S&T BANCORP INC
Form 10-K
February 23, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2014
or
o 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 of organization)	(I.R.S. Employer Identification No.)
800 Philadelphia Street, Indiana, PA	15701
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (800) 325-2265
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $2.50 per share	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this form 10-K. o
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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

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

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

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

The aggregate estimated fair value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2014:
Common Stock, $2.50 par value – $723,040,943

The number of shares outstanding of the issuer's classes of common stock as of February 18, 2015:
Common Stock, $2.50 par value –29,796,397

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of S&T Bancorp, Inc., to be filed pursuant to Regulation 14A for the 2015 annual meeting of shareholders to be held May 20, 2015 are incorporated by reference into Part III of this annual report on Form 10-K.

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PART I

Item 1. BUSINESS
General

S&T Bancorp, Inc., or S&T (also referred to below as “we”, “us” or “our”), including, on a consolidated basis with our subsidiaries where appropriate, was incorporated on March 17, 1983 under the laws of the Commonwealth of Pennsylvania as a bank holding company and has three wholly owned subsidiaries, S&T Bank, 9th Street Holdings, Inc. and STBA Capital
Trust I. We also own a one-half interest in Commonwealth Trust Credit Life Insurance Company, or CTCLIC. We are registered as a financial holding company with the Board of Governors of the Federal Reserve System, or the Federal Reserve Board, under the Bank Holding Company Act of 1956, as amended, or the BHCA. As of December 31, 2014, we had approximately $5.0 billion in assets, $3.9 billion in loans, $3.9 billion in deposits and our shareholders’ equity was $608.4 million.
S&T Bank is a full service bank with its main office at 800 Philadelphia Street, Indiana, Pennsylvania, providing services to its customers through offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Centre, Clarion, Clearfield, Indiana, Jefferson, Washington and Westmoreland counties of Pennsylvania. We also have two loan production offices, or LPOs, in Ohio, with our most recent LPO established in central Ohio on March 24, 2014. On June 18, 2014, we opened a new branch with a team of experienced banking professionals in State College, Pennsylvania. On October 29, 2014 we entered into an agreement to acquire Integrity Bancshares, Inc. We expect to complete the transaction in the first quarter of 2015, after satisfaction of customary closing conditions, including regulatory approvals and the approval of the shareholders of Integrity Bancshares, Inc. S&T Bank deposits are insured by the Federal Deposit Insurance Corporation, or FDIC, to the maximum extent provided by law.
S&T Bank has three wholly owned operating subsidiaries: S&T Insurance Group, LLC, S&T Bancholdings, Inc. and Stewart Capital Advisors, LLC. S&T Insurance Group, LLC, through its subsidiaries, offers a variety of insurance products. S&T Bancholdings, Inc. is an investment company. Stewart Capital Advisors, LLC, is a registered investment advisor that manages private investment accounts for individuals and institutions and advises the Stewart Capital Mid Cap Fund.
We have three reportable operating segments including Community Banking, Wealth Management and Insurance. Our Community Banking segment offers services which include accepting time and demand deposits, originating commercial and consumer loans, and providing letters of credit and credit card services. The Wealth Management segment offers brokerage services, serves as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust services, as well as is a registered investment advisor that manages private investment accounts for individuals and institutions. Total Wealth Management assets under management and administration were approximately $2.0 billion at December 31, 2014. The Insurance segment includes a full-service insurance agency offering commercial property and casualty insurance, group life and health coverage, employee benefit solutions and personal insurance lines.
Refer to the financial statements and Part II, Item 8, Note 23 of this Form 10-K for further details pertaining to our operating segments.

Employees

As of December 31, 2014, we had 945 full-time equivalent employees.

Access to United States Securities and Exchange Commission Filings

All of our reports filed electronically with the United States Securities and Exchange Commission, or the SEC, including this Annual Report on Form 10-K for the fiscal year ended December 31, 2014, or the Report, our prior annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and our annual proxy statements, as well as any amendments to those reports, are accessible at no cost on our website at www.stbancorp.com under Financial Information,
SEC Filings. These filings are also accessible on the SEC's website at www.sec.gov. You may read and copy any material we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The charters of the Audit Committee, the Compensation and Benefits Committee and the Nominating and Corporate Governance Committee, the Complaints Regarding Accounting, Internal Accounting Controls or Auditing Matters Policy, or the Whistleblower Policy, the Code of Conduct for the CEO and CFO, the General Code of Conduct and the Shareholder Communications Policy are also available at www.stbancorp.com under Corporate Governance.

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Item 1. BUSINESS -- continued

Supervision and Regulation

General

S&T and S&T Bank are each extensively regulated under federal and state law. The following describes certain aspects of that regulation and does not purport to be a complete description of all regulations that affect S&T and S&T Bank or all aspects of any regulation discussed here.
To the extent statutory or regulatory provisions are described, the description is qualified in its entirety by reference to the particular statutory or regulatory provisions. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures and before the various bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on S&T or S&T Bank is impossible to determine with any certainty.
Any change in applicable laws or regulations, or in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations and earnings.

S&T

We are a bank holding company subject to regulation under the BHCA and the examination and reporting requirements of the Federal Reserve Board. Under the BHCA, a bank holding company may not directly or indirectly acquire ownership or control of more than five percent of the voting shares or substantially all of the assets of any additional bank, or merge or consolidate with another bank holding company, without the prior approval of the Federal Reserve Board. We have maintained a passive ownership position in Allegheny Valley Bancorp, Inc. (14.3 percent) pursuant to approval from the Federal Reserve Board.
As a bank holding company, we are expected under statutory and regulatory provisions to serve as a source of financial and managerial strength to our subsidiary bank. A bank holding company is also expected to commit resources, including capital and other funds, to support its subsidiary bank.
We elected to become a financial holding company under the BHCA in 2001 and thereby engage in a broader range of financial activities than are permissible for traditional bank holding companies. In order to maintain our status as a financial holding company, we must remain “well-capitalized” and “well-managed” and the depository institutions controlled by us must remain “well-capitalized,” “well-managed” (as defined in federal law) and have at least a “satisfactory” Community Reinvestment Act ("CRA") rating. Refer to Part II, Item 8, Note 22 Regulatory Matters, of this Report for information concerning the current capital ratios of S&T and S&T Bank. No prior regulatory approval is required for a financial holding company with total consolidated assets less than $50 billion to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board, unless the total consolidated assets to be acquired exceed $10 billion. The BHCA identifies several activities as “financial in nature” including, among others, securities underwriting; dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and sales agency; investment advisory activities; merchant banking activities and activities that the Federal Reserve Board has determined to be closely related to banking. Banks may also engage in, subject to limitations on investment, activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is “well-capitalized,” “well-managed” and has at least a “satisfactory” CRA rating.
If S&T or S&T Bank ceases to be “well-capitalized” or “well-managed,” we will not be in compliance with the requirements of the BHCA regarding financial holding companies or requirements regarding the operation of financial

subsidiaries by insured banks.

If a financial holding company is notified by the Federal Reserve Board of such a change in the ratings of any of its subsidiary banks, it must take certain corrective actions within specified time frames. Furthermore, if S&T Bank was to receive a CRA rating of less than "satisfactory," then we would be prohibited from engaging in certain new activities or acquiring companies engaged in certain financial activities until the rating is raised to "satisfactory" or better.

We are presently engaged in nonbanking activities through the following five entities:

- 9th Street Holdings, Inc. was formed in June 1988 to hold and manage a group of investments previously owned by S&T Bank and to give us additional latitude to purchase other investments.
- S&T Bancholdings, Inc. was formed in August 2002 to hold and manage a group of investments previously owned by S&T Bank and to give us additional latitude to purchase other investments.
- CTCLIC is a joint venture with another financial institution, acting as a reinsurer of credit life, accident and health insurance policies sold by S&T Bank and the other institution. S&T Bank and the other institution each have ownership interests of 50 percent in CTCLIC.
- S&T Insurance Group, LLC distributes life insurance and long-term disability income insurance products. During 2001, S&T Insurance Group, LLC and Attorneys Abstract Company, Inc. entered into an agreement to form S&T Settlement

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Services, LLC, or STSS, with respective ownership interests of 55 percent and 45 percent. STSS is a title insurance agency servicing commercial customers. During 2002, S&T Insurance Group, LLC expanded into the property and casualty insurance business with the acquisition of S&T-Evergreen Insurance LLC.

- Stewart Capital Advisors, LLC was formed in August 2005 and is a registered investment advisor that manages private investment accounts for individuals and institutions and advises the Stewart Capital Mid Cap Fund.

S&T Bank

As a Pennsylvania-chartered, FDIC-insured commercial bank, S&T Bank is subject to the supervision and regulation of the Pennsylvania Department of Banking and Securities, or PADBS, and the FDIC. We are also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types, amount and terms and conditions of loans that may be granted and limits on the types of other activities in which S&T Bank may engage and the investments it may make.

In addition, S&T Bank is subject to affiliate transaction rules in Sections 23A and 23B of the Federal Reserve Act that limit the amount of transactions between itself and S&T or S&T's nonbank subsidiaries. Under these provisions, transactions between a bank and its parent company or any single nonbank affiliate generally are limited to 10 percent of the bank subsidiary's capital and surplus, and with respect to all transactions with affiliates, are limited to 20 percent of the bank subsidiary's capital and surplus. Loans and extensions of credit from a bank to an affiliate generally are required to be secured by eligible collateral in specified amounts. The Dodd-Frank Act Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, expands the affiliate transaction rules to broaden the definition of affiliate and to apply to securities borrowing or lending, repurchase or reverse repurchase agreements and derivatives activities that we may have with an affiliate, as well as to strengthen collateral requirements and limit Federal Reserve exemptive authority. Also, the definition of "extension of credit" for transactions with executive officers, directors and principal shareholders was expanded to include credit exposure arising from a derivative transaction, a repurchase or reverse repurchase agreement and a securities lending or borrowing transaction. These expansions became effective July 21, 2012. These provisions have not had a material effect on S&T or S&T Bank.

Insurance of Accounts; Depositor Preference

The deposits of S&T Bank are insured up to applicable limits per insured depositor by the FDIC. The Dodd-Frank Act codified FDIC deposit insurance coverage per separately insured depositor for all account types at $250,000.

As an FDIC-insured bank, S&T Bank is subject to FDIC insurance assessments, which are imposed based upon the risk the institution poses to the Deposit Insurance Fund, or DIF. Under this assessment system, risk is defined and measured using an institution's supervisory ratings with other risk measures, including financial ratios. The current total base assessment rates on an annualized basis range from 2.5 basis points for certain "well-capitalized," "well-managed" banks, with the highest ratings, to 45 basis points for institutions posing the most risk to the DIF. The FDIC may raise or lower these assessment rates on a quarterly basis based on various factors to achieve a reserve ratio, which the Dodd-Frank Act has mandated to be no less than 1.35 percent of insured deposits.

In February 2011, the FDIC Board of Directors adopted a final rule, Deposit Insurance Assessment Base, Assessment Rate Adjustments, Dividends, Assessment Rates and Large Bank Pricing Methodology. This final rule redefined the deposit insurance assessment base to equal average consolidated total assets minus average tangible equity as required by the Dodd-Frank Act, altered assessment rates, implemented the Dodd-Frank Act's DIF dividend provisions and revised the risk-based assessment system for all large insured depository institutions (those with at least $10.0 billion in total assets). Many of the changes were made as a result of provisions of the Dodd-Frank Act that were intended to

shift more of the cost of raising the reserve ratio from institutions with less than $10.0 billion in assets (such as S&T Bank) to the larger banks. Except for the future assessment rate schedules, all changes went into effect April 1, 2011 and has resulted in lower FDIC expense. In addition to DIF assessments, the FDIC makes a special assessment to fund the repayment of debt obligations of the Financing Corporation, or FICO. FICO is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation in the 1990s. The FICO assessment rate for the first quarter of 2015 is 0.600 basis points on an annualized basis.

Under federal law, deposits and certain claims for administrative expenses and employee compensation against insured depository institutions are afforded a priority over other general unsecured claims against such an institution, including federal funds and letters of credit, in the liquidation or other resolution of such an institution by a receiver. Such priority creditors would include the FDIC.

Capital

The Federal Reserve Board and FDIC have issued substantially similar risk-based and leverage capital rules applicable to banking organizations they supervise. At December 31, 2014, both S&T and S&T Bank met the applicable regulatory capital

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requirements. S&T's Tier 1 risk-based capital ratio was 12.34 percent, total risk-based capital ratio was 14.27 percent and leverage ratio was 9.80 percent. S&T Bank's Tier 1 risk-based capital, total risk-based capital and leverage ratios were 10.76 percent, 12.68 percent, and 8.53 percent.
In July 2013 the federal banking agencies issued a final rule to implement Basel III (which were agreements reached in July 2010 by the international oversight body of the Basel Committee on Banking Supervision to require more and higher-quality capital) as well as the minimum leverage and risk-based capital requirements of the Dodd-Frank Act. The final rule establishes a comprehensive capital framework, and went into effect on January 1, 2015, for smaller banking organizations such as S&T and S&T Bank. It introduces a common equity Tier 1 risk-based capital ratio requirement of 4.50 percent, increases the minimum Tier 1 risk-based capital ratio to 6.00 percent, and requires a leverage ratio of 4.00 percent for all banks. Common equity Tier 1 capital consists of common stock instruments that meet the eligibility criteria in the rule, retained earnings, accumulated other comprehensive income and common equity Tier 1 minority interest. The rule also requires a banking organization to maintain a capital conservation buffer composed of common equity Tier 1 capital in an amount greater than 2.50 percent of total risk-weighted assets beginning in 2019. The capital conservation buffer will be phased in beginning in 2016, at 25 percent, increasing to 50 percent in 2017, 75 percent in 2018 and 100 percent in 2019 and beyond. As a result, starting in 2019, a banking organization must maintain a common equity Tier 1 risk-based capital ratio greater than 7.00 percent, a Tier 1 risk-based capital ratio greater than 8.50 percent and a Total risk-based capital ratio greater than 10.50 percent; otherwise, it will be subject to restrictions on capital distributions and discretionary bonus payments. By 2019, when the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the regulatory capital ratios required for an insured depository institution to be well-capitalized under prompt corrective action law, described below. To be well-capitalized, an insured bank must have a common equity Tier 1 risk-based capital ratio of at least 6.50 percent, a Tier 1 risk-based capital ratio of at least 8.00 percent, a total risk-based capital ratio of at least 10.00 percent, and a leverage ratio of 5.00 percent. The rule also disqualifies certain financial instruments from inclusion in regulatory capital and requires more deductions from capital.
The new regulatory capital rule also revises the calculation of risk-weighted assets. It includes a new framework under which the risk weight will increase for most credit exposures that are 90 days or more past due or on nonaccrual, high-volatility commercial real estate loans and certain equity exposures. It also includes changes to the credit conversion factors of off-balance sheet items, such as the unused portion of a loan commitment.
Federal regulators periodically propose amendments to the regulatory capital rules and the related regulatory framework and consider changes to the capital standards that could significantly increase the amount of capital needed to meet applicable standards. The timing of adoption, ultimate form and effect of any such proposed amendments cannot be predicted.

Payment of Dividends

S&T is a legal entity separate and distinct from its banking and other subsidiaries. A substantial portion of our revenues consist of dividend payments we receive from S&T Bank. S&T Bank, in turn, is subject to federal and state laws and regulations that limit the amount of dividends it can pay to S&T. In addition, both S&T and S&T Bank are subject to various general regulatory policies relating to the payment of dividends, including requirements to maintain adequate capital above regulatory minimums. The Federal Reserve Board has indicated that banking organizations should generally pay dividends only if (i) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. Thus, under certain circumstances based upon our financial condition, our ability to declare and pay quarterly dividends may require

consultation with the Federal Reserve Board and may be prohibited by applicable Federal Reserve Board guidance.

Other Safety and Soundness Regulations

There are a number of obligations and restrictions imposed on bank holding companies such as us and our depository institution subsidiary by federal law and regulatory policy. These obligations and restrictions are designed to reduce potential loss exposure to the FDIC's deposit insurance fund in the event an insured depository institution becomes in danger of default or is in default. Under current federal law, for example, the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," as defined by the law. As of December 31, 2014, S&T Bank was classified as "well-capitalized." New definitions of these categories, as set forth in the federal banking agencies' final rule to implement Basel III and the minimum leverage and risk-based capital requirements of the Dodd-Frank Act, became effective as of January 1, 2015. To be well-capitalized, an insured depository institution must have a common equity Tier 1 risk-based capital ratio of at least 6.50 percent, a Tier 1 risk-based capital ratio of at least 8.00 percent, a total risk-based capital ratio of at least 10.00 percent and a

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leverage ratio of at least 5.00 percent. To be adequately capitalized, an insured depository institution must have a common equity Tier 1 risk-based capital ratio of at least 4.50 percent, a Tier 1 risk-based capital ratio of at least 6.00 percent, a total risk-based capital ratio of at least 8.00 percent and a leverage ratio of at least 4.00 percent. The classification of depository institutions is primarily for the purpose of applying the federal banking agencies' prompt corrective action provisions and is not intended to be and should not be interpreted as a representation of overall financial condition or prospects of any financial institution.

The federal banking agencies' prompt corrective action powers (which increase depending upon the degree to which an institution is undercapitalized) can include, among other things, requiring an insured depository institution to adopt a capital restoration plan which cannot be approved unless guaranteed by the institution's parent company; placing limits on asset growth and restrictions on activities, including restrictions on transactions with affiliates; restricting the interest rates the institution may pay on deposits; prohibiting the payment of principal or interest on subordinated debt; prohibiting the holding company from making capital distributions without prior regulatory approval; and, ultimately, appointing a receiver for the institution. For example, only a "well-capitalized" depository institution may accept brokered deposits without prior regulatory approval.

The federal banking agencies have also adopted guidelines prescribing safety and soundness standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, fees and compensation and benefits. In general, the guidelines require appropriate systems and practices to identify and manage specified risks and exposures. The guidelines prohibit excessive compensation as an unsafe and unsound practice and characterize compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, the agencies have adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not in compliance with any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an "undercapitalized" institution is subject under the prompt corrective action provisions described above.

Regulatory Enforcement Authority

The enforcement powers available to federal banking agencies are substantial and include, among other things and in addition to other powers described herein, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banks and bank holding companies and "institution affiliated parties," as defined in the Federal Deposit Insurance Act. In general, these enforcement actions may be initiated for violations of laws and regulations, as well as engagement in unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities.

At the state level, the PADBS also has broad enforcement powers over S&T Bank, including the power to impose fines and other penalties and to appoint a conservator or receiver.

Interstate Banking and Branching

The BHCA currently permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nationwide and state-imposed deposit concentration limits. In addition, because of changes to law made by the Dodd-Frank Act, S&T Bank may now

establish de novo branches in any state to the same extent that a bank chartered in that state could establish a branch.

Community Reinvestment and Consumer Protection Laws

In connection with its lending activities, S&T Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. These include, among other laws, the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act and the CRA. In addition, rules of the Consumer Financial Protection Bureau pursuant to federal law require disclosure of privacy policies to consumers and in some circumstances, allow consumers to prevent the disclosure of certain personal information to nonaffiliated third parties. The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate-income neighborhoods. Furthermore, such assessment is required of any bank that has applied, among other things, to merge or consolidate with or acquire the assets or assume the liabilities of an insured depository institution, or to open or relocate a branch office. In the case of a bank holding company (including a financial holding company) applying for approval to acquire a bank or bank holding company, the Federal Reserve Board will assess the record of each subsidiary bank of the applicant

bank holding company in considering the application. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve" or "unsatisfactory." S&T Bank was rated "satisfactory" in its most recent CR evaluation.

