total customer deposits	**4,996,138**	**4,920,521**	**75,617**
Brokered deposits			
Interest-bearing demand	4,225	5,007	(782)
Money market	276,316	318,500	(42,184)
Certificates of deposit	127,601	28,349	99,252
Total brokered deposits	**408,142**	**351,856**	**56,286**
Deposits held for sale	$ 38,960	$ —	$ 38,960
Total Deposits	**$ 5,443,240**	**$ 5,272,377**	**$ 170,863**

Deposits are our primary source of funds. We believe that our deposit base is stable and that we have the ability to attract new deposits. Total deposits at September 30, 2017 increased $171 million, or 3.2 percent, from December 31, 2016. Total customer deposits increased $75.6 million from December 31, 2016. Noninterest-bearing demand increased $85.1 million and money markets increased $142 million due to sales efforts. Savings decreased $109 million and certificates of deposits decreased $51.5 million as a result of repositioning by our customers. Total brokered deposits increased $56.3 million from December 31, 2016 with an increase of $99.3 million in certificates of deposits offset by money market decrease of $42.2 million. Brokered deposits are an additional source of funds utilized by the ALCO as a way to diversify funding sources, as well as manage our funding costs and structure. The increase in brokered deposits was primarily due to funding needs to support our asset growth. The $39.0 million of deposits held for sale relates to the retail branch sale that is expected to occur in the fourth quarter of 2017.

Borrowings

(dollars in thousands)	September 30, 2017	December 31, 2016	$ Change
Securities sold under repurchase agreements	$ 39,923	$ 50,832	$ (10,909)
Short-term borrowings	685,000	660,000	25,000
Long-term borrowings	12,911	14,713	(1,802)
Junior subordinated debt securities	45,619	45,619	—
Total Borrowings	**$ 783,453**	**$ 771,164**	**$ 12,289**

Borrowings are an additional source of funding for us. Total borrowings increased $12.3 million from December 31, 2016 to support our asset growth.

Information pertaining to short-term borrowings is summarized in the tables below at and for the nine and twelve month periods ended September 30, 2017 and December 31, 2016.

	Securities Sold Under Repurchase Agreements	
(dollars in thousands)	**September 30, 2017**	**December 31, 2016**
Balance at the period end	$ 39,923	$ 50,832
Average balance during the period	48,031	51,021
Average interest rate during the period	0.07%	0.01%
Maximum month-end balance during the period	$ 53,609	$ 68,216
Average interest rate at the period end	0.16%	0.01%

	Short-Term Borrowings	
(dollars in thousands)	**September 30, 2017**	**December 31, 2016**
Balance at the period end	$ 685,000	$ 660,000
Average balance during the period	651,494	414,426
Average interest rate during the period	1.07%	0.65%
Maximum month-end balance during the period	$ 734,600	$ 660,000
Average interest rate at the period end	1.31%	0.76%

Information pertaining to long-term borrowings is summarized in the tables below at and for the nine and twelve month periods ended September 30, 2017 and December 31, 2016.

	Long-Term Borrowings	
(dollars in thousands)	**September 30, 2017**	**December 31, 2016**
Balance at the period end	$ 12,911	$ 14,713
Average balance during the period	13,759	50,256
Average interest rate during the period	2.96%	1.33%
Maximum month-end balance during the period	$ 14,515	$ 116,852
Average interest rate at the period end	2.97%	2.91%

	Junior Subordinated Debt Securities	
(dollars in thousands)	**September 30, 2017**	**December 31, 2016**
Balance at the period end	$ 45,619	$ 45,619
Average balance during the period	45,619	45,619
Average interest rate during the period	3.59%	3.14%
Maximum month-end balance during the period	$ 45,619	$ 45,619
Average interest rate at the period end	3.74%	3.42%

Liquidity and Capital Resources

Liquidity is defined as a financial institution's ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or of borrowers needing to access funds to meet their credit needs. In order to manage liquidity risk our Board of Directors has delegated authority to the ALCO for formulation, implementation and oversight of liquidity risk management for S&T. The ALCO's goal is to maintain adequate levels of liquidity at a reasonable cost to meet funding needs in both a normal operating environment and for potential liquidity stress events. The ALCO monitors and manages liquidity through various ratios, reviewing cash flow projections, performing stress tests and by having a detailed contingency funding plan. The ALCO policy guidelines define graduated risk tolerance levels. If our liquidity position moves to a level that has been defined as high risk, specific actions are required, such as increased monitoring or the development of an action plan to reduce the risk position.

Our primary funding and liquidity source is a stable customer deposit base. We believe S&T has the ability to retain existing and attract new deposits, mitigating any funding dependency on other more volatile sources. Refer to the Financial Condition - Deposits Section of this MD&A, for additional discussion on deposits. Although deposits are the primary source of funds, we have identified various other funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. Additional funding sources accessible to S&T include borrowing availability at the FHLB of Pittsburgh, Federal Funds lines with other financial institutions, the brokered deposit market and borrowing availability through the Federal Reserve Borrower-In-Custody program.