Anti-Money Laundering Rules

S&T Bank is subject to the Bank Secrecy Act, its implementing regulations and other anti-money laundering laws and regulations, including the USA Patriot Act of 2001. Among other things, these laws and regulations require S&T Bank to take steps to prevent the bank from being used to facilitate the flow of illegal or illicit money, to report large currency transactions and to file suspicious activity reports. S&T Bank is also required to develop and implement a comprehensive anti-money laundering compliance program. Banks must also have in place appropriate "know your customer" policies and procedures. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA Patriot Act of 2001 require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

Government Actions and Legislation

The Dodd-Frank Act is significantly changing the current bank regulatory structure and affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, including S&T and S&T Bank. The Dodd-Frank Act contains a number of provisions intended to strengthen capital. Refer to Capital within Part I, Item 1 for additional information.
The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Act depend on the actions of regulatory agencies. The Dodd-Frank Act also contains provisions that expand the insurance assessment base and increase the scope of deposit insurance coverage.
Among other provisions, the SEC has enacted rules, required by the Dodd-Frank Act, giving stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments and allowing certain stockholders to nominate their own candidates for election as directors using a company's proxy materials. The legislation also directs the federal financial institution regulatory agencies to promulgate rules prohibiting excessive compensation being paid to financial institution executives. In addition, in December of 2013, federal regulators adopted final regulations regarding the so-called Volcker Rule established in the Dodd-Frank Act. The Volcker Rule generally prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (generally covering hedge funds and private equity funds, subject to certain exemptions). The rules are complex and it is not clear how they will be implemented over time. However, S&T does not currently anticipate that they will have a material effect on S&T Bank or its affiliates, because we do not engage in the prohibited activities.
The Dodd-Frank Act also created the Consumer Financial Protection Bureau, or CFPB, that took over rulemaking responsibility on July 21, 2011 for the principal federal consumer financial protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Savings Act, among others. Institutions that have assets of $10.0 billion or less, such as S&T Bank, will continue to be supervised in this area by their state and primary federal regulators (in the case of S&T Bank, the FDIC). The Act also gives the CFPB expanded data collection powers for fair lending purposes for both small business and mortgage

loans, as well as expanded authority to prevent unfair, deceptive and abusive practices. The consumer complaint function also has been consolidated into the CFPB with respect to the institutions it supervises. The CFPB established an Office of Community Banks and Credit Unions, with a mission to ensure that the CFPB incorporates the perspectives of small depository institutions into the policy-making process, communicates relevant policy initiatives to community banks and credit unions, and works with community banks and credit unions to identify potential areas for regulatory simplification. In addition, the Dodd-Frank Act required the Federal Reserve Board to adopt a rule addressing interchange fees applicable to debit card transactions. This rule, Regulation II, effective October 1, 2011, does not apply to a bank that, together with its affiliates, has less than $10.0 billion in assets.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, on January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage (QM) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the "QM Rule"). The ability-to-repay provision requires creditors to make reasonable, good-faith determinations that borrowers are able to repay their mortgage loans before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of "qualified mortgage" are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a "qualified mortgage" incorporates the statutory

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requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43 percent debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet government-sponsored enterprise, or GSE, Federal Housing Administration, or FHA, and Veterans Affairs, or VA, underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43 percent debt-to-income limits. The QM Rule became effective on January 10, 2014. These rules did not have a material impact on our mortgage business.

The federal agencies responsible for implementing the provisions of the Dodd-Frank Act have issued a substantial number of rules. More rules will be issued. Not all of the Dodd-Frank Act provisions and their implementing regulations apply to banks the size of S&T Bank. Federal and state regulatory agencies consistently propose and adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot assess the ultimate impact of the Act on S&T or S&T Bank at this time, including the extent to which it could increase costs or limit our ability to pursue business opportunities in an efficient manner, or otherwise adversely affect our business, financial condition and results of operations. Nor can we predict the impact or substance of other future legislation or regulation. However, it is expected that they, at a minimum, will increase our operating and compliance costs.

In 2012, Pennsylvania enacted three bills known as the “Banking Law Modernization Package.” The bills became effective on December 24, 2012. The overall goal of the Banking Law Modernization Package was to modernize the banking laws of Pennsylvania and reduce regulatory burden at the state level.

We cannot predict the substance or impact of pending or future legislation or regulation, or the application thereof, although enactment of any proposed legislation could affect how S&T and S&T Bank operate and could significantly increase costs, impede the efficiency of internal business processes, or limit our ability to pursue business opportunities in an efficient manner, any of which could materially and adversely affect our business, financial condition and results of operations.

Competition

S&T Bank competes with other local, regional and national financial services providers, such as other financial holding companies, commercial banks, savings associations, credit unions, finance companies and brokerage and insurance firms. Some of our competitors are not subject to the same level of regulation and oversight that is required of banks and bank holding companies, and are thus able to operate under lower cost structures.

Changes in bank regulation, such as changes in the products and services banks can offer and permitted involvement in non-banking activities by bank holding companies, as well as bank mergers and acquisitions, can affect our ability to compete with other financial services providers. Our ability to do so will depend upon how successfully we can respond to the evolving competitive, regulatory, technological and demographic developments affecting our operations.

Our market area includes Pennsylvania and the contiguous states of Ohio, West Virginia, New York and Maryland. The majority of our commercial and consumer loans are made to businesses and individuals in this market area resulting in a geographic concentration. Our market area has a high density of financial institutions, some of which are significantly larger institutions with greater financial resources than us, and many of which are our competitors to varying degrees. Our competition for loans comes principally from commercial banks, savings associations, mortgage banking companies, credit unions and other financial service companies. Our most direct competition for deposits has historically come from commercial banks, savings banks and credit unions. We face additional competition for deposits from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies. Because larger competitors have advantages in attracting business from larger corporations, we do not generally attempt to compete for that business. Instead, we concentrate our efforts on attracting the business of individuals, and small and medium-size businesses. We consider our competitive advantages to be customer service

and responsiveness to customer needs, the convenience of banking offices and hours, access to electronic banking services and the availability and pricing of our products and services. We emphasize personalized banking and the advantage of local decision-making in our banking business.

The financial services industry is likely to become more competitive as further technological advances enable more companies to provide financial services on a more efficient and convenient basis. Technological innovations have lowered traditional barriers to entry and enabled many companies to compete in financial services markets. Many customers now expect a choice of banking options for the delivery of services, including traditional banking offices, telephone, internet, mobile, ATMs, self-service branches, and/or in-store branches. These delivery channels are offered by traditional banks and savings associations, as well as credit unions, brokerage firms, asset management groups, finance and insurance companies, internet-based companies, and mortgage banking firms.

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Item 1A. RISK FACTORS

Investments in our common stock involve risk. The following discussion highlights the risks that we believe are material to S&T, but does not necessarily include all risks that we may face.

The market price of our common stock may fluctuate significantly in response to a number of factors.

Our quarterly and annual operating results have varied significantly in the past and could vary significantly in the future, which makes it difficult for us to predict our future operating results. Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing U.S. economic environment and changes in the commercial and residential real estate market, any of which may cause our stock price to fluctuate. If our operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- volatility of stock market prices and volumes in general;
- changes in market valuations of similar companies;
- changes in conditions in credit markets;
- changes in accounting policies or procedures as required by the Financial Accounting Standards Board, or FASB, or other regulatory agencies;
- legislative and regulatory actions (including the impact of the Dodd-Frank Act and related regulations) subjecting us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;
- government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board;
- additions or departures of key members of management;
- fluctuations in our quarterly or annual operating results; and
- changes in analysts' estimates of our financial performance.

Risks Related to Credit

Our ability to assess the credit-worthiness of our customers may diminish, which may adversely affect our results of operations.

We take credit risk by virtue of making loans and extending loan commitments and letters of credit. Our exposure to credit risk is managed through the use of consistent underwriting standards that emphasize "in-market" lending while avoiding highly leveraged transactions as well as excessive industry and other concentrations. Our credit administration function employs risk management techniques to ensure that loans adhere to corporate policy and problem loans are promptly identified. There can be no assurance that such measures will be effective in avoiding undue credit risk. If the models and approaches we use to select, manage and underwrite our consumer and commercial loan products become less predictive of future charge-offs (due, for example, to rapid changes in the economy, including the unemployment rate), our credit losses may increase.

The value of the collateral used to secure our loans may not be sufficient to compensate for the amount of an unpaid loan and we may be unsuccessful in recovering the remaining balance from our customers.

Decreases in real estate values, particularly with respect to our commercial lending and mortgage activities, could adversely affect the value of property used as collateral for our loans and our customers' ability to repay these loans, which in turn could impact our profitability. Repayment of our commercial loans is often dependent on the cash flow of the borrower, which may become unpredictable. If the value of the assets, such as real estate, serving as collateral for the loan portfolio were to decline materially, a significant part of the loan portfolio could become under-collateralized. If the loans that are secured by real estate become troubled when real estate market conditions are declining or have declined, in the event of foreclosure, we may not be able to realize the amount of collateral that was anticipated at the time of originating the loan. This could result in higher charge-offs which could have a material adverse effect on our operating results and financial condition.

Changes in the overall credit quality of our portfolio can have a significant impact on our earnings.

Like other lenders, we face the risk that our customers will not repay their loans. We reserve for losses in our loan portfolio based on our assessment of inherent credit losses. This process, which is critical to our financial results and condition, requires complex judgment including our assessment of economic conditions, which are difficult to predict. Through a periodic review of the loan portfolio, management determines the amount of the allowance for loan loss, or ALL, by considering historical losses combined with qualitative factors including general and regional economic conditions, asset quality trends, loan policy and underwriting and changes in loan concentrations and collateral values. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, which may be beyond our control. We may underestimate our inherent losses and fail to hold an ALL sufficient to account for these losses. Incorrect assumptions

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could lead to material underestimates of inherent losses and an inadequate ALL. As our assessment of inherent losses changes, we may need to increase or decrease our ALL, which could impact our financial results and profitability.

Our loan portfolio is concentrated in western Pennsylvania, and our lack of geographic diversification increases our risk profile.

The regional economic conditions in western Pennsylvania affect the demand for our products and services as well as the ability of our customers to repay their loans and the value of the collateral securing these loans. We are less able than a larger institution to spread the risks of unfavorable local economic conditions across a large number of diversified economies. A significant decline in the regional economy caused by inflation, recession, unemployment or other factors could negatively affect our customers, the quality of our loan portfolio and the demand for our products and services. Any sustained period of increased payment delinquencies, foreclosures or losses caused by adverse market or economic conditions in our market area could adversely affect the value of our assets, revenues, results of operations and financial condition. Moreover, we cannot give any assurance that we will benefit from any market growth or favorable economic conditions in our primary market area.

Our loan portfolio has a significant concentration of commercial real estate loans.

The majority of our loans are to commercial borrowers. The commercial real estate, or CRE, segment of our loan portfolio is typically more impacted by economic fluctuations. CRE lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Because payments on loans secured by CRE often depend upon the successful operation and management of the properties, repayment of these loans may be affected by factors outside the borrower’s control, including adverse conditions in the real estate market or the economy. Additionally, we have a number of significant credit exposures to commercial borrowers, and while the majority of these borrowers have numerous projects that make up the total aggregate exposure, if one or more of these borrowers default or have financial difficulties, we could experience higher credit losses, which could adversely impact our financial condition and results of operations.

Risks Related to Our Operations

An interruption or security breach of our information systems may result in financial losses or in a loss of customers.

We depend upon data processing, communication and information exchange on a variety of computing platforms and networks, including the internet. We have experienced cyber security incidents in the past, which we did not deem material, and may experience them in the future. We believe that we have implemented appropriate measures to mitigate potential risks to our technology and our operations from these information technology disruptions. However, we cannot be certain that all of our systems are entirely free from vulnerability to attack, despite safeguards we have instituted. The occurrence of any failures, interruptions or security breaches of our information systems could disrupt our continuity of operations or result in the disclosure of sensitive, personal customer information which could have a material adverse impact on our business, financial condition and results of operations through damage to our reputation, loss of customer business, remedial costs, additional regulatory scrutiny or exposure to civil litigation and possible financial liability. Losses arising from such a breach could materially exceed the amount of insurance coverage we have, which could adversely affect our results of operation.

We rely on third-party providers and other suppliers for a number of services that are important to our business. An interruption or cessation of an important service by any third party could have a material adverse effect on our business.

We are dependent for the majority of our technology, including our core operating system, on third party providers. If these companies were to discontinue providing services to us, we may experience significant disruption to our business. If any of our third party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services. We are dependent on these third-party retailers securing their information systems, over which we have no control, and a breach of their information systems could result in the disclosure of sensitive, personal customer information, which could have a material adverse impact on our business through damage to our reputation, loss of

customer business, remedial costs, additional regulatory scrutiny or exposure to civil litigation and possible financial liability. Assurance cannot be provided that we could negotiate terms with alternative service sources that are as favorable or could obtain services with similar functionality as found in existing systems without the need to expend substantial resources, if at all, thereby resulting in a material adverse impact on our business and results of operations.

Risks Related to Interest Rates and Investments

Our net interest income could be negatively affected by interest rate changes which may adversely affect our financial condition.

Our results of operations are largely dependent on net interest income, which is the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. There may be mismatches between the maturity and repricing of our assets and liabilities that could cause the net interest rate spread to compress, depending on the level and type of changes in the interest rate environment. Interest rates could remain at historical low levels causing rate spread compression over an extended period of time. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental agencies. In addition, some of our customers often have the ability to prepay loans or redeem deposits with either no penalties, or penalties that are insufficient to compensate us for the lost income. A significant reduction in our net interest income will adversely affect our business and results of operations. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

Declines in the value of investment securities held by us could require write-downs, which would reduce our earnings.

In order to diversify earnings and enhance liquidity, we own both debt and equity instruments of government agencies, municipalities and other companies. We may be required to record impairment charges on our investment securities if they suffer a decline in value that is considered other-than-temporary. Additionally, the value of these investments may fluctuate depending on the interest rate environment, general economic conditions and circumstances specific to the issuer. Volatile market conditions may detrimentally affect the value of these securities, such as through reduced valuations due to the perception of heightened credit or liquidity risks. Changes in the value of these instruments may result in a reduction to earnings and/or capital, which may adversely affect our results of operations and financial condition.

Risks Related to Our Business Strategy

Our strategy includes growth plans through organic growth and by means of acquisitions, which includes growth within our current footprint and growth through market expansion. Our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to continue pursuing a growth strategy through, organic growth and by means of acquisitions, both within our current footprint and market expansion. In addition to our acquisition of Integrity Bancshares, Inc., which we expect to complete in the first quarter of 2015, we continue to evaluate acquisition opportunities as another source of growth. We cannot give assurance that we will be able to expand our existing market presence, or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations and could adversely affect our ability to successfully implement our business strategy.

Our failure to find suitable acquisition candidates, or successfully bid against other competitors for acquisitions, could adversely affect our ability to fully implement our business strategy. If we are successful in acquiring other entities, the process of integrating such entities, including Integrity Bancshares, Inc., will divert significant management time and resources. We may not be able to integrate efficiently or operate profitably Integrity Bancshares, Inc. or any other entity we may acquire. We may experience disruption and incur unexpected expenses in integrating acquisitions. These failures could adversely impact our future prospects and results of operation.

We are subject to competition from both banks and non-banking companies.

The financial services industry is highly competitive, and we encounter strong competition for deposits, loans and other financial services in our market area. Our principal competitors include commercial banks of all types, finance companies, credit unions, mortgage brokers, insurance agencies, trust companies and various sellers of investments and investment advice. Many of our non-bank competitors are not subject to the same degree of regulation that we are and have advantages over us in providing certain services. Additionally, many of our competitors are significantly larger than we are and have greater access to capital and other resources. Failure to compete effectively for deposit,

loan and other financial services customers in our markets could cause us to lose market share, slow our growth rate and have an adverse effect on our financial condition and results of operations.

We may be required to raise capital in the future, but that capital may not be available or may not be on acceptable terms when it is needed.

We are required by federal regulatory authorities to maintain adequate capital levels to support operations. New regulations to implement Basel III and the Dodd-Frank Act require us to have more capital. While we believe we currently have sufficient capital, if we cannot raise additional capital when needed, we may not be able to meet these requirements. Also our ability to further expand our operations through organic growth, which includes growth within our current footprint and growth through market expansion may be adversely affected. Our ability to raise additional capital is dependent on capital market conditions at that time and on our financial performance and outlook.

Risks Related to Regulatory Compliance and Legal Matters

Legislation enacted in response to market and economic conditions may significantly affect our operations, financial condition and earnings.

The Dodd-Frank Act was enacted as a major reform in response to the financial crisis that began in the last decade. The Dodd-Frank Act increases regulation and oversight of the financial services industry, and imposes restrictions on the ability of institutions within the industry to conduct business consistent with historical practices, including aspects such as capital requirements, affiliate transactions, compensation, consumer protection regulations and mortgage regulation, among others. It is not clear what impact the Dodd-Frank Act and the numerous implementing regulations will ultimately have on the financial markets or on the U.S. banking and financial services industries and the broader U.S. and global economies. They may increase our costs of regulatory compliance and of doing business and otherwise affect our operations, and will likely result in additional costs and a diversion of management’s time from other business activities, any of which may adversely impact our results of operations, liquidity or financial condition.They also may significantly affect our business strategy, the markets in which we do business, the markets for and value of our investments and our ongoing operations, costs and profitability.

Our deposit insurance premiums may increase in the future, which could have a material adverse impact on our future earnings and financial condition.

The FDIC insures deposits at FDIC-insured depository institutions, including S&T Bank. The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund, or DIF, at a specific level. The Dodd-Frank Act increased the minimum target DIF ratio from 1.15 percent of estimated insured deposits to 1.35 percent of estimated insured deposits. The FDIC must seek to achieve the 1.35 percent ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase.

The FDIC has issued regulations to implement these provisions of the Dodd-Frank Act. It has, in addition, established a higher reserve ratio of 2 percent as a long-term goal beyond what is required by statute. There is no implementation deadline for the 2 percent ratio. The FDIC may increase the assessment rates or impose additional special assessments in the future to keep the DIF at or above the statutory minimum target. Any increase in our FDIC premiums could have an adverse effect on the Bank’s profits and financial condition. Refer to Supervision and Regulation within Part I, Item 1 of this Report for additional information.

Future governmental regulation and legislation could limit our growth.

We are subject to extensive state and federal regulation, supervision and legislation that govern nearly every aspect of our operations. The regulations are primarily intended to protect depositors, customers and the banking system as a whole, not shareholders. Failure to comply with applicable regulations could lead to penalties and damage to our reputation. Furthermore, as shown through the Dodd-Frank Act, the regulatory environment is constantly undergoing change and the impact of changes to laws, the rapid implementation of regulations, the interpretation of such laws or regulations or other actions by existing or new regulatory agencies could make regulatory compliance more difficult or expensive, and thus could affect our ability to deliver or expand services, or it could diminish the value of our business. The ramifications and uncertainties of the recent increase in government intervention in the U.S. financial system could also adversely affect us. Refer to Supervision and Regulation within Part I, Item 1 of this Report for additional information.

Negative public opinion could damage our reputation and adversely impact our earnings and liquidity.

Reputational risk, or the risk to our business, earnings, liquidity and capital from negative public opinion, could result from our actual or alleged conduct in a variety of areas, including legal and regulatory compliance, lending practices,

corporate governance, litigation, ethical issues or inadequate protection of customer information. We are dependent on third-party providers for a number of services that are important to our business. Refer to the risk factor titled, “We rely on third-party providers and other suppliers for a number of services that are important to our business. An interruption or cessation of an important service by any third party could have a material adverse effect on our business” for additional information. A failure by any of these third-party service providers could cause a disruption in our operations, which could result in negative public opinion about us or damage to our reputation. We expend significant resources to comply with regulatory requirements, and the

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failure to comply with such regulations could result in reputational harm or significant legal or remedial costs. Damage to our reputation could adversely affect our ability to retain and attract new customers and adversely impact our earnings and liquidity.

We may be a defendant from time to time in a variety of litigation and other actions, which could have a material adverse effect on our financial condition and results of operations.

From time to time, customers and others make claims and take legal action pertaining to the performance of our responsibilities. Whether customer claims and legal action related to the performance of our responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant expenses, attention from management and financial liability. Any financial liability or reputational damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations.

Risks Related to Liquidity

We rely on a stable core deposit base as our primary source of liquidity.

We are dependent for our funding on a stable base of core deposits. Our ability to maintain a stable core deposit base is a function of our financial performance, our reputation and the security provided by FDIC insurance, which combined, gives customers confidence in us. If any of these items are damaged or come into question, the stability of our core deposits could be harmed.

Our ability to meet contingency funding needs, in the event of a crisis that causes a disruption to our core deposit base, is dependent on access to wholesale markets, including funds provided by the FHLB of Pittsburgh.

We own stock in the Federal Home Loan Bank, or FHLB, in order to qualify for membership in the FHLB system, which enables us to borrow on our line of credit with the FHLB that is secured by a blanket lien on a significant portion of our loan portfolio. Changes or disruptions to the FHLB or the FHLB system in general may materially impact our ability to meet short and long-term liquidity needs or meet growth plans. Additionally, we cannot be assured that the FHLB will be able to provide funding to us when needed, nor can we be certain that the FHLB will provide funds specifically to us, should our financial condition and/or our regulators prevent access to our line of credit. The inability to access this source of funds could have a materially adverse effect on our ability to meet our customer's needs. Our financial flexibility could be severely constrained if we were unable to maintain our access to funding or if adequate financing is not available at acceptable interest rates.

Risks Related to Owning Our Stock

Our outstanding warrant may be dilutive to holders of our common stock.

The ownership interest of the existing holders of our common stock may be diluted to the extent our outstanding warrant is exercised. The warrant will remain outstanding until 2019. The shares of common stock underlying the warrant represent approximately 1.71 percent of the shares of our common stock outstanding as of January 31, 2015 (including the shares issuable upon exercise of the warrant in total shares outstanding). The warrant holder has the right to vote any of the shares of common stock it receives upon exercise of the warrant.

Our ability to pay dividends on our common stock may be limited.

Holders of our common stock will be entitled to receive only such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and our Board of Directors could reduce, suspend or eliminate our dividend at any time. Any decrease or elimination to the dividends on our common stock could adversely affect the market price of our common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved SEC staff comments.

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Item 2. PROPERTIES

We own a building in Indiana, Pennsylvania, located at 800 Philadelphia Street, which serves as our headquarters and executive and administrative offices. Our Community Banking and Wealth Management segments are also located at our headquarters. In addition, we own a building in Indiana, Pennsylvania that serves as additional administrative offices. We lease two buildings in Indiana, Pennsylvania; one that houses both our data processing and technology center as well as one of our branches and one that houses our training center. Community Banking has 58 locations, including 56 branches located in twelve counties in Pennsylvania, of which 40 are owned and 16 are leased, including the aforementioned building that shares space with our data center. The other two Community Banking locations include two leased loan production offices in Ohio. We lease an office to our Insurance segment in Cambria County, Pennsylvania. The Insurance segment leases one additional office, and has staff located within the Community Banking offices in Indiana, Jefferson, Washington and Westmoreland counties. Wealth Management leases two offices, one in Allegheny County, Pennsylvania and one in Westmoreland County, Pennsylvania. Wealth Management also has several staff located within the Community Banking offices to provide their services to our retail customers. Our operating leases and the one capital lease for Community Banking, Wealth Management and Insurance expire at various dates through the year 2054 and generally include options to renew. For additional information regarding the lease commitments, refer to Part II, Item 8, Note 9 Premises and Equipment in the Notes to Consolidated Financial Statements.

Item 3. LEGAL PROCEEDINGS

The nature of our business generates a certain amount of litigation which arises in the ordinary course of business. However, in management’s opinion, there are no proceedings pending that we are a party to or our property is subject to that would be material in relation to our financial condition or results of operations. In addition, no material proceedings are pending nor are known to be threatened or contemplated against us by governmental authorities or other parties.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Prices and Dividend Information

Our common stock is listed on the NASDAQ Global Select Market System or NASDAQ, under the symbol STBA. The range of sale prices for the years 2014 and 2013 is detailed in the table below and is based upon information obtained from NASDAQ. As of the close of business on January 31, 2015, we had 3,041 shareholders of record. Dividends paid by S&T are primarily provided from S&T Bank's dividends to S&T. The payment of dividends by S&T Bank to S&T is subject to the restrictions described in Part II, Item 8, Note 5 Dividend and Loan Restrictions of this Report. The cash dividends declared per share are shown below.

	Price Range of Common Stock		Cash Dividends
2014	Low	High	Declared
Fourth quarter	$23.07	$29.28	$0.18
Third quarter	23.26	25.86	0.17
Second quarter	22.21	25.20	0.17
First quarter	21.17	25.43	0.16
2013			
Fourth quarter	$23.18	$26.41	$0.16
Third quarter	19.74	24.98	0.15
Second quarter	17.14	19.98	0.15
First quarter	17.24	18.98	0.15

Certain information relating to securities authorized for issuance under equity compensation plans is set forth under the heading Equity Compensation Plan Information Update in Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Five-Year Cumulative Total Return

The following chart compares the cumulative total shareholder return on our common stock with the cumulative total shareholder return of the NASDAQ Composite Index[(1)] and NASDAQ Bank Index[(2)] assuming a $100 investment in each on December 31, 2009.

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Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES -- continued

Index	Period Ending 12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014
S&T Bancorp, Inc.	100.00	136.75	121.99	116.45	167.83	203.26
NASDAQ Composite	100.00	118.14	117.20	137.98	193.39	222.02
NASDAQ Bank	100.00	117.98	102.18	121.26	171.81	180.25

(1) The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

(2) The NASDAQ Bank Index contains securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark as Banks. These companies include banks providing a broad range of financial services, including retail banking, loans and money transmissions.

Item 6. SELECTED FINANCIAL DATA

The tables below summarize selected consolidated financial data as of the dates or for the periods presented and should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7 and the Consolidated Financial Statements and Supplementary Data in Part II, Item 8 of this Report.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)	December 31, 2014	2013	2012	2011	2010
Total assets	$4,964,686	$4,533,190	$4,526,702	$4,119,994	$4,114,339
Securities available-for-sale, at fair value	640,273	509,425	452,266	356,371	286,887
Loans held for sale	2,970	2,136	22,499	2,850	8,337
Portfolio loans, net of unearned income	3,868,746	3,566,199	3,346,622	3,129,759	3,355,590
Goodwill	175,820	175,820	175,733	165,273	165,273
Total deposits	3,908,842	3,672,308	3,638,428	3,335,859	3,317,524
Securities sold under repurchase agreements	30,605	33,847	62,582	30,370	40,653
Short-term borrowings	290,000	140,000	75,000	75,000	—
Long-term borrowings	19,442	21,810	34,101	31,874	29,365
Junior subordinated debt securities	45,619	45,619	90,619	90,619	90,619
Preferred stock, series A	—	—	—	—	106,137
Total shareholders’ equity	$608,389	$571,306	$537,422	$490,526	$578,665

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Item 6. SELECTED FINANCIAL DATA -- continued

CONSOLIDATED STATEMENTS OF NET INCOME

	Years Ended December 31,				
(dollars in thousands)	2014	2013	2012	2011	2010
Interest income	$160,523	$153,756	$156,251	$165,079	$180,419
Interest expense	12,481	14,563	21,024	27,733	34,573
Provision for loan losses	1,715	8,311	22,815	15,609	29,511
Net Interest Income After Provision for Loan Losses	146,327	130,882	112,412	121,737	116,335
Noninterest income	46,338	51,527	51,912	44,057	47,210
Noninterest expense	117,240	117,392	122,863	103,908	105,633
Net Income Before Taxes	75,425	65,017	41,461	61,886	57,912
Provision for income taxes	17,515	14,478	7,261	14,622	14,432
Net Income	$57,910	$50,539	$34,200	$47,264	$43,480
Preferred stock dividends and discount amortization	—	—	—	7,611	6,201
Net Income Available to Common Shareholders	$57,910	$50,539	$34,200	$39,653	$37,279

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Item 6. SELECTED FINANCIAL DATA -- continued

SELECTED PER SHARE DATA AND RATIOS

Refer to page 65 Explanation of Use of Non-GAAP Financial Measures for a discussion of common return on average tangible assets, common return on average tangible common equity and the ratio of tangible common equity to tangible assets as non-GAAP financial measures.

	December 31, 2014	2013	2012	2011	2010
Per Share Data					
Earnings per common share—basic	$1.95	$1.70	$1.18	$1.41	$1.34
Earnings per common share—diluted	1.95	1.70	1.18	1.41	1.34
Dividends declared per common share	0.68	0.61	0.60	0.60	0.60
Dividend payout ratio	34.89 %	35.89 %	50.75 %	42.44 %	44.75 %
Common book value	$20.42	$19.21	$18.08	$17.44	$16.91
Profitability Ratios					
Common return on average assets	1.22 %	1.12 %	0.79 %	0.97 %	0.90 %
Common return on average tangible assets (non-GAAP)	1.28 %	1.19 %	0.85 %	1.04 %	0.98 %
Common return on average equity	9.71 %	9.21 %	6.62 %	6.78 %	6.58 %
Common return on average tangible common equity (non-GAAP)	14.02 %	13.94 %	10.35 %	12.89 %	13.28 %
Capital Ratios					
Common equity/assets	12.25 %	12.60 %	11.87 %	11.91 %	11.48 %
Tangible common equity / tangible assets (non-GAAP)	9.00 %	9.03 %	8.24 %	8.14 %	7.67 %
Tier 1 leverage ratio	9.80 %	9.75 %	9.31 %	9.17 %	11.07 %
Risk-based capital—tier 1	12.34 %	12.37 %	11.98 %	11.63 %	13.28 %
Risk-based capital—total	14.27 %	14.36 %	15.39 %	15.20 %	16.68 %
Asset Quality Ratios					
Nonaccrual loans/loans	0.32 %	0.63 %	1.63 %	1.79 %	1.90 %
Nonperforming assets/loans plus OREO	0.33 %	0.64 %	1.66 %	1.92 %	2.07 %
Allowance for loan losses/loans	1.24 %	1.30 %	1.38 %	1.56 %	1.53 %
Allowance for loan losses/nonperforming loans	385 %	206 %	85 %	87 %	80 %
Net loan charge-offs/average loans	0.00 %	0.25 %	0.78 %	0.56 %	1.11 %

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Item 6. SELECTED FINANCIAL DATA -- continued

RECONCILIATIONS OF GAAP TO NON-GAAP RATIOS

	December 31				
(dollars in thousands)	2014	2013	2012	2011	2010
Common return on average tangible assets (non-GAAP)					
Net income	$57,910	$50,539	$34,200	$39,653	$37,279
Plus: amortization of intangibles net of tax	734	1,034	1,111	1,129	1,265
Net income before amortization of intangibles	58,644	51,573	35,311	40,782	38,544
Total average assets (GAAP Basis)	4,762,363	4,505,792	4,312,538	4,072,608	4,123,455
Less: average goodwill and average other intangible assets, net of deferred tax liability	(177,881)	(178,757)	(175,501)	(169,541)	(170,716)
Tangible average assets (non-GAAP)	$4,584,482	$4,327,035	$4,137,037	$3,903,067	$3,952,739
Common return on average tangible assets (non-GAAP)	1.28%	1.19%	0.85%	1.04%	0.98%
Common return on average tangible common equity (non-GAAP)					
Net income	$57,910	$50,539	$34,200	$39,653	$37,279
Plus: amortization of intangibles net of tax	734	1,034	1,111	1,129	1,265
Net income before amortization of intangibles	58,644	51,573	35,311	40,782	38,544
Total average shareholders’ equity (GAAP Basis)	596,155	548,771	516,812	585,186	566,670
Less: average goodwill, average other intangible assets and average preferred equity, net of deferred tax liability	(177,881)	(178,757)	(175,501)	(268,755)	(276,470)
Tangible average common equity (non-GAAP)	$418,274	$370,014	$341,311	$316,431	$290,200
Common return on average tangible common equity (non-GAAP)	14.02%	13.94%	10.35%	12.89%	13.28%
Tangible common equity/tangible assets (non-GAAP)					
Total shareholders' equity (GAAP basis)	$608,389	$571,306	$537,422	$490,526	$578,665
	(177,530)	(178,264)	(179,211)	(168,996)	(276,262)

Less: goodwill and other intangible assets and preferred equity, net of deferred tax liability					
Tangible common equity (non-GAAP)	430,859	393,042	358,211	321,530	302,403
Total assets (GAAP basis)	4,964,686	4,533,190	4,526,702	4,119,994	4,114,339
Less: goodwill and other intangible assets and preferred equity, net of deferred tax liability	(177,530)	(178,264)	(179,211)	(168,996)	(170,126)
Tangible assets (non-GAAP)	$4,787,156	$4,354,926	$4,347,491	$3,950,998	$3,944,213
Tangible common equity/tangible assets (non-GAAP)	9.00%	9.03%	8.24%	8.14%	7.67%

Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section reviews our financial condition for each of the past two years and results of operations for each of the past three years. Certain reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. Some tables may include additional time periods to illustrate trends within our Consolidated Financial Statements. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Important Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains or incorporates statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements generally relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as "will likely result," "may," "are expected to," "is anticipated," "estimate," "forecast," "projected," "intends to" or other similar words. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including but not limited to, those identified under Risk Factors in Part I, Item 1A of this Report, the documents incorporated by reference or other important factors disclosed in this Report and from time to time in our other filings with the Securities and Exchange Commission, or SEC. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information actually known to us at that time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

These forward-looking statements are based on current expectations, estimates and projections about our business and beliefs and assumptions made by management. These Future Factors are not guarantees of our future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in these forward-looking statements.

Future Factors include:

- credit losses;
- cyber-security concerns, including an interruption or breach in the security of our information systems;
- 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, including Basel III required capital levels, and public policy changes, including environmental regulations;
- legislation affecting the financial services industry as a whole, and/or S&T or S&T Bank, in particular, including the effects of the Dodd-Frank Act;
- the outcome of pending and future litigation and governmental proceedings;
- increasing price and product/service competition, including new entrants;
- the ability to continue to introduce competitive new products and services on a timely, cost-effective basis;
- managing our internal growth and acquisitions;
- containing costs and expenses;
- reliance on significant customer relationships;
- the possibility that the anticipated benefits from acquisitions cannot be fully realized in a timely manner or at all, or that integrating future acquired operations will be more difficult, disruptive or costly than anticipated;
- general economic or business conditions, either nationally or regionally in western Pennsylvania and our other market areas, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other services;
- deterioration of the housing market and reduced demand for mortgages;
- a 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;
-

- a reemergence 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.

These are representative of the Future Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, general economic conditions, including interest rate fluctuations, and other Future Factors.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates, assumptions and judgments are based on information available as of the date of the Consolidated Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates, assumptions and judgments. Certain policies inherently are based to a greater extent on estimates, assumptions and judgments of management and, as such, have a greater possibility of producing results that could be materially different than originally reported.

Our most significant accounting policies are presented in Part II, Item 8, Note 1 Summary of Significant Accounting Policies in this Report. These policies, along with the disclosures presented in the Notes to Consolidated Financial Statements, provide information on how significant assets and liabilities are valued in the Consolidated Financial Statements and how those values are determined.

We view critical accounting policies to be those which are highly dependent on subjective or complex estimates, assumptions and judgments and where changes in those estimates and assumptions could have a significant impact on the Consolidated Financial Statements. We currently view the determination of the allowance for loan losses, or ALL, income taxes, securities valuation and goodwill and other intangible assets to be critical accounting policies. During 2014, we did not significantly change the manner in which we applied our critical accounting policies or developed related assumptions or estimates. We have reviewed these related critical accounting estimates and related disclosures with the Audit Committee.

Allowance for Loan Losses

Our loan portfolio is our largest category of assets on our Consolidated Balance Sheets. We have designed a systematic ALL methodology which is used to determine our provision for loan losses and ALL on a quarterly basis. The ALL represents management's estimate of probable losses inherent in the loan portfolio at the balance sheet date and is presented as a reserve against loans in the Consolidated Balance Sheets. The ALL is increased by a provision charged to expense and reduced by charge-offs, net of recoveries. 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. 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. For all troubled debt restructurings, or 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. Specific reserves are established based upon the following three impairment methods: 1) the present value of expected future cash flows discounted at the loan's effective interest rate, 2) the loan's observable market price or 3) the estimated fair value of the collateral if the loan is collateral dependent. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific impaired loans, including estimating the amount and timing of future cash flows, the current estimated fair value of the loan and collateral values. Our impairment evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. We obtain appraisals annually on impaired loans greater than $0.5 million.

The ALL methodology for groups of homogeneous loans, known as the general reserve or reserve for loans collectively evaluated for impairment, is comprised of both a quantitative and qualitative analysis. We first apply historical loss rates to pools of loans with similar risk characteristics. Loss rates are calculated using historical charge-offs that have occurred within each pool of loans over the loss emergence period, or LEP. The LEP is an

estimate of the average amount of time from the point at which a loss is incurred on a loan to the point at which the loss is confirmed. In general, the LEP will be shorter in an economic slowdown or recession and longer during times of economic stability or growth, as customers are better able to delay loss confirmation after a potential loss event has occurred.

In conjunction with our annual review of the ALL assumptions, we have updated our study of LEPs for our commercial portfolio segments using our loan charge-off history. Our study showed that the LEP for our Commercial Construction portfolio has lengthened and that our current estimated LEPs for the commercial real estate, or CRE, and commercial and industrial, or C&I, portfolio segments did not materially change. We estimate the LEP to be 3.5 years for CRE and commercial construction and 2.5 years for C&I. This is an increase from the prior LEPs of 1.5 years for commercial construction. We believe that the LEPs for the consumer portfolio segments have also lengthened as they are influenced by the same improvement in economic conditions that has impacted the commercial portfolio segments over the past two years. We therefore also lengthened the LEP assumption for the consumer portfolio to two years. This is an increase from prior LEPs of one and a half years for the consumer portfolio segment.

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Item 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Another key assumption is the look-back period, or LBP, which represents the historical data period utilized to calculate loss rates. We lengthened the LBP for C&I, commercial construction and the consumer loan portfolio segments in order to capture relevant historical data believed to be reflective of losses inherent in the portfolios. We use a five and one quarter years LBP for our commercial portfolio segments and a three and one quarter years LBP for our consumer portfolio segments.

After consideration of the historic loss calculations, management applies additional qualitative adjustments so that the ALL is reflective of the inherent losses that exist in the loan portfolio at the balance sheet date. Qualitative adjustments are made based upon changes in economic conditions, loan portfolio and asset quality data and credit process changes, such as credit policies or underwriting standards. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

The changes made to the ALL assumptions were applied prospectively and did not result in a material change to the total ALL. Lengthening the LEP does increase the historical loss rates and therefore the quantitative component of the ALL. We believe this makes the quantitative component of the ALL more reflective of inherent losses that exist within the loan portfolio, which resulted in a decrease in the qualitative component of the ALL. The ALL at December 31, 2014 reflects these changes within the C&I, commercial construction and consumer portfolio segments.

At December 31, 2014, approximately 83 percent of the ALL related to the commercial loan portfolio. Commercial loans represent 75 percent of total portfolio loans. Commercial loans have been more impacted by the economic slowdown in our markets. The ability of customers to repay commercial loans is more dependent upon the success of their businesses, continuing income and general economic conditions. The risk of loss is higher on such loans compared to consumer loans, which have incurred lower losses in our market.

Our ALL Committee meets quarterly to verify the overall adequacy of the ALL. Additionally, on an annual basis, the ALL Committee meets to validate our ALL model. This validation includes reviewing the pools of loans to ensure the segmentation results in relevant homogeneous pools of loans. The ALL Committee reviews the LEP and LBP used to calculate the loss rates. Further, the ALL Committee reviews the qualitative factors to ensure that both the categories and the range of qualitative adjustments remain appropriate. As a result of this ongoing monitoring process, we may make changes to our ALL methodology to be responsive to the economic environment.

Although we believe our process for determining the ALL adequately considers all of the factors that would likely result in credit losses, the process includes subjective elements and may be susceptible to significant change. To the extent actual losses are higher than management estimates, additional provisions for loan losses could be required and could adversely affect our earnings or financial position in future periods.

Income Taxes

We estimate income tax expense based on amounts expected to be owed to the tax jurisdictions where we conduct business. The laws are complex and subject to different interpretations by us and various taxing authorities. On a quarterly basis, we assess the reasonableness of our effective tax rate based upon our current estimate of the amount and components of pre-tax income, tax credits and the applicable statutory tax rates expected for the full year.

We determine deferred income tax assets and liabilities using the asset and liability method, and we report them in other assets or other liabilities, as appropriate, in the Consolidated Balance Sheets. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities and recognizes enacted changes in tax rate and laws. When deferred tax assets are recognized, they are subject to a valuation allowance based on management’s judgment as to whether realization is more likely than not.

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in other assets or other liabilities, as appropriate, in the Consolidated Balance Sheets. We evaluate and assess the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintain tax accruals consistent with the evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the

status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance. These changes, when they occur, can affect deferred taxes and accrued taxes, as well as the current period's income tax expense and can be significant to our operating results.