An important component of our ability to effectively respond to potential liquidity stress events is maintaining a cushion of highly liquid assets. Highly liquid assets are those that can be converted to cash quickly, with little or no loss in value, to meet financial obligations. ALCO policy guidelines define a ratio of highly liquid assets to total assets by graduated risk tolerance levels of minimal, moderate and high. At September 30, 2017, we had $510 million in highly liquid assets, which consisted of $53.4 million in interest-bearing deposits with banks, $409 million in unpledged securities and $47.9 million in loans held for sale. This resulted in a highly liquid assets to total assets ratio of 7.1 percent at September 30, 2017. Also, at September 30, 2017, we had a remaining borrowing availability of $1.6 billion with the FHLB of Pittsburgh. Refer to Note 8 Borrowings in the Notes to Consolidated Financial Statements and the Financial Condition - Borrowings section of this MD&A for more details.

The following table summarizes capital amounts and ratios for S&T and S&T Bank for the dates presented:

			September 30, 2017		December 31, 2016	
(dollars in thousands)	Adequately Capitalized	Well-Capitalized	Amount	Ratio	Amount	Ratio
S&T Bancorp, Inc.						
Tier 1 leverage	4.00%	5.00%	$ 626,452	9.25%	$ 582,155	8.98%
Common equity tier 1 to risk-weighted assets	4.50%	6.50%	606,452	10.70%	562,155	10.04%
Tier 1 capital to risk-weighted assets	6.00%	8.00%	626,452	11.05%	582,155	10.39%
Total capital to risk-weighted assets	8.00%	10.00%	710,777	12.54%	664,184	11.86%
S&T Bank						
Tier 1 leverage	4.00%	5.00%	$ 580,404	8.60%	$ 542,048	8.39%
Common equity tier 1 to risk-weighted assets	4.50%	6.50%	580,404	10.26%	542,048	9.71%
Tier 1 capital to risk-weighted assets	6.00%	8.00%	580,404	10.26%	542,048	9.71%
Total capital to risk-weighted assets	8.00%	10.00%	664,230	11.75%	622,469	11.15%

In October 2015, we filed a new shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, with the SEC, to replace the prior shelf registration statement we had filed in October 2012. We have filed a shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the SEC, which allows for the issuance of a variety of securities including debt and capital securities, preferred and common stock and warrants. We may use the proceeds from the sale of securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to subsidiaries, possible acquisitions and stock repurchases. As of September 30, 2017, we had not issued any securities pursuant to this shelf registration statement.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect a financial institution's earnings or capital. For most financial institutions, including S&T, market risk primarily reflects exposures to changes in interest rates. Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes also affect capital by changing the net present value of a bank's future cash flows, and the cash flows themselves, as rates change. Accepting this risk is a normal part of banking and can be an important source of profitability and enhancing shareholder value. However, excessive interest rate risk can threaten a bank's earnings, capital, liquidity and solvency. Our sensitivity to changes in interest rate movements is continually monitored by the ALCO. The ALCO monitors and manages market risk through rate shock analyses, economic value of equity, or EVE, analyses and by performing stress tests in order to mitigate earnings and market value fluctuations due to changes in interest rates.

S&T BANCORP, INC. AND SUBSIDIARIES
Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - continued

Rate shock analyses' results are compared to a base case to provide an estimate of the impact that market rate changes may have on 12 months of pretax net interest income. The base case and rate shock analyses are performed on a static balance sheet. A static balance sheet is a no growth balance sheet in which all maturing and/or repricing cash flows are reinvested in the same product at the existing product spread. Rate shock analyses assume an immediate parallel shift in market interest rates and also include management assumptions regarding the impact of interest rate changes on non-maturity deposit products (noninterest-bearing demand, interest-bearing demand, money market and savings) and changes in the prepayment behavior of loans and securities with optionality. S&T policy guidelines limit the change in pretax net interest income over a 12 month horizon using rate shocks of +/- 100, 200 and 300 basis points. Policy guidelines define the percentage change in pretax net interest income by graduated risk tolerance levels of minimal, moderate and high. We have temporarily suspended the -200 and -300 basis point rate shock analyses. Due to the low interest rate environment, we believe the impact to net interest income when evaluating the -200 and -300 basis point rate shock scenarios does not provide meaningful insight into our interest rate risk position.

In order to monitor interest rate risk beyond the 12 month time horizon of rate shocks, we also perform EVE analyses. EVE represents the present value of all asset cash flows minus the present value of all liability cash flows. EVE rate change results are compared to a base case to determine the impact that market rate changes may have on our EVE. As with rate shock analysis, EVE analyses incorporate management assumptions regarding prepayment behavior of fixed rate loans and securities with optionality and the behavior and value of non-maturity deposit products. S&T policy guidelines limit the change in EVE given changes in rates of +/- 100, 200 and 300 basis points. Policy guidelines define the percentage change in EVE by graduated risk tolerance levels of minimal, moderate and high. We have also temporarily suspended the EVE -200 and -300 basis point scenarios due to the low interest rate environment.