Tax positions are recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

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Securities Valuation

We determine the appropriate classification of securities at the time of purchase. All securities, including both debt and equity securities, are classified as available-for-sale. These securities are carried at fair value with net unrealized gains and losses deemed to be temporary and are reported separately as a component of other comprehensive income (loss), net of tax. Realized gains and losses on the sale of available-for-sale securities and other-than-temporary impairment, or OTTI, charges are recorded within noninterest income in the Consolidated Statements of Net Income. Realized gains and losses on the sale of securities are determined using the specific-identification method.

We perform a quarterly review of our securities to identify those that may indicate an OTTI. Our policy for OTTI within the marketable equity securities portfolio generally requires an impairment charge when the security is in a loss position for 12 consecutive months, unless facts and circumstances would suggest the need for an OTTI prior to that time. Our policy for OTTI within the debt securities portfolio is based upon a number of factors, including but not limited to, the length of time and extent to which the estimated fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the best estimate of the impairment charge representing credit losses, the likelihood of the security's ability to recover any decline in its estimated fair value and whether we intend to sell the investment security or if it is more likely than not that we will be required to sell the security prior to the security's recovery. If the impairment is considered other-than-temporary based on management's review, the impairment must be separated into credit and non-credit portions. The credit component is recognized in the Consolidated Statements of Net Income and the non-credit component is recognized in other comprehensive income (loss), net of applicable taxes. If the financial markets experience deterioration, charges to income could occur in future periods.

Goodwill and Other Intangible Assets

As a result of acquisitions, we have recorded goodwill and identifiable intangible assets in our Consolidated Balance Sheets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. We account for business combinations using the acquisition method of accounting.

Goodwill relates to value inherent in the Community Banking and Insurance reporting units and that value is dependent upon our ability to provide quality, cost-effective services in the face of competition from other market participants. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of our services. As such, goodwill value is supported ultimately by profitability that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill, which could adversely impact our earnings in future periods.

We have three reporting units: Community Banking, Insurance and Wealth Management. The carrying value of goodwill is tested annually for impairment each October 1st or more frequently if it is determined that a triggering event has occurred. We first assess qualitatively whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Our qualitative assessment considers such factors as macroeconomic conditions, market conditions specifically related to the banking industry, our overall financial performance and various other factors. If we determine that it is more likely than not that the fair value is less than the carrying amount, we proceed to test for impairment. The evaluation for impairment involves comparing the current estimated fair value of each reporting unit to its carrying value, including goodwill. If the current estimated fair value of a reporting unit exceeds its carrying value, no additional testing is required and an impairment loss is not recorded. If the estimated fair value of a reporting unit is less than the carrying value, further valuation procedures are performed that could result in impairment of goodwill being recorded. Further valuation procedures would include allocating the estimated fair value to all assets and liabilities of the reporting unit to determine an implied goodwill value. If the implied value of goodwill of a reporting unit is less than the carrying amount of that goodwill, an impairment loss is recognized in an amount equal to that excess. We completed the annual goodwill impairment assessment as required in 2014, 2013 and

2012; the results indicated that the fair value of each reporting unit exceeded the carrying value.

Based upon our qualitative assessment performed for our annual impairment analysis, we concluded that it is more likely than not that the fair value of the reporting units exceeds the carrying value. Both the national economy and the local economies in our markets have stabilized. General economic activity and key indicators such as housing and unemployment continue to show improvement. While still challenging, the banking environment continues to improve with fewer bank failures, better asset quality, improved earnings and generally better stock prices. Activity in mergers and acquisitions demonstrated that there is premium value of banking franchises and a number of banks of our size have been able to access the capital markets over the past year. Our stock price has increased, and our stock has traded above book value throughout 2014. Additionally, our overall performance has improved, and we have not identified any other facts or circumstances that would cause us to conclude that it is more likely than not that the fair value of each of the reporting units would be less than the carrying value of the reporting unit.

We determine the amount of identifiable intangible assets based upon independent core deposit and insurance contract valuations at the time of acquisition. Intangible assets with finite useful lives, consisting primarily of core deposit and customer

list intangibles, are amortized using straight-line or accelerated methods over their estimated weighted average useful lives, ranging from 10 to 16 years. Intangible assets with finite useful lives are evaluated for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. No such events or changes in circumstances occurred during the years ended December 31, 2014, 2013 and 2012.

The financial services industry and securities markets can be adversely affected by declining values. If economic conditions result in a prolonged period of economic weakness in the future, our business segments, including the Community Banking segment, may be adversely affected. In the event that we determine that either our goodwill or finite lived intangible assets are impaired, recognition of an impairment charge could have a significant adverse impact on our financial position or results of operations in the period in which the impairment occurs.

Recent Accounting Pronouncements and Developments

Note 1 Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements, which is included in Part II, Item 8 of this Report, discusses new accounting pronouncements that we adopted and the expected impact of accounting pronouncements recently issued or proposed, but not yet required to be adopted.

Executive Overview

We are a bank holding company headquartered in Indiana, Pennsylvania with assets of $5.0 billion at December 31, 2014. We provide a full range of financial services through offices in 12 Pennsylvania counties with retail and commercial banking products, cash management services, trust and brokerage services and insurance. We also have two loan production offices, or LPOs, in northeast and central Ohio. 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. Offsetting these revenues are 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 growth within our current footprint and growth through market expansion. We also actively evaluate acquisition opportunities that, if successful, can be another source of growth. Our strategic plan includes a collaborative model that combines expertise from all of our business segments and focuses on satisfying each customer's individual financial objectives.

During 2014, we successfully executed on our organic growth strategy through growth in our current footprint and by expanding into new markets. We opened an LPO in central Ohio on March 24, 2014. On June 18, 2014, we opened a new branch with a team of experienced banking professionals in State College, Pennsylvania. most recently, on January 14, 2015, we announced our planned expansion into western New York. During 2014, we grew our business organically with portfolio loans increasing $302.5 million, or 8.5 percent, compared to December 31, 2013. Our expansion into Ohio, with the establishment of two LPOs, has been very successful and contributed approximately $146.0 million, or
48 percent, of our total loan growth in 2014. Further driving loan growth was the expansion of our sales team with the addition of commercial lenders in various markets throughout 2014.

On October 29, 2014, we entered into a definitive agreement to acquire Integrity Bancshares, Inc., or Integrity, based in Camp Hill, Pennsylvania. Integrity had approximately $844.0 million in assets at December 31, 2014 and maintains eight branches across four counties. The acquisition will expand our footprint into south-central Pennsylvania. The transaction was valued at approximately $155.0 million and is expected to close in the first quarter of 2015 after satisfaction of customary closing conditions. As soon as practicable following the merger, Integrity Bank, a Pennsylvania state-chartered bank subsidiary of Integrity, will be merged with and into S&T Bank with S&T Bank continuing as the surviving bank. The bank merger is expected to close in the second quarter of 2015. However, for a period of at least three years following the merger, S&T Bank intends to operate bank branches in the markets

currently served by Integrity Bank using the name "Integrity Bank - A Division of S&T Bank".
Net income for 2014 increased $7.4 million, or 14.6 percent, to $57.9 million, or $1.95 per diluted share, compared to $50.5 million, or $1.70 per diluted share for 2013. Return on average assets increased 10 basis points to 1.22 percent compared to 1.12 percent for 2013 and return on average equity increased 50 basis points to 9.71 percent compared to 9.21 percent for 2013. The improvement in earnings was primarily due to an increase in net interest income of $8.8 million, or 6.4 percent, and a decrease in the provision for loan losses of $6.6 million, or 79 percent. The increase in net interest income was primarily due to strong average loan growth of $259.3 million during 2014 and lower funding costs. Net interest margin, on a FTE basis, was unchanged at 3.50 percent for both 2014 and 2013. The provision for loan losses decreased due to a significant improvement in asset quality with only $0.1 million in net charge-offs in 2014. Despite significant growth in 2014, expenses remained well controlled with a decrease of $0.2 million. Our success in 2014 was a result of our ability to execute on our key strategic initiatives of loan growth, improving asset quality and expense control.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Asset quality continued to improve throughout 2014 resulting in a $6.6 million, or 79 percent, decline in the provision for loan losses from the prior year. Net charge-offs decreased $8.5 million to only $0.1 million from the prior year. Total nonperforming loans were $12.5 million, or 0.32 percent of total loans, at December 31, 2014, which represents a 45 percent decrease from $22.5 million, or 0.63 percent of total loans at December 31, 2013. Special mention and substandard loans also decreased $49.1 million, or 26 percent, to $138.6 million from $187.7 million at December 31, 2013. This significant improvement in asset quality was due to the continued improvement of the economic conditions in our markets and a strategic focus on actively managing and bringing to resolution our problem loans.
Our focus continues to be on loan and deposit growth and implementing opportunities to increase fee income while maintaining a strong expense discipline. The low interest rate environment will continue to challenge our net interest income, but our organic growth will help to mitigate the impact. We plan to evaluate new markets and strive to replicate the success of our LPOs in northeast and central Ohio. Our focus is also on maintaining and attracting new sales personnel to execute on our loan and fee growth strategies. Our capital position remains strong and we are well positioned to take advantage of acquisition opportunities as they arise.

Results of Operations
Year Ended December 31, 2014
Earnings Summary
Net income available to common shareholders increased $7.4 million, or 14.6 percent, to $57.9 million or $1.95 per share in 2014 compared to $50.5 million or $1.70 per share in 2013. The increase in net income was primarily due to an increase in net interest income of $8.8 million, or 6.4 percent and a $6.6 million, or 79 percent, decrease in the provision for loan losses.
Net interest income increased $8.8 million, or 6.4 percent, to $148.0 million compared to $139.2 million in 2013. The increase in net interest income is mainly due to interest earning asset growth and lower funding costs. Total average interest earning assets increased $275.5 million, or 6.7 percent, compared to 2013. The increase was driven by higher average loans, which is due to our successful efforts in growing our loan portfolio organically over the past year. Net interest margin, on a FTE basis, was unchanged at 3.50 percent for both 2014 and 2013.
The provision for loan losses decreased $6.6 million, or 79 percent, to $1.7 million during 2014 compared to $8.3 million in 2013. The lower provision for loan losses was due to improving economic conditions in our markets which have positively impacted our asset quality metrics in all categories, including decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio. Net loan charge-offs were only $0.1 million for 2014 compared to $8.5 million in 2013.
Total noninterest income decreased $5.2 million, or 10.1 percent, to $46.3 million for 2014 compared to $51.5 million for 2013. The decrease in noninterest income was primarily related to a $3.1 million gain on the sale of our merchant card servicing business that occurred in 2013. Mortgage banking income decreased $1.2 million, or 57 percent, due to higher interest rates in 2014 compared to 2013, resulting in a decrease in the volume of loans being originated and sold. Interest rate swap fees with our commercial customers decreased $0.6 million, or 57 percent, due to a decline in customer demand for this product. These decreases were partially offset by an increase in our wealth management fees of $0.6 million, or 6 percent, due to new business development efforts and certain fee increases.
Total noninterest expense decreased $0.2 million to $117.2 million for 2014 compared to $117.4 million for 2013. Despite significant growth in 2014, expenses were well controlled. Notable declines were a decrease of $2.1 million for pension expense resulting from a change in actuarial assumptions used to calculate our pension liability and a $0.8 million decrease in other taxes due to legislative changes that resulted in a reduction in Pennsylvania shares tax. These decreases were offset by relatively small increases in various expense items in numerous categories.
The provision for income taxes increased $3.0 million to $17.5 million compared to $14.5 million in 2013. The increase is primarily due to a $10.4 million increase in pretax income.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

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. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 76 percent of operating revenue (net interest income plus noninterest income, excluding security gains/losses and non-recurring income and expenses) in 2014 and 74 percent of operating revenue in 2013. Refer to page 52 Explanation of Use of Non-GAAP Financial Measures for a discussion of operating revenue as a non-GAAP financial measure. 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 maintain an acceptable net interest margin on interest-earning assets.

The interest income on interest-earning assets and the net interest margin are presented on a fully taxable-equivalent, or 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 measure to be the preferred industry measurement of net interest income that provides a relevant comparison between taxable and non-taxable amounts.

The following table reconciles interest income and interest rates per the Consolidated Statements of Net Income to net interest income and rates adjusted to a FTE basis for the periods presented:

	Years Ended December 31,		
(dollars in thousands)	2014	2013	2012
Total interest income	$160,523	$153,756	$156,251
Total interest expense	12,481	14,563	21,024
Net interest income per consolidated statements of net income	148,042	139,193	135,227
Adjustment to FTE basis	5,461	4,850	4,471
Net Interest Income (FTE) (non-GAAP)	$153,503	$144,043	$139,698
Net interest margin	3.38 %	3.39 %	3.45 %
Adjustment to FTE basis	0.12	0.11	0.12
Net Interest Margin (FTE) (non-GAAP)	3.50 %	3.50 %	3.57 %

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Average Balance Sheet and Net Interest Income Analysis

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 years ended December 31:

	2014			2013			2012		
(dollars in thousands)	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
ASSETS									
Loans[(1)(2)]	$3,707,808	$150,531	4.06 %	$3,448,529	$145,366	4.22 %	$3,213,018	$147,819	4.59 %
Interest-bearing deposits with banks	92,972	234	0.25 %	167,952	444	0.26 %	289,947	718	0.25 %
Taxable investment securities[(3)]	443,186	8,803	1.99 %	371,099	7,458	2.01 %	291,483	7,346	2.52 %
Tax-exempt investment securities[(2)]	128,750	5,933	4.61 %	110,009	5,231	4.76 %	95,382	4,802	5.03 %
Federal Home Loan Bank and other restricted stock	14,083	483	3.43 %	13,692	107	0.78 %	17,945	37	0.21 %
Total Interest-earning Assets	4,386,799	165,984	3.78 %	4,111,281	158,606	3.86 %	3,907,775	160,722	4.10 %
Noninterest-earning assets:									
Cash and due from banks	50,255			51,534			53,517		
Premises and equipment, net	36,115			37,087			38,460		
Other assets	337,205			353,857			361,982		
Less allowance for loan losses	(48,011)			(47,967)			(49,196)		
Total Assets	$4,762,363			$4,505,792			$4,312,538		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Interest-bearing demand	$321,907	$70	0.02 %	$309,748	$75	0.02 %	$306,994	$146	0.05 %
Money market	321,294	507	0.16 %	319,831	446	0.14 %	308,719	528	0.17 %
Savings	1,033,482	1,607	0.16 %	1,001,209	1,735	0.17 %	902,889	2,356	0.26 %
Certificates of deposit	905,346	7,165	0.79 %	973,339	8,918	0.92 %	1,078,945	13,715	1.27 %
Brokered deposits	226,169	780	0.34 %	81,112	232	0.29 %	25,317	51	0.20 %
Total Interest-bearing	2,808,198	10,129	0.36 %	2,685,239	11,406	0.42 %	2,622,864	16,796	0.64 %

deposits									
Securities sold under repurchase agreements	28,372	2	0.01 %	54,057	62	0.12 %	47,388	82	0.17 %
Short-term borrowings	164,811	511	0.31 %	101,973	279	0.27 %	50,212	123	0.24 %
Long-term borrowings	20,571	617	3.00 %	24,312	746	3.07 %	33,841	1,107	3.26 %
Junior subordinated debt securities	45,619	1,222	2.68 %	65,989	2,070	3.14 %	90,619	2,916	3.21 %
Total Interest-bearing Liabilities	3,067,571	12,481	0.41 %	2,931,570	14,563	0.50 %	2,844,924	21,024	0.74 %
Noninterest-bearing liabilities:									
Noninterest-bearing demand	1,046,606			955,475			877,056		
Other liabilities	52,031			69,976			73,746		
Shareholders’ equity	596,155			548,771			516,812		
Total Liabilities and Shareholders’ Equity	$4,762,363			$4,505,792			$4,312,538		
Net Interest Income(2)(3)		$153,503			$144,043			$139,698	
Net Interest Margin(2)(3)			3.50 %			3.50 %			3.57 %

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

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

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

(dollars in thousands)	2014 Compared to 2013 Increase (Decrease) Due to			2013 Compared to 2012 Increase (Decrease) Due to		
	Volume[4]	Rate[4]	Net	Volume[4]	Rate[4]	Net
Interest earned on:						
Loans[1][2]	$10,929	$(5,764)	$5,165	$10,835	$(13,288)	$(2,453)
Interest-bearing deposits with bank	(198)	(12)	(210)	(302)	28	(274)
Taxable investment securities[3]	1,449	(104)	1,345	2,007	(1,895)	112
Tax-exempt investment securities[2]	891	(189)	702	735	(306)	429
Federal Home Loan Bank and other restricted stock	3	374	377	(8)	78	70
Total Interest-earning Assets	13,074	(5,695)	7,379	13,267	(15,383)	(2,116)
Interest paid on:						
Interest-bearing demand	$3	$(8)	$(5)	$1	$(72)	$(71)
Money market	2	59	61	19	(101)	(82)
Savings	56	(184)	(128)	257	(878)	(621)
Certificates of deposit	(623)	(1,130)	(1,753)	(1,343)	(3,454)	(4,797)
Brokered deposits	415	133	548	112	69	181
Securities sold under repurchase agreements	(30)	(29)	(59)	12	(32)	(20)
Short-term borrowings	172	60	232	126	30	156
Long-term borrowings	(115)	(14)	(129)	(311)	(50)	(361)
Junior subordinated debt securities	(639)	(209)	(848)	(792)	(54)	(846)
Total Interest-bearing Liabilities	(759)	(1,322)	(2,081)	(1,919)	(4,542)	(6,461)
Net Change in Net Interest Income	$13,833	$(4,373)	$9,460	$15,186	$(10,841)	$4,345

(1) Nonaccruing loans are included in the daily average loan amounts outstanding.
(2) Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent.
(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.

Net interest income on a FTE basis increased $9.5 million, or 6.6 percent, to $153.5 million compared to $144.0 million in 2013. Net interest margin on a FTE basis remained unchanged at 3.50 percent compared to 2013. The increase in interest income of $7.4 million, or 4.7 percent, was mainly driven by the $275.5 million increase in interest-earning assets compared to 2013. The interest-earning asset balance increase is mainly attributable to loan growth. Average loan balances increased by $259.3 million compared to 2013 as a result of organic growth, primarily in our commercial loan portfolio. Due to the continued low interest rate environment the rate earned on loans decreased 16 basis points compared to 2013. Average interest-bearing deposits with banks, which is primarily cash at the Federal Reserve, decreased $75.0 million compared to 2013. Average investment securities, including Federal Home Loan Bank, or FHLB, and other restricted stock, increased $91.2 million compared to 2013. Deployment of excess cash at the Federal Reserve to higher yielding investment securities and an increase in the FHLB dividend rate had a positive impact on the interest-earning asset rate. Overall, the FTE rate on total interest-earning assets decreased

8 basis points to 3.78 percent compared to 2013.

Interest expense decreased $2.1 million to $12.5 million for 2014 as compared to $14.6 million for 2013. The decrease in interest expense is mainly due to a shift in the mix of our interest-bearing liabilities from higher rate certificates of deposits, or CDs, to lower cost deposits and borrowings. Total interest-bearing deposits increased $123.0 million in 2014 compared to 2013. Higher interest-bearing deposits are due to an increase of $145.1 million in brokered deposits and an increase of $45.9 million in interest-bearing demand, money market and savings balances offset by a decrease in CDs of $68.0 million compared to 2013. The cost of total interest-bearing deposits decreased 6 basis points to 0.36 percent for 2014 compared to 0.42 percent for 2013. The decrease in the cost of interest-bearing deposits was mainly due to the maturity of higher rate CDs being replaced by lower rate deposits. In addition to a shift in the mix of our interest-bearing liabilities, interest expense for 2014 also decreased due to the redemption of $45.0 million of subordinated debt during the second quarter of 2013. Interest expense on average borrowings declined by $0.8 million in 2014 compared to 2013. Overall, the cost of interest-bearing liabilities decreased 9 basis points to 0.41 percent in 2014 as compared to 0.50 percent in 2013.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Provision for Loan Losses

The provision for loan losses is the amount to be added to the ALL after adjusting for charge-offs and recoveries to bring the ALL to a level considered appropriate to absorb probable losses inherent in the loan portfolio. The provision for loan losses decreased $6.6 million, or 79 percent, to $1.7 million for 2014 compared to $8.3 million for 2013. The decrease is due to continued improvement in the economic conditions in our markets which resulted in a significant improvement in our asset quality. Net charge-offs were only $0.1 million, or zero percent of average loans in 2014, compared to $8.5 million, or
0.25 percent of average loans in 2013. Total nonperforming loans were $12.5 million, or 0.32 percent of total loans at December 31, 2014, which represents a 45 percent decrease from $22.5 million, or 0.63 percent of total loans at December 31, 2013. Special mention and substandard commercial loans also decreased $50.8 million, or 31 percent, to
$112.2 million from $163.0 million at December 31, 2013. Refer to the Allowance for Loan Losses section of this Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, for further details.

Noninterest Income

	Years Ended December 31,			
(dollars in thousands)	2014	2013	$ Change	% Change
Securities gains, net	$41	$5	$36	NM
Wealth management fees	11,343	10,696	647	6.0 %
Debit and credit card fees	10,781	10,931	(150)	(1.4)%
Service charges on deposit accounts	10,559	10,488	71	0.7 %
Insurance fees	5,955	6,248	(293)	(4.7)%
Gain on sale of merchant card servicing business	—	3,093	(3,093)	— %
Mortgage banking	917	2,123	(1,206)	(56.8)%
Other Income:				
BOLI income	1,773	1,856	(83)	(4.5)%
Letter of credit origination fees	1,017	1,098	(81)	(7.4)%
Interest rate swap fees	440	1,012	(572)	(56.5)%
Other	3,512	3,977	(465)	(11.7)%
Total Other Noninterest Income	6,742	7,943	(1,201)	(15.1)%
Total Noninterest Income	$46,338	$51,527	$(5,189)	(10.1)%

NM- percentage not meaningful

Noninterest income decreased $5.2 million, or 10.1 percent, in 2014 compared to 2013. The decrease primarily related to the sale of our merchant card servicing business in 2013 combined with decreases in mortgage banking and other noninterest income. These decreases were partially offset by an increase in wealth management fees.

During the first quarter of 2013, we sold our merchant card servicing business for $4.8 million and paid deconversion and termination fees of $1.7 million to the merchant processor resulting in a net gain of $3.1 million. In conjunction with the sale of the merchant card servicing business, we entered into a marketing and sales alliance agreement with the purchaser, providing transition fees, royalties and referral revenue. Income from the marketing and sales alliance agreement is included in debit and credit card fees.

Mortgage banking income decreased $1.2 million in 2014 compared to 2013 due to an increase in mortgage rates that occurred in the second quarter of 2013, resulting in a decrease in the volume of loans originated for sale in the secondary market, less favorable pricing on loan sales and also impacted the valuation of our mortgage servicing rights, or MSRs, asset. During the year ended December 31, 2014, we sold 33 percent fewer mortgages with $42.0 million in loan sales compared to $62.9 million during 2013. We maintain the servicing rights when selling our loans

and experienced a minor impairment on our MSR asset in 2014 compared to an impairment recapture of $0.8 million in 2013.

Interest rate swap fees from our commercial customers decreased $0.6 million compared to the prior year due to a decline in customer demand for this product. The decrease in other noninterest income of $0.5 million for year ended December 31, 2014 was primarily attributable to a change in the valuation of our rabbi trust related to a deferred compensation plan, which has a corresponding offset in salaries and benefit expense resulting in no impact to net income. Wealth management fees increased $0.6 million due to higher assets under management, new business development efforts and fee increases.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Noninterest Expense

	Years Ended December 31,			
(dollars in thousands)	2014	2013	$ Change	% Change
Salaries and employee benefits	$60,442	$60,847	$(405)	(0.7)%
Data processing	8,737	8,263	474	5.7%
Net occupancy	8,211	8,018	193	2.4%
Furniture and equipment	5,317	4,883	434	8.9%
Professional services and legal	3,717	4,184	(467)	(11.2)%
Marketing	3,316	2,929	387	13.2%
Other taxes	2,905	3,743	(838)	(22.4)%
FDIC insurance	2,436	2,772	(336)	(12.1)%
Merger related expense	689	838	(149)	(17.8)%
Other expenses:				
Joint venture amortization	4,054	4,095	(41)	(1.0)%
Loan related expenses	2,579	2,432	147	6.0%
Telecommunications	2,220	1,691	529	31.3%
Supplies	1,161	1,130	31	2.7%
Amortization of intangibles	1,129	1,591	(462)	(29.0)%
Postage	1,058	970	88	9.1%
Other	9,269	9,006	263	2.9%
Total Other Noninterest Expense	21,470	20,915	555	2.7%
Total Noninterest Expense	$117,240	$117,392	$(152)	(0.1)%

Noninterest expense remained relatively unchanged during 2014. Increases in data processing, furniture and equipment, marketing and telecommunication expenses were offset by decreases in salaries and employee benefits, professional services and legal, other taxes, amortization of intangibles and Federal Deposit Insurance Corporation, or FDIC, insurance.

The increase of $0.5 million in data processing expense in 2014 primarily related to the implementation of a new teller platform and software that significantly strengthens the authentication of our customers that use our online banking product. The increase of $0.4 million in furniture and equipment is due to purchases of furniture and equipment for our newly opened locations, including our LPO in central Ohio, our branch in State College, Pennsylvania and our new training and operations center. The increase in marketing expense of $0.4 million is due to additional marketing promotions and the transition to a new marketing agency during 2014. Telecommunication expense increased $0.5 million due to a network upgrade.

Salaries and employee benefits decreased $0.4 million during 2014 primarily due to a $2.1 million reduction in pension expense resulting from a change in actuarial assumptions used to calculate our pension liability, offset by an increase of $1.8 million in incentive expense due to our strong performance in 2014. Professional services and legal expense decreased $0.5 million primarily due to additional external accounting and consulting charges that were incurred in 2013. Other taxes decreased $0.8 million during 2014 due to legislative changes that resulted in a reduction in Pennsylvania shares tax expense. FDIC insurance charges are based in part on our financial ratios which have improved, resulting in a decrease in our assessment of $0.3 million. Amortization of intangibles related to former acquisitions decreased $0.5 million during 2014 due to the core deposit intangible, or CDI, for one of those acquisitions being fully amortized at the end of 2013.

Our efficiency ratio, which measures noninterest expense as a percent of noninterest income plus net interest income, on a FTE basis, excluding security gains/losses, was 59 percent for 2014 and 60 percent for 2013. Refer to page 57 Explanation of Use of Non-GAAP Financial Measures for a discussion of this non-GAAP financial measure.

Federal Income Taxes

We recorded a federal income tax provision of $17.5 million in 2014 compared to $14.5 million in 2013. The effective tax rate, which is the provision for income taxes as a percentage of pretax income was 23.2 percent in 2014 compared to 22.3 percent in 2013. We ordinarily generate an annual effective tax rate that is less than the statutory rate of 35 percent due to benefits resulting from tax-exempt interest, excludable dividend income, tax-exempt income on bank owned life insurance, or BOLI, and tax benefits associated with Low Income Housing Tax Credits, or LIHTC. The increase to our effective tax rate was primarily due to an increase of $10.4 million in pre-tax income which diluted the permanent benefits listed above.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Results of Operations

Year Ended December 31, 2013

Earnings Summary

Net income available to common shareholders increased $16.3 million, or 48 percent, to $50.5 million or $1.70 per share in 2013 compared to $34.2 million or $1.18 per share in 2012. The increase in net income was primarily due to higher net interest income of $4.0 million, or three percent, a $14.5 million, or 64 percent, decrease in the provision for loan losses and a $5.5 million, or four percent, decrease in noninterest expense. The common return on average assets increased from 0.79 percent at December 31, 2012 to 1.12 percent at December 31, 2013, and the common return on average equity rose to 9.21 percent at December 31, 2013, from 6.62 percent at December 31, 2012.

Net interest income increased $4.0 million to $139.2 million compared to $135.2 million in 2012 due to improvement in our funding costs along with an increase in average interest earning assets of $203.5 million, or 5.2 percent. The increase in earning assets resulted from higher average loans outstanding due to strong organic loan growth in 2013 and our two acquisitions in 2012.

The provision for loan losses decreased $14.5 million to $8.3 million during 2013 compared to $22.8 million in 2012. The decrease in the provision for loan losses for the year is a result of the improving economic conditions which have positively impacted our asset quality metrics in all categories, including decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio. Net loan charge-offs decreased 66 percent to $8.5 million in 2013 compared to $25.2 million in 2012.

Total noninterest income was relatively unchanged at $51.5 million for the year ended December 31, 2013 compared to $51.9 million for 2012. The decrease of $0.4 million was primarily due to a $3.0 million gain on the sale of securities in 2012, $0.8 million decrease in mortgage banking and $1.0 million decrease other noninterest income. These decreases were offset by a $3.1 million net gain from the sale of our merchant card servicing business and other increases in wealth management income, services charges on deposits and insurance income.

Total noninterest expense decreased $5.5 million to $117.4 million for the year ended 2013 compared to $122.9 million for 2012. Professional services and legal decreased $1.5 million, data processing decreased $0.6 million and other noninterest expense decreased $4.1 million. These decreases were primarily a result of a $5.1 million decrease in merger related expenses that were incurred in 2012 as well as expense control initiatives implemented throughout 2013. The decrease in other noninterest expense was primarily in other real estate owned, or OREO, and unfunded loan commitments. These decreases were offset by increases in salaries and benefits, which increased $0.6 million, net occupancy, which increased $0.4 million and other taxes, which increased $0.5 million from 2012. These increases are due to growth from our acquisitions and the expansion of loan production into Ohio in 2012.

The $23.6 million increase in pretax income resulted in an increase of $7.2 million in the provision for income taxes of $14.5 million in 2013 compared to $7.3 million in 2012.

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. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 74 percent of operating revenue (net interest income plus noninterest income, excluding security gains/losses and non-recurring income and expenses) in 2013 and 73 percent of operating revenue in 2012. Refer to page 65 Explanation of Use of Non-GAAP Financial Measures for a discussion of operating revenue as a non-GAAP financial measure. The level and mix of interest-earning assets and interest-bearing liabilities are managed by our 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 maintain an acceptable net interest margin.

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

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

The following table reconciles net interest income and net interest margin from a GAAP to a non-GAAP basis for the years presented:

	Years Ended December 31,		
(dollars in thousands)	2013	2012	2011
Total interest income	$153,756	$156,251	$165,079
Total interest expense	14,563	21,024	27,733
Net interest income per consolidated statements of net income	139,193	135,227	137,346
Adjustment to FTE basis	4,850	4,471	4,154
Net Interest Income (FTE) (non-GAAP)	$144,043	$139,698	$141,500
Net interest margin	3.39 %	3.45 %	3.72 %
Adjustment to FTE basis	0.11	0.12	0.11
Net Interest Margin (FTE) (non-GAAP)	3.50 %	3.57 %	3.83 %

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Average Balance Sheet and Net Interest Income Analysis

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 years ended December 31:

	2013			2012			2011		
(dollars in thousands)	Average Balance	Interest	Rate	Average Balance	Interest	Rate	Average Balance	Interest	Rate
ASSETS									
Loans[(1)(2)]	$3,448,529	$145,366	4.22 %	$3,213,018	$147,819	4.59 %	$3,216,856	$156,845	4.88 %
Interest-bearing deposits with banks	167,952	444	0.26 %	289,947	718	0.25 %	123,714	302	0.24 %
Taxable investment securities[(3)]	371,099	7,458	2.01 %	291,483	7,346	2.52 %	270,805	8,471	3.13 %
Tax-exempt investment securities[(2)]	110,009	5,231	4.76 %	95,382	4,802	5.03 %	64,357	3,611	5.61 %
Federal Home Loan Bank and other restricted stock	13,692	107	0.78 %	17,945	37	0.21 %	20,856	4	0.02 %
Total Interest-earning Assets	4,111,281	158,606	3.86 %	3,907,775	160,722	4.10 %	3,696,588	169,233	4.58 %
Noninterest-earning assets:									
Cash and due from banks	51,534			53,517			50,458		
Premises and equipment, net	37,087			38,460			38,425		
Other assets	353,857			361,982			344,378		
Less allowance for loan losses	(47,967)			(49,196)			(57,241)		
Total Assets	4,505,792			4,312,538			4,072,608		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Interest-bearing demand	309,748	75	0.02 %	306,994	146	0.05 %	286,588	363	0.13 %
Money market	319,831	446	0.14 %	308,719	528	0.17 %	249,497	376	0.15 %
Savings	1,001,209	1,735	0.17 %	902,889	2,356	0.26 %	761,274	1,267	0.17 %
Certificates of deposit	1,054,451	9,150	0.87 %	1,104,262	13,766	1.24 %	1,181,823	20,946	1.77 %
Total Interest-bearing deposits	2,685,239	11,406	0.42 %	2,622,864	16,796	0.64 %	2,479,182	22,952	0.93 %

Securities sold under repurchase agreements	54,057	62	0.12 %	47,388	82	0.17 %	41,584	53	0.13 %
Short-term borrowings	101,973	279	0.27 %	50,212	123	0.24 %	551	2	0.32 %
Long-term borrowings	24,312	746	3.07 %	33,841	1,107	3.26 %	31,651	1,091	3.45 %
Junior subordinated debt securities	65,989	2,070	3.14 %	90,619	2,916	3.21 %	90,619	3,635	4.01 %
Total Interest-bearing Liabilities	2,931,570	14,563	0.50 %	2,844,924	21,024	0.74 %	2,643,587	27,733	1.05 %
Noninterest-bearing liabilities:									
Noninterest-bearing demand	955,475			877,056			792,911		
Other liabilities	69,976			73,746			50,924		
Shareholders’ equity	548,771			516,812			585,186		
Total Liabilities and Shareholders’ Equity	$4,505,792			$4,312,538			$4,072,608		
Net Interest Income(2)(3)		$144,043			$139,698			$141,500	
Net Interest Margin(2)(3)			3.50 %			3.57 %			3.83 %

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

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

(dollars in thousands)	2013 Compared to 2012 Increase (Decrease) Due to			2012 Compared to 2011 Increase (Decrease) Due to		
	Volume[4]	Rate[4]	Net	Volume[4]	Rate[4]	Net
Interest earned on:						
Loans[1][2]	$10,835	$(13,288)	$(2,453)	$(187)	$(8,839)	$(9,026)
Interest-bearing deposits with bank	(302)	28	(274)	407	9	416
Taxable investment securities[3]	2,007	(1,895)	112	647	(1,772)	(1,125)
Tax-exempt investment securities[2]	735	(306)	429	1,741	(550)	1,191
Federal Home Loan Bank and other restricted stock	(8)	78	70	(1)	34	33
Total Interest-earning Assets	13,267	(15,383)	(2,116)	2,607	(11,118)	(8,511)
Interest paid on:						
Interest-bearing demand	$1	$(72)	$(71)	$26	$(243)	$(217)
Money market	19	(101)	(82)	89	63	152
Savings	257	(878)	(621)	236	853	1,089
Certificates of deposit	(622)	(3,994)	(4,616)	(1,374)	(5,806)	(7,180)
Securities sold under repurchase agreements	12	(32)	(20)	7	22	29
Short-term borrowings	126	30	156	157	(36)	121
Long-term borrowings	(311)	(50)	(361)	75	(59)	16
Junior subordinated debt securities	(792)	(54)	(846)	—	(719)	(719)
Total Interest-bearing Liabilities	(1,310)	(5,151)	(6,461)	(784)	(5,925)	(6,709)
Net Change in Net Interest Income	$14,577	$(10,232)	$4,345	$3,391	$(5,193)	$(1,802)

(1) Nonaccruing loans are included in the daily average loan amounts outstanding.
(2) Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent.
(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.

Net interest income increased $4.3 million to $144.0 million compared to $139.7 million in 2012. Net interest margin on a FTE basis decreased by 7 basis points to 3.50 percent compared to 3.57 percent in 2012. The increase in net interest income is due to the improvement in funding costs coupled with an increase of $203.5 million in average earning assets which helped to offset the impact of declining earning asset rates. The decrease in net interest margin is a result of the current low rate environment, as earning asset rates decreased faster than our ability to offset those decreases on the funding side.

Interest income decreased $2.1 million to $158.6 million in 2013 compared to $160.7 million in 2012. The decrease in interest income was primarily driven by a 37 basis point decrease in average loan rates to 4.22 percent compared to 4.59 percent in 2012. The impact from the decrease in average loan rates was offset in part by the average loan balance increase of $235.5 million. Average investment securities increased $94.2 million and interest income increased $0.5 million on investment securities compared to 2012. The interest-bearing balance with banks, which is primarily funds held at the Federal Reserve, decreased $122.0 million during 2013 as cash was used to fund loan

growth and investment securities purchases. Overall, the FTE rate on total interest-earning assets decreased 24 basis points to 3.86 percent in 2013 as compared to 4.10 percent in 2012.
Interest expense decreased $6.4 million to $14.6 million for 2013 compared to $21.0 million for 2012. The primary driver of the decrease in interest expense was the maturities of CDs bearing higher interest rates. For 2013, average interest-bearing deposits increased by $62.4 million to $2.7 billion as compared to $2.6 billion 2012. The increase in average interest-bearing deposits is attributed to a $98.3 million average balance increase in savings deposits and a $13.9 million average balance increase in interest-bearing demand and money market accounts, partially offset by an average balance decrease of $49.8 million in CDs. The cost of interest bearing deposits and the cost of total deposits including noninterest bearing demand deposits was 0.42 percent and 0.31 percent, decreases of 22 and 17 basis points from 2012, primarily due to CDs maturing and being replaced by both interest bearing and noninterest bearing demand and other lower interest rate deposits. The $24.6 million and 7 basis point decrease in junior subordinated debt is due to the early repayment of $45.0 million of junior subordinated debt during 2013. Long term borrowings decreased by $9.5 million and 19 basis points in 2013 as a result of maturities of FHLB long-term advances. Customer activity drove the $6.7 million balance increase in the securities sold under repurchase agreements, while the 5 basis point decrease was a result of lowering the product rate. Short term borrowings were utilized to replace the subordinated debt and long term debt resulting in an increase of $51.8 million from 2012. Overall, the cost of interest-bearing liabilities decreased 24 basis points to 0.50 percent for 2013 as compared to 0.74 percent for 2012.

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Provision for Loan Losses

The provision for loan losses is the amount to be added to the ALL after adjusting for charge-offs and recoveries to bring the ALL to a level considered appropriate to absorb probable losses inherent in the loan portfolio. The provision for loan losses decreased $14.5 million, or 64 percent, to $8.3 million for 2013 compared to $22.8 million for 2012. The decrease is due to better economic conditions in our markets which resulted in a significant improvement in our asset quality. Net charge-offs decreased $16.6 million, or 66 percent, from the prior year. Net charge-offs were $8.5 million, or 0.25 percent of average loans in 2013, compared to $25.2 million, or 0.78 percent of average loans in 2012. Total nonperforming loans were $22.5 million, or 0.63 percent, of total loans at December 31, 2013, which represents a 59 percent decrease from $55.0 million, or 1.63 percent of total loans at December 31, 2012. Special mention and substandard commercial loans also decreased $146.0 million, or 47 percent, to $163.0 million from $309.0 million at December 31, 2012. Refer to the Allowance for Loan Losses section of this Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, for further details.

Noninterest Income

	Years Ended December 31,			
(dollars in thousands)	2013	2012	$ Change	% Change
Securities gains, net	$5	$3,016	$(3,011)	(99.8)%
Debit and credit card fees	10,931	11,134	(203)	(1.8)%
Wealth management fees	10,696	9,808	888	9.1%
Service charges on deposit accounts	10,488	9,992	496	5.0%
Insurance fees	6,248	6,131	117	1.9%
Gain on sale of merchant card servicing business	3,093	—	3,093	—%
Mortgage banking	2,123	2,878	(755)	(26.2)%
Other Income				
BOLI income	1,856	2,317	(461)	(19.9)%
Letter of credit origination fees	1,098	1,417	(319)	(22.5)%
Interest rate swap fees	1,012	1,036	(24)	(2.3)%
Other	3,977	4,183	(206)	(4.9)%
Total Other Noninterest Income	7,943	8,953	(1,010)	(11.3)%
Total Noninterest Income	$51,527	$51,912	$(385)	(0.7)%

Noninterest income for 2013 remained relatively unchanged compared to 2012. Increases in fees from wealth management and insurance, increases in service charges on deposit accounts and the gain on the sale of our merchant card servicing business in January 2013 were offset by decreases in gains on sale of securities, debit and credit card fees, mortgage banking and other noninterest income.