The table below reflects the rate shock analyses and EVE analysis results. Both are in the minimal risk tolerance level.

	September 30, 2017		December 31, 2016	
Change in Interest Rate (*basis points*)	**% Change in Pretax Net Interest Income**	**% Change in EVE**	**% Change in Pretax Net Interest Income**	**% Change in EVE**
+300	4.7	(6.8)	3.4	(12.3)
+200	2.8	(2.4)	1.8	(6.5)
+100	1.4	0.2	0.7	(2.3)
-100	(4.1)	(6.2)	(4.4)	(7.3)

The results from the rate shock analyses on net interest income are consistent with having an asset sensitive balance sheet. Having an asset sensitive balance sheet means more assets than liabilities will reprice during the measured time frames. The implications of an asset sensitive balance sheet will differ depending upon the change in market interest rates. For example, with an asset sensitive balance sheet in a declining interest rate environment, more assets than liabilities will decrease in rate. This situation could result in a decrease in net interest income and operating income. Conversely, with an asset sensitive balance sheet in a rising interest rate environment, more assets than liabilities will increase in rate. This situation could result in an increase in net interest income and operating income.

Our rate shock analyses show an improvement in the percentage change in pretax net interest income in all scenarios when comparing September 30, 2017 to December 31, 2016. The improvement is mainly a result of an increase in variable rate loans.

Our EVE analyses show an improvement in the percentage change in EVE in all scenarios when comparing September 30, 2017 to December 31, 2016. The increase is mainly a result of a change in our loan prepayment assumptions following a prepayment analysis performed in the quarter ended September 30, 2017 and the change in value of our core deposits due to changes in interest rates.

In addition to rate shocks and EVE analyses, we perform a market risk stress test at least annually. The market risk stress test includes sensitivity analyses and simulations. Sensitivity analyses are performed to help us identify which model assumptions cause the greatest impact on pretax net interest income. Sensitivity analyses may include changing prepayment behavior of loans and securities with optionality and the impact of interest rate changes on non-maturity deposit products. Simulation analyses may include the potential impact of rate shocks other than the policy guidelines of +/- 100, 200 and 300 basis points, yield curve shape changes, significant balance mix changes and various growth scenarios. Simulations indicate that an increase in rates, particularly if the yield curve steepens, will most likely result in an improvement in pretax net interest income. We realize that some of the benefit reflected in our scenarios may be offset by a change in the competitive environment and a change in product preference by our customers.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of S&T's Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of S&T's disclosure controls and procedures as of September 30, 2017 . In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to S&T's management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Based on and as of the date of such evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective in all material respects, as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2017 , there were no changes made to S&T's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, S&T's internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have been no material changes to the risk factors that we have previously disclosed in Item 1A – "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on February 24, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32	Rule 13a-14(b) Certification of the Chief Executive Officer and Chief Financial Officer.
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheet at September 30, 2017 and Audited Consolidated Balance Sheet at December 31, 2016, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three and Nine Months ended September 30, 2017 and 2016, (iii) Unaudited Consolidated Statements of Changes in Shareholders' Equity for the Nine Months ended September 30, 2017 and 2016, (iv) Unaudited Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2017 and 2016 and (v) Notes to Unaudited Consolidated Financial Statements.

S&T BANCORP, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	S&T Bancorp, Inc. (Registrant)
November 1, 2017	/s/ Mark Kochvar
	Mark Kochvar Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer and Duly Authorized Signatory)

Exhibit 31.1

CERTIFICATION

I, Todd D. Brice, certify that:

1. I have reviewed this quarterly report on Form 10-Q of S&T Bancorp, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information;
    b) Any fraud, whether or not material that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2017

/s/ Todd D. Brice

Todd D. Brice, Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Mark Kochvar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of S&T Bancorp, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
    d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information;
    b) Any fraud, whether or not material that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 1, 2017

/s/ Mark Kochvar

Mark Kochvar, Chief Financial Officer

Exhibit 32

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
AND CHIEF FINANCIAL OFFICER
SARBANES-OXLEY ACT SECTION 906**

Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the S&T Bancorp, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Todd D. Brice, Chief Executive Officer of the Company, and I, Mark Kochvar, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the dates and period covered by the report.

This certificate is being made for the exclusive purpose of compliance by the Chief Executive Officer and Chief Financial Officer of the Company with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, and may not be disclosed, distributed or used by any person or for any reason other than as specifically required by law.

Date: November 1, 2017

/s/ Todd D. Brice	/s/ Mark Kochvar
Todd D. Brice, Chief Executive Officer	Mark Kochvar, Chief Financial Officer