We sold our merchant card servicing business for $4.8 million and paid deconversion and termination fees of $1.7 million to the merchant processor resulting in a net gain of $3.1 million. In conjunction with the sale of the merchant card servicing business, we entered into a marketing and sales alliance agreement with the purchaser, providing transition fees, royalties and referral revenue. Income from the marketing and sales alliance agreement is included in debit and credit card fees. Revenues from the marketing and sales alliance agreement of $1.7 million for 2013 were comparable to the merchant revenue included in debit and credit card fees of $1.8 million for 2012. The $0.5 million increase in service charges on deposit accounts was primarily due to increases in deposit related fees that occurred throughout 2013. Wealth management fees increased $0.9 million due to higher assets under management, primarily a result of improvements in the stock market. Further, our discount brokerage income increased due to higher commission fees in 2013 compared to 2012 as we hired additional financial advisors in 2012.

The $3.0 million decrease in security gains relates to almost no sales activity in 2013 versus the sales of two equity positions during 2012 as a result of increases in value after merger announcements. Mortgage banking income

decreased $0.8 million during 2013 compared to the previous year due to a higher interest rate environment in 2013. Interest rates increased late in the second quarter of 2013 resulting in a decrease in the volume of loans originated for sale in the secondary market and less favorable pricing on loan sales. During the year ended December 31, 2013, we sold 24 percent fewer mortgages with $62.9 million in loan sales compared to $82.9 million during 2012. The decrease in other noninterest income of $1.0 million for year ended December 31, 2013 was primarily attributed to a decrease of $0.5 million in BOLI income related to a death benefit received in 2012 and a lower rate of return on BOLI throughout 2013 and a decrease in fee income on letters of credit of $0.3 million.

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Noninterest Expense

	Years Ended December 31,			
(dollars in thousands)	2013	2012	$ Change	% Change
Salaries and employee benefits[1]	$60,847	$57,920	$2,927	5.1 %
Data processing[1]	8,263	7,326	937	12.8 %
Net occupancy[1]	8,018	7,603	415	5.5 %
Furniture and equipment	4,883	5,262	(379)	(7.2)%
Professional services and legal[1]	4,184	4,610	(426)	(9.2)%
Other taxes	3,743	3,200	543	17.0 %
Marketing[1]	2,929	3,206	(277)	(8.6)%
FDIC insurance	2,772	2,926	(154)	(5.3)%
Merger related expense	838	5,968	(5,130)	(86.0)%
Other expenses:				
Joint venture amortization	4,095	4,199	(104)	(2.5)%
Amortization of intangibles	1,591	1,709	(118)	(6.9)%
Other real estate owned	445	2,166	(1,721)	(79.5)%
Unfunded loan commitments	(60)	1,811	(1,871)	(103.3)%
Other[1]	14,844	14,957	(113)	(0.8)%
Total Other Noninterest Expense	20,915	24,842	(3,927)	(15.8)%
Total Noninterest Expense	$117,392	$122,863	$(5,471)	(4.5)%

(1) Excludes merger related expense.

Noninterest expense decreased $5.5 million, or 4.5 percent, to $117.4 million, for the year ended December 31, 2013 compared to 2012. The decrease in noninterest expense was primarily due to a decline in merger related expenses and other noninterest expense. Partially offsetting these decreases was higher expenses in several categories during 2013 due to the full integration of our two acquisitions that occurred in 2012.

We had $0.8 million in merger related expense for the year ended December 31, 2013 compared to $6.0 million in 2012. The $0.8 million of merger related expense recognized in 2013 primarily related to the data processing system conversion of Gateway Bank. Although the Gateway Bank acquisition occurred in August 2012, the merger with S&T Bank and the system conversion was completed on February 8, 2013. The $6.0 million of merger related expense in 2012 related to our acquisition of Mainline Bancorp, Inc., or Mainline, on March 9, 2012 and Gateway Bank of Pennsylvania, or Gateway, on August 13, 2012.

Salaries and employee benefits increased $2.9 million during 2013 due to additional employees, annual merit increases, higher commissions and incentives and severance. Increases consisted of $1.3 million due to the number of net new employees from our two acquisitions in the prior year and the opening of our LPO in northeast Ohio in August 2012, as well as to the hiring of additional employees throughout our organization. Adding to the increase was our annual salary merit increase of $0.8 million and $0.5 million in severance. Commission and incentive expense increased by $1.8 million due to increased loan production and strong performance in our other business lines. Offsetting these increases was a decrease in pension expense of $1.1 million, resulting from a change in actuarial assumptions. Stock compensation expense decreased $0.4 million in 2013 because there was no new management incentive plan for 2013.

Data processing, occupancy and other taxes increased for the year ended December 31, 2013. Data processing increased $0.9 million compared to the previous year due to increased processing charges resulting from our acquisitions, the annual increase with our third party data processor and the implementation of software that significantly strengthens the authentication of our customers that use our online banking product. Occupancy increased $0.4 million primarily due to additional branch locations resulting from our two acquisitions. Offsetting this

increase was savings from the closure of two branches and two drive-up facilities during 2013. The increase of $0.5 million in other taxes primarily related to the additional shares tax obligations that we assumed with the acquisitions of Mainline and Gateway.

Furniture and equipment, professional services and legal, marketing and FDIC insurance expense decreased during the year ended December 31, 2013 when compared to 2012. Furniture and equipment expense declined $0.4 million due to a decrease in depreciation expense related to assets acquired in 2008 that were fully depreciated during 2013. Marketing expense decreased $0.3 million due to fewer customer promotions in 2013. FDIC charges are based in part on financial ratios which have improved during 2013, resulting in a decrease of $0.2 million when compared with the year ended December 31, 2012.

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Professional services and legal expense decreased $0.4 million compared to 2012 because additional external accounting and consulting charges were incurred in the first quarter of 2012.

Other noninterest expense decreased $3.9 million for the year ended December 31, 2013 as compared to the year ended December 31, 2012. The decreases in other noninterest expense were primarily due to decreases of $1.9 million in the reserve for unfunded loan commitments and $1.7 million in OREO expense due to improving asset quality. Other noninterest expense also decreased $0.5 million due to the reversal of a contingent liability for an Internal Revenue Service, or IRS, proposed penalty for tax year 2010. The contingent liability was assumed with the acquisition of Mainline in 2012 and was reversed when we received notice during 2013 that the IRS had waived the $0.5 million penalty.

Our efficiency ratio, which measures noninterest expense as a percent of noninterest income plus net interest income, on a FTE basis, excluding security gains/losses, was 60 percent for 2013 and 65 percent for 2012. Refer to page 65 Explanation of Use of Non-GAAP Financial Measures for a discussion of this non-GAAP financial measure.

Federal Income Taxes

We recorded a federal income tax provision of $14.5 million in 2013 compared to $7.3 million in 2012. The effective tax rate, which is the provision for income taxes as a percentage of pretax income was 22.3 percent in 2013 compared to 17.5 percent in 2012. We ordinarily generate an annual effective tax rate that is less than the statutory rate of 35 percent due to benefits resulting from tax-exempt interest, excludable dividend income, tax-exempt income on BOLI and tax benefits associated with LIHTC. The increase to our effective tax rate was primarily due to an increase of $23.6 million in pre-tax income which diluted the permanent benefits listed above.

Financial Condition

December 31, 2014

Total assets increased $431.5 million, or 9.5 percent, to $5.0 billion as of December 31, 2014 compared to $4.5 billion at December 31, 2013. Loan production was strong, resulting in an increase in total portfolio loans of $302.5 million, or 8.5 percent. Our commercial loan portfolio grew by $298.6 million, or 11.5 percent, to $2.9 billion while our consumer loan portfolio was relatively unchanged at $1.0 billion. Securities increased $130.8 million, or 25.7 percent, compared to December 31, 2013 due to the investment of cash held at the Federal Reserve into higher yielding securities.

Our deposit base increased $236.5 million, or 6.4 percent, with total deposits of $3.9 billion at December 31, 2014 compared to $3.7 billion December 31, 2013. We experienced increases in all deposit categories except for a slight decline in CDs. Noninterest-bearing demand had strong growth with an increase of $91.1 million, or 9.1 percent. Money market increased $95.2 million, or 33.8 percent, compared to December 31, 2013. During the fourth quarter of 2014, we began to participate in Insured Network Deposits, or IND, and had $69.5 million of IND balance within money market accounts at December 31, 2014. Savings deposits increased $32.3 million, or 3.2 percent, compared to December 31, 2013. Short-term borrowings increased $150.0 million compared to December 31, 2013 primarily to fund our asset growth in 2014.

Total shareholder's equity increased by $37.1 million, or 6.5 percent, compared to December 31, 2013. The increase was primarily due to net income of $57.9 million offset by $20.2 million in dividends.

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Securities Activity

The balances and average rates of our securities are presented below as of December 31:

	2014			2013			2012		
(dollars in thousands)	Balance	Average Rate		Balance	Average Rate		Balance	Average Rate	
U.S. Treasury securities	$14,880	1.24	%	$—	—	%	$—	—	%
Obligations of U.S. government corporations and agencies	269,285	1.65	%	234,751	1.52	%	212,066	1.62	%
Collateralized mortgage obligations of U.S. government corporations and agencies	118,006	2.28	%	63,774	2.38	%	57,896	2.70	%
Residential mortgage-backed securities of U.S. government corporations and agencies	46,668	2.87	%	48,669	3.02	%	50,623	3.56	%
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,673	1.94	%	39,052	1.95	%	10,158	1.21	%
Obligations of states and political subdivisions	142,702	4.36	%	114,264	4.54	%	112,767	4.26	%
Marketable equity securities	9,059	4.08	%	8,915	4.14	%	8,756	4.96	%
Total Securities Available-for-Sale	$640,273	2.50	%	$509,425	2.53	%	$452,266	2.64	%

We invest in various securities in order to provide a source of liquidity, satisfy various pledging requirements, 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. The securities portfolio increased $130.8 million, or 25.7 percent, from December 31, 2013. The increase is primarily due to the investment of cash into higher yielding assets.

Management evaluates the securities portfolio for OTTI on a quarterly basis. At December 31, 2014, our bond portfolio was in a net unrealized gain position of $9.3 million, compared to net unrealized loss position of $2.3 million at December 31, 2013. At December 31, 2014, total gross unrealized gains were $11.2 million offset by total gross unrealized losses of $1.8 million. Total gross unrealized losses were $7.8 million offset by total gross unrealized gains of $5.5 million at December 31, 2013. The increase in the value of our securities portfolio was a result of the changing interest rate environment in 2014. Unrealized losses were not related to the underlying credit quality of the bond portfolio. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the securities. There were no unrealized losses on marketable equity securities as of December 31, 2014. We do not intend to sell and it is more likely than not that we will not be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost. We did not record any OTTI in 2014 or 2013 and no significant impairments were recorded in 2012. The performance of the debt and equity securities markets could generate impairments in future periods requiring realized losses to be reported.

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The following table sets forth the maturities of securities at December 31, 2014 and the weighted average yields of such securities. Taxable-equivalent adjustments (using a 35 percent federal income tax rate) for 2014 have been made in calculating yields on obligations of state and political subdivisions.

	Maturing									
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		No Fixed Maturity	
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available-for-Sale										
U.S. Treasury securities	$—	— %	$14,880	1.24 %	$—	— %	$—	— %	$—	— %
Obligations of U.S. government corporations and agencies	15,184	1.90 %	178,435	1.39 %	75,666	2.20 %	—	— %	—	—%
Collateralized mortgage obligations of U.S. government corporations and agencies	—	— %	—	— %	—	— %	118,006	2.28 %	—	—%
Residential mortgage-backed securities of U.S. government corporations and agencies	—	— %	3,165	4.39 %	2,503	5.18 %	41,000	2.61 %	—	—%
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	— %	30,638	1.69 %	9,035	2.77 %	—	—	—	—%
Obligations of states and political subdivisions	6,155	5.73 %	3,868	6.73 %	27,122	3.97 %	105,557	4.30 %	—	—%
Marketable equity securities	—	— %	—	— %	—	— %	—	— %	9,059	4.08 %
Total	$21,339		$230,986		$114,326		$264,563		$9,059	
Weighted Average Yield		3.00 %		1.55 %		2.73 %		3.14 %		4.08 %

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Lending Activity

The following table summarizes our loan portfolio as of December 31:

	2014		2013		2012		2011		2010	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial										
Commercial real estate	$1,682,236	43.48 %	$1,607,756	45.09 %	$1,452,133	43.39 %	$1,415,333	45.22 %	$1,494,202	44.53 %
Commercial and industrial	994,138	25.70 %	842,449	23.62 %	791,396	23.65 %	685,753	21.91 %	722,359	21.52 %
Commercial construction	216,148	5.59 %	143,675	4.03 %	168,143	5.02 %	188,852	6.04 %	259,598	7.74 %
Total Commercial Loans	2,892,522	74.77 %	2,593,880	72.74 %	2,411,672	72.06 %	2,289,938	73.17 %	2,476,159	73.79 %
Consumer										
Residential mortgage	489,586	12.65 %	487,092	13.66 %	427,303	12.77 %	358,846	11.47 %	359,536	10.71 %
Home equity	418,563	10.82 %	414,195	11.61 %	431,335	12.89 %	411,404	13.14 %	441,096	13.15 %
Installment and other consumer	65,567	1.69 %	67,883	1.90 %	73,875	2.21 %	67,131	2.14 %	74,780	2.23 %
Consumer construction	2,508	0.06 %	3,149	0.09 %	2,437	0.07 %	2,440	0.08 %	4,019	0.12 %
Total Consumer Loans	976,224	25.23 %	972,319	27.26 %	934,950	27.94 %	839,821	26.83 %	879,431	26.21 %
Total Portfolio Loans	$3,868,746	100.00%	$3,566,199	100.00%	$3,346,622	100.00%	$3,129,759	100.00%	$3,355,590	100.00%

The loan portfolio represents the most significant source of interest income for us. 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 $302.5 million, or 8.5 percent, since December 31, 2013, to $3.9 billion at December 31, 2014 primarily due to organic loan growth in our CRE, C&I and commercial construction portfolios. Our expansion into Ohio, with the establishment of two LPOs, has been successful and contributed approximately $146.0 million, or 48 percent, of our total loan growth in 2014. Further driving loan growth was the expansion of our sales team with the addition of commercial lenders in various markets throughout 2014. Total commercial loans have increased $298.6 million, or 11.5 percent, from December 31, 2013 with growth in all portfolios. CRE loans have increased $74.5 million, or 4.6 percent, due to strong loan demand. C&I loans increased $151.7 million, or 18.0 percent, due to new loan originations and increased utilization of lines of credit. Commercial construction loans have increased $72.5 million, or 50.4 percent, due to strong loan demand and line utilizations.

Commercial loans, including CRE, C&I and commercial construction, comprised 75 percent and 73 percent of total portfolio loans at December 31, 2014 and 2013. Although commercial loans can have a relatively higher risk profile,

management believes these risks are mitigated through active portfolio management, conservative underwriting standards and continuous portfolio review. The loan-to-value, or LTV, policy guidelines for CRE loans are generally 65-80 percent. At December 31, 2014, variable commercial loans were 79 percent of the total commercial loans compared to 78 percent in 2013.

Consumer loans represent 25 percent of our loan portfolio at December 31, 2014 compared to 27 percent at December 31, 2013. Residential mortgage lending continues to be a focus through a centralized mortgage origination department, ongoing product redesign, secondary market activities and the utilization of commission compensated originators. Management believes that continued adherence to our conservative mortgage lending policies for portfolio loans will be as important in a growing economy as it was during the downturn in recent years. The LTV policy guideline is 80 percent for residential first lien mortgages. Higher LTV loans may be approved with the appropriate private mortgage insurance coverage. Our policy is to only permit portfolio loans with a maximum term of 20 years for traditional mortgages to our credit-worthy borrowers, and 15 years with a maximum amortization term of 30 years for balloon payment mortgages. We may originate home equity loans with a lien position that is second to unrelated third party lenders, but normally only to the extent that the combined LTV considering both the first and second liens does not exceed 100 percent of the fair value of the property. Combo mortgage loans consisting of a residential first mortgage and a home equity second mortgage are also available to credit worthy borrowers.

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We originate and price loans for sale into the secondary market, primarily to Fannie Mae. At the end of the second quarter of 2014, we returned to selling all of our mortgage loan production priced for sale in the secondary market. Previously, we had been retaining 10, 15 and 20 year residential real estate loans in our portfolio and selling only 30 year mortgages in the secondary market. The rationale for these sales is to mitigate interest-rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio, to generate fee revenue from sales and servicing and to maintain the primary customer relationship. During 2014 and 2013, we sold $40.1 million and $62.9 million, of 1-4 family mortgages to Fannie Mae and currently service $327.2 million of secondary market mortgage loans at December 31, 2014 compared to $327.4 million at December 31, 2013. Loans sold to Fannie Mae in 2014 decreased compared to 2013 due to the increase in interest rates that occurred in the second half of 2013 which caused a significant decline in mortgage refinancings.

We also offer a variety of unsecured and secured consumer loan and credit card products. LTV guidelines for direct loans are generally 90-100 percent of invoice for new automobiles and 80-90 percent of National Automobile Dealer Association value for used automobiles.

We maintain a General Lending Policy to control the quality of our loan portfolio. The policy delegates the authority to extend loans under specific guidelines and underwriting standards. The General Lending Policy is formulated by management and reviewed and ratified annually by the Board of Directors. Any exception to the General Lending Policy must be approved by the Senior Loan Committee or the Regional Loan Committee.

The following table presents the maturity of consumer and commercial loans outstanding as of December 31, 2014:

	Maturity			
(dollars in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Fixed interest rates	$160,136	$318,585	$134,265	$612,986
Variable interest rates	609,010	718,986	951,540	2,279,536
Total Commercial Loans	$769,146	$1,037,571	$1,085,805	$2,892,522
Fixed interest rates	64,063	223,526	262,247	549,836
Variable interest rates	298,374	39,372	88,642	426,388
Total Consumer Loans	$362,437	$262,898	$350,889	$976,224
Total Portfolio Loans	$1,131,583	$1,300,469	$1,436,694	$3,868,746

Credit Quality

On a quarterly basis, a criticized asset meeting is held to monitor all special mention and substandard loans greater than $0.5 million. These loans typically represent the highest risk of loss to us. Action plans are established and these loans are monitored through regular contact with the borrower, review of current financial information and other documentation, review of all loan or potential loan restructures/modifications and the regular re-evaluation of assets held as collateral.

Additional credit risk management practices include periodic review and update to our lending policies and procedures to support sound underwriting practices and portfolio management through portfolio stress testing. Our Loan Review process serves to independently monitor credit quality and assess the effectiveness of credit risk management practices to provide oversight of all corporate lending activities. Loan Review has the primary responsibility for assessing commercial credit administration and credit decision functions of consumer and mortgage underwriting, as well as providing input to the loan risk rating process.

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Nonperforming assets, or NPAs, consist of nonaccrual loans, nonaccrual TDRs and OREO. The following represents NPAs for the years presented:

(dollars in thousands)	2014	2013	2012	2011	2010
Nonperforming Loans					
Commercial real estate	$2,255	$6,852	$20,972	$20,777	$14,674
Commercial and industrial	1,266	1,412	5,496	7,570	2,567
Commercial construction	105	34	1,454	3,604	5,844
Residential mortgage	1,877	1,982	4,526	2,859	5,996
Home equity	1,497	2,073	3,312	2,936	1,433
Installment and other consumer	21	34	40	4	65
Consumer construction	—	—	218	181	525
Total Nonperforming Loans	7,021	12,387	36,018	37,931	31,104
Nonperforming Troubled Debt Restructurings					
Commercial real estate	2,180	3,898	9,584	10,871	29,636
Commercial and industrial	356	1,884	939	—	1,000
Commercial construction	1,869	2,708	5,324	2,943	2,143
Residential mortgage	459	1,356	2,752	4,370	—
Home Equity	562	218	341	—	—
Installment and other consumer	10	3	—	—	—
Total Nonperforming Troubled Debt Restructurings	5,436	10,067	18,940	18,184	32,779
Total Nonperforming Loans	12,457	22,454	54,958	56,115	63,883
OREO	166	410	911	3,967	5,820
Total Nonperforming Assets	$12,623	$22,864	$55,869	$60,082	$69,703
Nonperforming loans as a percent of total loans	0.32 %	0.63 %	1.63 %	1.79 %	1.90 %
Nonperforming assets as a percent of total loans plus OREO	0.33 %	0.64 %	1.66 %	1.92 %	2.07 %

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. There were no loans 90 days or more past due and still accruing at December 31, 2014 or December 31, 2013.

NPAs decreased $10.2 million, or 45 percent, to $12.6 million at December 31, 2014 compared to $22.9 million at December 31, 2013. The significant decline in NPAs can be attributed to the continued improvement of economic conditions in our markets and a strategic focus on actively managing and bringing to resolution our problem loans. NPAs decreased primarily due to $8.1 million in nonperforming loan pay downs, $4.4 million of nonperforming loans returning to accrual status, the sale of $3.2 million of nonperforming loans and $2.0 million of nonperforming loan charge-offs. During 2014, we had approximately $8.0 million of new nonperforming loans compared to $16.5 million in 2013.

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. 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. Generally these concessions are for a period of at least six months. Additionally, we classify loans where the debt obligation has been discharged through a Chapter 7 Bankruptcy and not reaffirmed by the

borrower as TDRs.

TDRs can be returned to accruing status if the following criteria are met: 1) the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and 2) there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring. 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. All impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements noted above to be returned to accruing status.

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 is not increased to correspond with the current credit risk of the borrower 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. The loan will be reported as nonaccrual and as an impaired loan and a TDR. 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.

As of December 31, 2014, we had $42.4 million in total TDRs, including $37.0 million that were performing and $5.4 million that were nonperforming. This is a decrease from December 31, 2013 when we had $49.3 million in TDRs, including $39.2 million that were performing and $10.1 million that were nonperforming. Loan modifications resulting in TDRs, declined in 2014 with 44 modifications or $4.9 million of new TDRs compared to 71 modification or $11.8 million of new TDRs in 2013. Included in the 2014 new TDRs was 29 loans totaling $1.1 million related to Chapter 7 bankruptcy filings that were not reaffirmed resulting in discharged debt which compares to 56 loans totaling $2.0 million in 2013. For the year ended December 31, 2014 we had nine TDRs for $1.9 million that met the above requirements for being returned to performing status.

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The following represents delinquency as of December 31:

	2014		2013		2012		2011		2010	
(dollars in thousands)	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans	Amount	% of Loans
90 days or more:										
Commercial real estate	$4,435	0.26 %	$10,750	0.67 %	$30,556	2.10 %	$31,648	2.24 %	$44,310	2.97 %
Commercial and Industrial	1,622	0.16 %	3,296	0.39 %	6,435	0.81 %	7,570	1.10 %	3,567	0.49 %
Commercial construction	1,974	0.91 %	2,742	1.91 %	6,778	4.03 %	6,547	3.47 %	7,987	3.08 %
Residential mortgage	2,336	0.48 %	3,338	0.69 %	7,278	1.70 %	7,229	2.01 %	5,996	1.67 %
Home equity	2,059	0.49 %	2,291	0.55 %	3,653	0.85 %	2,936	0.71 %	1,433	0.32 %
Installment and other consumer	31	0.05 %	37	0.05 %	40	0.05 %	4	0.01 %	65	0.09 %
Consumer construction	—	—	—	—	218	8.95 %	181	7.42 %	525	13.06 %
Total Loans	$12,457	0.32 %	$22,454	0.63 %	$54,958	1.64 %	$56,115	1.79 %	$63,883	1.90 %
30 to 89 days:										
Commercial real estate	$2,871	0.17 %	$1,416	0.09 %	$2,643	0.18 %	$9,105	0.64 %	$4,371	0.29 %
Commercial and industrial	1,380	0.14 %	2,877	0.34 %	4,646	0.59 %	5,284	0.77 %	1,714	0.24 %
Commercial construction	—	— %	1,800	1.25 %	10,542	6.27 %	—	—	835	0.32 %
Residential mortgage	1,785	0.36 %	2,494	0.51 %	3,661	0.86 %	2,403	0.67 %	1,346	0.37 %
Home equity	2,201	0.53 %	3,127	0.75 %	3,197	0.74 %	2,890	0.70 %	2,451	0.56 %
Installment and other consumer	425	0.65 %	426	0.63 %	501	0.68 %	452	0.67 %	342	0.46 %
Consumer construction	—	—	—	—	—	—	—	—	—	—
Total Loans	$8,662	0.22 %	$12,140	0.34 %	$25,190	0.75 %	$20,134	0.64 %	$11,059	0.33 %

Closed-end installment loans, amortizing loans secured by real estate and any other loans with payments scheduled monthly are reported past due when the borrower is in arrears two or more monthly payments. Other multi-payment obligations with payments scheduled other than monthly are reported past due when one scheduled payment is due and unpaid for 30 days or more. We monitor delinquency on a monthly basis, including early stage delinquencies of 30 to 89 days past due for early identification of potential problem loans.

Loans past due 90 days or more decreased $10.0 million, or 45 percent, compared to December 31, 2013 and represent only 0.32 percent of total loans at December 31, 2014. Loans past due by 30 to 89 days decreased $3.5 million, or 29 percent, representing only 0.22 percent of total loans at December 31, 2014. Delinquency improved in all loan categories throughout 2014 due to improved economic conditions and management's focus on actively managing delinquent loans.

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. 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 impairment tests of certain groups of homogeneous loans with similar risk characteristics.

Consumer unsecured loans and secured loans that are not real estate secured are evaluated for charge-off after the loan becomes 90 days past due. At that time, unsecured loans are fully charged-off and secured loans are charged-off to the estimated

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fair value of the collateral less the cost to sell. Consumer loans secured by real estate are evaluated for charge-off after the loan balance becomes 90 days past due and are charged down to the estimated fair value of the collateral less cost to sell.

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

The following summarizes our loan charge-off experience for each of the five years presented below:

	Years Ended December 31,				
(dollars in thousands)	2014	2013	2012	2011	2010
ALL Balance at Beginning of Year:	$46,255	$46,484	$48,841	$51,387	$59,580
Charge-offs:					
Commercial real estate	(2,041)	(4,601)	(9,627)	(8,824)	(23,925)
Commercial and industrial	(1,267)	(2,714)	(5,278)	(8,971)	(7,277)
Commercial construction	(712)	(4,852)	(10,521)	(1,720)	(6,353)
Consumer real estate	(1,200)	(2,407)	(2,509)	(2,617)	(2,210)
Other consumer	(1,133)	(1,002)	(1,078)	(1,013)	(1,262)
Total	(6,353)	(15,576)	(29,013)	(23,145)	(41,027)
Recoveries:					
Commercial real estate	1,798	3,388	1,259	780	576
Commercial and industrial	3,647	2,142	1,153	357	328
Commercial construction	146	531	891	2,463	1,748
Consumer real estate	350	651	197	1,030	202
Other consumer	353	324	341	360	469
Total	6,294	7,036	3,841	4,990	3,323
Net Charge-offs	(59)	(8,540)	(25,172)	(18,155)	(37,704)
Provision for loan losses	1,715	8,311	22,815	15,609	29,511
ALL Balance at End of Year:	$47,911	$46,255	$46,484	$48,841	$51,387

Net loan charge-offs decreased $8.5 million to only $0.1 million, or 0.00 percent of average loans for 2014 as compared to $8.5 million or 0.25 percent of average loans for 2013. The decrease in net charge-offs is due to improved economic conditions and management’s continued focus on workouts with our problem loans in 2014. Net charge-offs declined in all commercial loan segments compared to 2013. C&I loans had a net recovery of $2.4 million which included a recovery from one borrower for $2.5 million. During 2014, we sold a $3.5 million package of smaller commercial loans, $3.2 million of which were on nonaccrual status, resulting in a charge-off of $1.3 million. We also sold a $4.8 million relationship that resulted in a $1.5 million charge-off, including a $0.8 million CRE charge-off and a $0.7 million construction charge-off.

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The following table summarizes net charge-offs as a percentage of average loans and other ratios as of December 31:

	2014	2013	2012	2011	2010
Commercial real estate	0.01 %	0.08 %	0.59 %	0.55 %	1.42 %
Commercial and industrial	(0.26)%	0.07 %	0.57 %	1.24 %	1.62 %
Commercial construction	0.32 %	2.72 %	5.94 %	(0.34)%	0.96 %
Consumer real estate	0.09 %	0.20 %	0.28 %	0.20 %	0.24 %
Other consumer	1.19 %	0.99 %	0.91 %	0.94 %	1.04 %
Net charge-offs to average loans outstanding	0.00 %	0.25 %	0.78 %	0.56 %	1.11 %
Allowance for loan losses as a percentage of total loans	1.24 %	1.30 %	1.38 %	1.56 %	1.53 %
Allowance for loan losses to total nonperforming loans	385 %	206 %	85 %	87 %	80 %
Provision for loan losses as a percentage of net loan charge-offs	NM	97 %	91 %	86 %	78 %

NM - percentage not meaningful

An inherent risk to the loan portfolio as a whole is the condition of the local economy. 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.

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 do 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 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 lien such as home equity loans, home equity lines of credit and 1-4 family residences, including purchase money mortgages. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk of 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, 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.

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The following is the ALL balance by portfolio segment as of December 31:

	2014			2013			2012			2011			2010		
(dollars in thousands)	Amount	% of Total		Amount	% of Total		Amount	% of Total		Amount	% of Total		Amount	% of Total	
Commercial real estate	$20,164	42	%	$18,921	41	%	$25,246	54	%	$29,804	61	%	$30,424	59	%
Commercial and industrial	13,668	28	%	14,443	31	%	7,759	17	%	11,274	23	%	9,777	19	%
Commercial construction	6,093	13	%	5,374	12	%	7,500	16	%	3,703	8	%	5,905	11	%
Consumer real estate	6,333	13	%	6,362	14	%	5,058	11	%	3,166	6	%	3,962	8	%
Other consumer	1,653	4	%	1,165	2	%	921	2	%	894	2	%	1,319	3	%
Total	$47,911	100	%	$46,265	100	%	$46,484	100	%	$48,841	100	%	$51,387	100	%

Significant to our ALL is a higher concentration of commercial loans. At December 31, 2014, approximately 83 percent of the ALL related to the commercial loan portfolio, while commercial loans comprised 75 percent of our loan portfolio. We experienced higher losses in our commercial portfolios compared to our consumer portfolio throughout the economic crisis. The ability of borrowers to repay commercial loans is more dependent upon the success of their business and general economic conditions. Accordingly, the risk of loss may be higher on such loans compared to consumer loans, which have incurred lower losses in our market.

Due to the greater potential for loss within our commercial portfolio, we 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 rated special mention or substandard have potential or well-defined weaknesses not generally found in high quality, performing loans, and require attention from management to limit loss.

The following table summarizes the ALL balance as of December 31:

(dollars in thousands)	2014	2013	2012	2011	2010
Collectively Evaluated for Impairment	$47,857	$46,158	$44,253	$43,296	$47,756
Individually Evaluated for Impairment	54	97	2,231	5,545	3,631
Total Allowance for Loan Losses	$47,911	$46,255	$46,484	$48,841	$51,387

The ALL was $47.9 million, or 1.24 percent of total loans, at December 31, 2014 as compared to $46.3 million, or 1.30 percent of total loans at December 31, 2013. Overall, the total ALL and the composition of the ALL remained relatively consistent with December 31, 2013. Impaired loans decreased $8.9 million, or 17 percent, from December 31, 2013, primarily a result of loan pay downs and charge-offs. New impaired loan formation has been low during 2014 with only $5.8 million of new impaired loans resulting in minimal specific reserves at December 31, 2014. The reserve for loans collectively evaluated for impairment did not change significantly at December 31, 2014 compared to December 31, 2013.While we have been experiencing improvement in our asset quality, we still believe that there is inherent risk within the portfolio and have maintained the level of the reserve relatively consistent with the prior year.

Federal Home Loan Bank and Other Restricted Stock

At December 31, 2014 and 2013, we held FHLB stock of $14.3 million and $12.8 million. This investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We hold FHLB stock because we are a member of the FHLB of Pittsburgh. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon on the members' asset values, level of borrowings and participation in other programs offered. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the products and services offered by the FHLB. Unlike

equity securities of traditional for-profit enterprises, the stock of the FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value. We reviewed and evaluated the FHLB capital stock for OTTI at December 31, 2014. The FHLB reported improved earnings throughout 2014 compared to 2013 and continues to exceed all capital ratios required. Additionally, we considered that the FHLB has been paying dividends and redeeming excess stock throughout 2014. Accordingly, we believe sufficient evidence exists to conclude that no OTTI exists at December 31, 2014.

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At December 31, 2014 and 2013, we held Atlantic Community Bankers' Bank, or ACBB, stock of $0.8 million for both years. This investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the investment. Like FHLB stock, members purchase ACBB stock to access the products and services offered, as opposed to traditional equity investors who acquire stock for purposes such as appreciation in value. S&T acquired the ACBB stock as a result of bank acquisitions and does not use the bank's member services. ACBB continues to be classified as well capitalized by regulatory guidelines and the current purchase price for new members is $3,500 per share. As of December 31, 2014, the book value of ACBB stock was $2,024 per share; therefore, management believes that no OTTI exists at December 31, 2014.

Deposits

The following table presents the composition of deposits at December 31:

(dollars in thousands)	2014	2013	$ Change
Noninterest-bearing demand	$1,083,919	$992,779	$91,140
Interest-bearing demand	333,015	312,790	20,225
Money market	309,245	281,403	27,842
Savings	1,027,095	994,805	32,290
Certificates of deposit	933,210	922,780	10,430
Brokered deposits	222,358	167,751	54,607
Total	$3,908,842	$3,672,308	$236,534

Deposits are the primary source of funds for us. We believe that our deposit base is stable and that we have the ability to attract new deposits, mitigating any funding dependency on other more volatile sources. Total deposits increased $236.5 million, or 6.4 percent mostly due to strong growth in our customer deposits. Overall, customer deposits increased $181.9 million, or 5.2 percent of total deposits from December 31, 2013. Customer deposit growth included a $91.1, or 9.2 percent, increase in noninterest-bearing demand, a $20.2, or 6.5 percent, increase in interest-bearing demand, a $27.8, or 9.9 percent, increase in money market, a $32.3, or 3.2 percent, increase in savings and $10.4, or 1.1 percent increase in CDs.

Our brokered deposits increased $54.6 million, or 32.6 percent, compared to December 31, 2013. Included in our brokered deposits are CDs issued through the Certificate of Deposit Account Registry Services, or CDARS and the Depository Trust Company, or DTC. Also included in brokered deposits are money market and interest bearing demand funds through the Insured Network Deposits, or IND, program. Brokered deposits are an additional source of funds utilized by ALCO as a way to diversify funding sources, as well as manage the bank's funding costs and structure.

The daily average balance of deposits and rates paid on deposits are summarized for the years ended December 31 in the following table:

	2014			2013			2012		
(dollars in thousands)	Amount	Rate		Amount	Rate		Amount	Rate	
Noninterest-bearing demand	$1,046,605			$955,475			$877,056		
Interest-bearing demand	321,907	0.02	%	309,748	0.02	%	306,994	0.05	%
Money market	321,294	0.16	%	319,831	0.14	%	308,719	0.17	%
Savings	1,033,482	0.16	%	1,001,209	0.17	%	902,889	0.26	%
Certificates of deposit	905,346	0.79	%	980,933	0.91	%	1,093,899	1.25	%
Brokered deposits	226,169	0.34	%	73,518	0.32	%	10,363	0.28	%
Total	$3,854,803	0.31	%	$3,640,714	0.48	%	$3,499,920	0.70	%

CDs of $100,000 and over, including CDARS, accounted for 12 percent of total deposits at December 31, 2014 and 2013, and primarily represent deposit relationships with local customers in our market area.

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Maturities of certificates of deposit of $100,000 or more outstanding at December 31, 2014, including brokered deposits, are summarized as follows:

(dollars in thousands)	2014
Three months or less	$213,566
Over three through six months	55,949
Over six through twelve months	57,480
Over twelve months	151,221
Total	$478,216

Borrowings

The following table represents the composition of borrowings for the years ended December 31:

(dollars in thousands)	2014	2013	$ Change
Securities sold under repurchase agreements, retail	$30,605	$33,847	$(3,242)
Short-term borrowings	290,000	140,000	150,000
Long-term borrowings	19,442	21,810	(2,368)
Junior subordinated debt securities	45,619	45,619	—
Total Borrowings	$385,666	$241,276	$144,390

Borrowings are an additional source of funding for us. Short-term borrowings are for terms under one year and were comprised primarily of FHLB advances. We define repurchase agreements with our local retail customers as retail REPO. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. FHLB advances are for various terms secured by a blanket lien on residential mortgages and other real estate secured loans. Long-term borrowings are for terms greater than one year and consist of FHLB borrowings. The purpose of long-term borrowings is to match-fund selected new loan originations, to mitigate interest rate sensitivity risks and to take advantage of discounted borrowing rates through the FHLB for community investment projects. The increase in borrowings of $144.4 million is primarily within our short-term borrowings. Short-term borrowings were utilized as a source of funds to support our asset growth during 2014.

Information pertaining to short-term borrowings is summarized in the tables below:

	Securities Sold Under Repurchase Agreements		
(dollars in thousands)	2014	2013	2012
Balance at December 31	$30,605	$33,847	$62,582
Average balance during the year	28,372	54,057	47,388
Average interest rate during the year	0.01%	0.12%	0.17%
Maximum month-end balance during the year	$40,983	$83,766	$62,582
Average interest rate at December 31	0.01%	0.01%	0.20%

	Short-Term Borrowings		
(dollars in thousands)	2014	2013	2012
Balance at December 31	$290,000	$140,000	$75,000
Average balance during the year	164,811	101,973	50,212
Average interest rate during the year	0.31%	0.27%	0.24%
Maximum month-end balance during the year	$290,000	$175,000	$75,000
Average interest rate at December 31	0.30%	0.30%	0.19%

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Information pertaining to long-term borrowings is summarized in the tables below:

	Long-Term Borrowings		
(dollars in thousands)	2014	2013	2012
Balance at December 31	$19,442	$21,810	$34,101
Average balance during the year	20,571	24,312	33,841
Average interest rate during the year	3.00 %	3.07 %	3.26 %
Maximum month-end balance during the year	$21,616	$28,913	$40,669
Average interest rate at December 31	2.97 %	3.01 %	3.17 %

	Junior Subordinated Debt Securities		
(dollars in thousands)	2014	2013	2012
Balance at December 31	$45,619	$45,619	$90,619
Average balance during the year	45,619	65,989	90,619
Average interest rate during the year	2.68 %	3.14 %	3.21 %
Maximum month-end balance during the year	$45,619	$90,619	$90,619
Average interest rate at December 31	2.70 %	2.70 %	3.01 %

During 2014, long-term borrowings decreased $2.4 million as compared to December 31, 2013 due to normal amortization of these borrowings. At December 31, 2014, our long-term borrowings outstanding of $19.4 million included $16.3 million that were at a fixed rate and $3.1million at a variable rate.

During the third quarter of 2006, we issued $25.0 million of junior subordinated debentures through a pooled transaction at an initial fixed rate of 6.78 percent. Beginning September 15, 2011 and quarterly thereafter, we have had the option to redeem the subordinated debt, subject to a 30 day written notice and prior approval by the FDIC. The subordinated debt converted to a variable rate of 3-month LIBOR plus 160 basis points in September of 2011. The subordinated debt qualifies as Tier 2 capital under regulatory guidelines and will mature on December 15, 2036.

During the first quarter of 2008, we completed a private placement to a financial institution of $20.0 million of floating rate trust preferred securities. The trust preferred securities mature in March 2038, are callable at our option after five years and had an interest rate initially at a rate of 6.44 percent per annum and quarterly adjusts with the three-month LIBOR plus 350 basis points. We began making interest payments to the trustee on June 15, 2008 and quarterly thereafter. The trust preferred securities qualify as Tier 1 capital under regulatory guidelines. To issue these trust preferred securities, we formed STBA Capital Trust I, or the Trust, with $0.6 million of equity, which is owned 100 percent by us. The proceeds from the sale of the trust preferred securities and the issuance of common equity were invested in junior subordinated debt, which is the sole asset of the Trust. The Trust pays dividends on the trust preferred securities at the same rate as the interest we pay on the junior subordinate debt held by the Trust. Because the third-party investors are the primary beneficiaries, the Trust qualifies as a variable interest entity, but is not consolidated in our financial statements.

During the second quarter of 2008, we issued $20.0 million of junior subordinated debt through a private placement with three financial institutions at an initial rate of 6.40 percent that floats quarterly with 3-month LIBOR plus 350 basis points. The subordinated debt qualified as Tier 2 Capital under regulatory guidelines, but if all or any portion of the subordinated debt ceased to be deemed Tier 2 Capital due to a change in applicable capital regulations, we had the right to redeem, on any interest payment date, subject to a 30 day written notice and prior approval by the FDIC, the subordinated debt at the applicable redemption rate. The redemption rate started at a high of 102.82 percent at June 15, 2009 and decreased yearly to 100 percent on June 15, 2013 and thereafter could be called. We received approval from the FDIC to redeem early, and we did so on June 17, 2013. The subordinated debt would have matured on June 15, 2018.

Also during the second quarter of 2008, we issued $25.0 million of junior subordinated debt through a private placement with a financial institution at an initial rate of 5.15 percent that floats quarterly with 3-month LIBOR plus

250 basis points. At any time after May 30, 2013, we had the right to redeem all or a portion of the subordinated debt, subject to a 30-day written notice and prior approval by the FDIC. The subordinated debt qualified as Tier 2 capital under regulatory guidelines and would have matured on May 30, 2018. However, we received approval by the FDIC to redeem this junior subordinated debt early, and redeemed it also on June 17, 2013.

We chose to redeem $45.0 million of junior subordinated debt early not only because of its diminishing regulatory capital benefit, but also for a future positive impact on net interest income.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Wealth Management Assets

As of December 31, 2014, the fair value of the S&T Bank Wealth Management assets under management and administration, or AUM, which are not accounted for as part of our assets, increased to $2.0 billion from $1.9 billion as of December 31, 2013. AUM consist of $1.1 billion in S&T Trust, $0.6 billion in S&T Financial Services and $0.3 billion in Stewart Capital Advisors. The increase in 2014 is primarily attributable to the improved performance of the U.S. and global capital markets and new business.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with GAAP, our management uses, and this Report contains or references, certain non-GAAP financial measures, such as net interest income on a FTE basis, operating revenue and the efficiency ratio. We believe these non-GAAP financial measures provide information useful to investors in understanding our underlying operational performance and our business and performance trends as they facilitate comparisons with the performance of other companies in the financial services industry. Although we believe that these non-GAAP financial measures enhance investors' understanding of our business and performance, these non-GAAP financial measures 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 a FTE basis ensures 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 Net Income is reconciled to net interest income adjusted to a FTE basis on pages 27 and 33.

Operating revenue is the sum of net interest income plus noninterest income, excluding security gains/losses and non-recurring income and expenses. In order to understand the significance of net interest income to our business and operating results, we believe it is appropriate to evaluate the significance of net interest income as a component of operating revenue.

The efficiency ratio is recurring noninterest expense divided by recurring noninterest income plus net interest income, on a FTE basis, which ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice.

Common return on average tangible assets, common return on average tangible common equity and the ratio of tangible common equity to tangible assets exclude goodwill, other intangible assets and preferred equity in order to show the significance of the tangible elements of our assets and common equity. Total assets and total average assets are reconciled to total tangible assets and total tangible average assets on page19. Total shareholders equity and total average shareholders equity are also reconciled to total tangible common equity and total tangible average common equity on page 20. These measures are consistent with industry practice.

Capital Resources

Shareholders' equity increased $37.1 million, or 6.0 percent, to $608.4 million at December 31, 2014 compared to $571.3 million at December 31, 2013. The increase in shareholders' equity is primarily due to the addition of $35.9 million in retained earnings, comprised of net income of $57.9 million reduced by common stock dividends of $20.2 million. Included in other comprehensive income (loss) was a decrease of $1.1 million due to the adjustment in the funded status of the employee benefit plans offset by the change in unrealized gains on securities available-for-sale, both due to the decline in interest rates at the end of the year.

We continue to maintain a strong capital position with a leverage ratio of 9.80 percent as compared to the regulatory guideline of 5.00 percent to be well capitalized. Our risk-based Tier 1 and Total capital ratios were 12.34 percent and 14.27 percent at December 31, 2014, which places us significantly above the federal bank regulatory agencies' "well

capitalized" guidelines of 6.00 percent and 10.00 percent for Tier 1 and Total capital. We believe that we have the ability to raise additional capital, if necessary.

In July of 2013, the U.S. federal banking agencies issued a joint final rule that implements the Basel III capital standards
effective January 1, 2015 with a phase-in period ending January 1, 2019. The final rule establishes the minimum capital levels required under the Dodd-Frank Act, permanently grandfathers trust preferred securities issued before May 19, 2010 and
increases the capital required for certain categories of assets. We have evaluated the impact of the Basel III final capital rule and
anticipate that our regulatory capital ratios will continue to exceed the well-capitalized minimum requirements.

In October 2012, we filed a shelf registration statement on Form S-3 under the Securities Act of 1933, as amended, with the SEC for the issuance of up to $300.0 million of a variety of securities including, debt and capital securities, preferred and common stock and warrants. We may use the proceeds from the issuance of any securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to, our subsidiaries, possible acquisitions and stock repurchases. As of December 31, 2014, we had not issued any securities pursuant to the shelf registration statement.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties and exclude contingent contractual liabilities for which we cannot reasonably predict future payments. We have various financial obligations, including contractual obligations and commitments that may require future cash payments. The following table presents as of December 31, 2014, significant fixed and determinable contractual obligations to third parties by payment date:

	Payments Due In				
(dollars in thousands)	2015	2016-2017	2018-2019	Later Years	Total
Deposits without a stated maturity[1]	$2,822,725	$—	$—	$—	$2,822,725
Certificates of deposit[1]	628,889	373,779	75,434	8,015	1,086,117
Securities sold under repurchase agreements[1]	30,605	—	—	—	30,605
Short-term borrowings[1]	290,000	—	—	—	290,000
Long-term borrowings[1]	2,399	4,742	5,010	7,291	19,442
Junior subordinated debt securities[1]	—	—	—	45,619	45,619
Operating and capital leases	2,350	4,530	4,452	41,039	52,371
Purchase obligations	11,326	21,772	23,188	—	56,286
Total	$3,788,294	$404,823	$108,084	$101,964	$4,403,165

(1) Excludes interest

Operating lease obligations represent short and long-term lease arrangements as described in Part II, Item 8, Note 9 Premises and Equipment, in the Notes to Consolidated Financial Statements. Purchase obligations primarily represent obligations under agreement with our third party data processing servicer and communications charges as described in Part II, Item 8, Note 16 Commitments and Contingencies, of this Report.

Off-Balance Sheet Arrangements

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.

The following table sets forth the commitments and letters of credit as of December 31:

(dollars in thousands)	2014	2013
Commitments to extend credit	$1,158,628	$1,038,529
Standby letters of credit	73,584	78,639
Total	$1,232,212	$1,117,168

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.

Our allowance for unfunded commitments is determined using a methodology similar to that used to determine the ALL. Amounts are added to the allowance for unfunded commitments through a charge to current earnings in noninterest expense. The balance in the allowance for unfunded commitments decreased $0.6 million to $2.3 million at December 31, 2014 compared to $2.9 million at December 31, 2013. The decrease is due to the continued

improvement in asset quality.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- continued

Liquidity

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 and S&T Bank. 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. ALCO monitors and manages liquidity through various ratios, reviewing cash flow projections, performing stress tests and by having a detailed contingency funding plan. ALCO policy guidelines are in place that define graduated risk tolerances. 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 Bank has the ability to retain existing and attract new deposits, mitigating any funding dependency on other more volatile sources. Refer to the Deposits Section of this Part II, Item 7, MD&A, for additional discussion on deposits. Although deposits are the primary source of funds, we have identified various funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. These funding sources include borrowing availability at the FHLB, Federal Funds lines with other financial institutions and access to the brokered deposit market.

An important component of S&T's 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 December 31, 2014 S&T Bank had $393.6 million in highly liquid assets, which consisted of $56.4 million in interest-bearing deposits with banks, $334.2 million in unpledged securities and $3.0 million in loans held for sale. The highly liquid assets to total assets resulted in an asset liquidity ratio of 8.0 percent at December 31, 2014. Also, at December 31, 2014, we had a remaining borrowing availability of $1.3 billion with the FHLB of Pittsburgh. In addition, we have access to $60 million in Federal Funds lines with other financial institutions. Refer to Part II, Item 8, Notes 14 and 15 Short-term and Long-term borrowings, and the Borrowings section of this Part II, Item 7, MD&A, for more details on FHLB borrowings. S&T Bank is considered to be a well capitalized bank according to regulatory guidance, therefore access to brokered CDs is not restricted.

Inflation

Management is aware of the significant effect inflation has on interest rates and can have on financial performance. Our ability to cope with this is best determined by analyzing our capability to respond to changing interest rates and our ability to manage noninterest income and expense. We monitor the mix of interest-rate sensitive assets and liabilities through ALCO in order to reduce the impact of inflation on net interest income. We also control the effects of inflation by reviewing the prices of our products and services, by introducing new products and services and by controlling overhead expenses.

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Item 7A. 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 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 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 ALCO. ALCO monitors and manages market risk through rate shock analyses, economic value of equity, or EVE, analysis and by performing stress tests in order to mitigate earnings and market value fluctuations due to changes in interest rates.

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 fixed rate 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 +/- 300 basis points. Policy guidelines define the percent 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 analysis. 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 incorporates 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 +/- 300 basis points. Policy guidelines define the percent 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 results. Both are in the minimal risk tolerance level.

	December 31, 2014		December 31, 2013	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
300	6.7	1.8	7.6	(6.1)
200	4.1	3.9	5.3	(2.1)
100	1.8	3.5	2.3	—
(100)	(3.4)	(12.3)	(3.4)	(10.8)

The results from the rate shock analyses 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. As measured by rate shock analyses, an increase in interest rates would have a positive impact on pretax net interest income. However, there was a slight decline in the percent change in pretax net interest income for our rates up shock scenarios when comparing December 31, 2014 and December 31, 2013. The decline is a result of utilizing short term funding to support the asset growth during 2014.

When comparing the EVE results for December 31, 2014 and December 31, 2013, the percent change to EVE has improved in the rates up shock scenarios and decreased in the rate down shock scenario. The changes in EVE are due to lower long-term rates at December 31, 2014 compared to December 31, 2013. The lower long-term rates resulted in lower values of

our non-maturity deposits in the 2014 base case due to the narrowing gap between the market funding rate and our non-maturity deposit rates. With a lower base case, the rates up shock scenarios reflect a greater improvement in the value of our non-maturity deposits. The improvement in the value of our non-maturity deposit values when comparing the rates up shock scenarios in 2014 to 2013 resulted in an improved EVE. The lower base case also impacted the rate down scenario but due to the overall low interest rate environment the impact was not as material.

In addition to rate shocks and EVE, we perform a market risk stress test 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 fixed rate 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 +/- 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 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements

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CONSOLIDATED BALANCE SHEETS
S&T Bancorp, Inc. and Subsidiaries

(dollars in thousands, except share and per share data)	December 31, 2014	2013
ASSETS		
Cash and due from banks, including interest-bearing deposits of $57,048 and $53,594 at December 31, 2014 and 2013	$109,580	$108,356
Securities available-for-sale, at fair value	640,273	509,425
Loans held for sale	2,970	2,136
Portfolio loans, net of unearned income	3,868,746	3,566,199
Allowance for loan losses	(47,911)	(46,255)
Portfolio loans, net	3,820,835	3,519,944
Bank owned life insurance	62,252	60,480
Premises and equipment, net	38,166	36,615
Federal Home Loan Bank and other restricted stock, at cost	15,135	13,629
Goodwill	175,820	175,820
Other intangible assets, net	2,631	3,759
Other assets	97,024	103,026
Total Assets	$4,964,686	$4,533,190
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$1,083,919	$992,779
Interest-bearing demand	335,099	312,790
Money market	376,612	281,403
Savings	1,027,095	994,805
Certificates of deposit	1,086,117	1,090,531
Total Deposits	3,908,842	3,672,308
Securities sold under repurchase agreements	30,605	33,847
Short-term borrowings	290,000	140,000
Long-term borrowings	19,442	21,810
Junior subordinated debt securities	45,619	45,619
Other liabilities	61,789	48,300
Total Liabilities	4,356,297	3,961,884
SHAREHOLDERS' EQUITY		
Common stock ($2.50 par value)		
Authorized—50,000,000 shares		
Issued—31,197,365 shares at December 31, 2014 and 2013	77,993	77,993
Outstanding—29,796,397 shares at December 31, 2014 and 29,737,725 shares at December 31, 2013		
Additional paid-in capital	78,818	78,140
Retained earnings	504,060	468,158
Accumulated other comprehensive income (loss)	(13,833)	(12,694)
Treasury stock (1,400,968 shares at December 31, 2014 and 1,459,640 shares at December 31, 2013, at cost)	(38,649)	(40,291)
Total Shareholders' Equity	608,389	571,306
Total Liabilities and Shareholders' Equity	$4,964,686	$4,533,190

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF NET INCOME
S&T Bancorp, Inc. and Subsidiaries

	Years ended December 31,		
(dollars in thousands, except per share data)	2014	2013	2012
INTEREST INCOME			
Loans, including fees	$147,293	$142,492	$145,181
Investment Securities:			
Taxable	8,983	7,478	7,544
Tax-exempt	3,857	3,401	3,121
Dividends	390	385	405
Total Interest Income	160,523	153,756	156,251
INTEREST EXPENSE			
Deposits	10,128	11,406	16,796
Borrowings and junior subordinated debt securities	2,353	3,157	4,228
Total Interest Expense	12,481	14,563	21,024
NET INTEREST INCOME	148,042	139,193	135,227
Provision for loan losses	1,715	8,311	22,815
Net Interest Income After Provision for Loan Losses	146,327	130,882	112,412
NONINTEREST INCOME			
Securities gains, net	41	5	3,016
Wealth management fees	11,343	10,696	9,808
Debit and credit card fees	10,781	10,931	11,134
Service charges on deposit accounts	10,559	10,488	9,992
Insurance fees	5,955	6,248	6,131
Gain on sale of merchant card servicing business	—	3,093	—
Mortgage banking	917	2,123	2,878
Other	6,742	7,943	8,953
Total Noninterest Income	46,338	51,527	51,912
NONINTEREST EXPENSE			
Salaries and employee benefits	60,442	60,847	57,920
Data processing	8,737	8,263	7,326
Net occupancy	8,211	8,018	7,603
Furniture and equipment	5,317	4,883	5,262
Professional services and legal	3,717	4,184	4,610
Marketing	3,316	2,929	3,206
Other taxes	2,905	3,743	3,200
FDIC insurance	2,436	2,772	2,926
Merger related expenses	689	838	5,968
Other	21,470	20,915	24,842
Total Noninterest Expense	117,240	117,392	122,863
Income Before Taxes	75,425	65,017	41,461
Provision for income taxes	17,515	14,478	7,261
Net Income Available to Common Shareholders	$57,910	$50,539	$34,200
Earnings per common share—basic	$1.95	$1.70	$1.18
Earnings per common share—diluted	$1.95	$1.70	$1.18
Dividends declared per common share	$0.68	$0.61	$0.60

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
S&T Bancorp, Inc. and Subsidiaries

	Years ended December 31,		
(dollars in thousands)	2014	2013	2012
Net Income	$57,910	$50,539	$34,200
Other Comprehensive Income (Loss), Before Tax:			
Net change in unrealized gains (losses) on securities available-for-sale	11,825	(16,928)	4,097
Net available-for-sale securities gains reclassified into earnings	(41)	(5)	(3,016)
Adjustment to funded status of employee benefit plans	(13,394)	18,299	(271)
Other Comprehensive Income (Loss), Before Tax	(1,610)	1,366	810
Income tax benefit (expense) related to items of other comprehensive income	471	(478)	(284)
Other Comprehensive Income (Loss), After Tax	(1,139)	888	526
Comprehensive Income	$56,771	$51,427	$34,726

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
S&T Bancorp, Inc. and Subsidiaries

(in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2011	$74,285	$52,637	$421,468	$(14,108)	$(43,756)	$490,526
Net income for 2012			34,200			34,200
Other comprehensive income (loss), net of tax				526		526
Cash dividends declared ($0.60 per share)			(17,357)			(17,357)
Common stock issued in acquisition (1,483,327 shares)	3,708	23,902				27,610
Treasury stock issued (117,633 shares, net)			(2,272)		3,270	998
Recognition of restricted stock compensation expense		949				949
Tax expense from stock-based compensation		(30)				(30)
Balance at December 31, 2012	$77,993	$77,458	$436,039	$(13,582)	$(40,486)	$537,422
Net income for 2013			50,539			50,539
Other comprehensive income (loss), net of tax				888		888
Cash dividends declared ($0.61 per share)			(18,137)			(18,137)
Treasury stock issued (5,516 shares, net)			(283)		195	(88)
Recognition of restricted stock compensation expense		586				586
Tax benefit from stock-based compensation		96				96
Balance at December 31, 2013	$77,993	$78,140	$468,158	$(12,694)	$(40,291)	$571,306
Net income for 2014			57,910			57,910
Other comprehensive income (loss), net of tax				(1,139)		(1,139)
Cash dividends declared ($0.68 per share)			(20,203)			(20,203)
Treasury stock issued (58,672 shares, net)			(1,805)		1,642	(163)
Recognition of restricted stock compensation expense		933				933
Tax benefit from stock-based compensation		16				16
Issuance costs		(271)				(271)
Balance at December 31, 2014	$77,993	$78,818	$504,060	$(13,833)	$(38,649)	$608,389

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS
S&T Bancorp, Inc. and Subsidiaries

	Years ended December 31,		
(dollars in thousands)	2014	2013	2012
OPERATING ACTIVITIES			
Net Income	$57,910	$50,539	$34,200
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,715	8,311	22,815
Provision for unfunded loan commitments	(655)	(60)	1,811
Depreciation and amortization	4,703	5,333	7,000
Net amortization of discounts and premiums	3,680	3,826	2,280
Stock-based compensation expense	975	687	913
Securities (gains) losses, net	(41)	(5)	(3,016)
Net gain on sale of merchant card servicing business	—	(3,093)	—
Tax (benefit) expense from stock-based compensation	(16)	(96)	30
Mortgage loans originated for sale	(42,842)	(66,695)	(104,924)
Proceeds from the sale of loans	42,361	87,932	86,886
Deferred income taxes	1,536	(2,358)	1,038
Gain on sale of fixed assets	(33)	—	—
Gain on the sale of loans, net	(353)	(874)	(1,612)
Net (increase) decrease in interest receivable	(933)	(130)	973
Net decrease in interest payable	(127)	(2,005)	(1,376)
Net decrease in other assets	7,628	25,681	18,815
Net increase (decrease) in other liabilities	2,595	(20,917)	18,057
Net Cash Provided by Operating Activities	78,103	86,076	83,890
INVESTING ACTIVITIES			
Proceeds from maturities, prepayments and calls of securities available-for-sale	57,092	66,744	87,604
Proceeds from sales of securities available-for-sale	1,418	94	66,575
Purchases of securities available-for-sale	(181,213)	(144,752)	(166,786)
Net proceeds from the redemption of Federal Home Loan Bank stock	(1,506)	1,685	5,700
Net (increase) decrease in loans	(313,264)	(241,172)	(21,892)
Proceeds from the sale of loans not originated for resale	5,408	5,158	3,874
Purchases of premises and equipment	(5,079)	(2,833)	(2,179)
Proceeds from the sale of premises and equipment	96	643	142
Net cash acquired from bank acquisitions	—	—	18,639
Proceeds from the sale of merchant card servicing business	—	4,750	—
Net Cash Used in Investing Activities	(437,048)	(309,683)	(8,323)
FINANCING ACTIVITIES			
Net increase (decrease) in core deposits	240,948	(22,767)	207,653
Net (decrease) increase in certificates of deposit	(4,549)	56,174	(217,311)
Net increase (decrease) in short-term borrowings	150,000	65,000	—
Net (decrease) increase in securities sold under repurchase agreements	(3,242)	(28,735)	28,442
Proceeds from long-term borrowings	—	—	4,311
Repayments of long-term borrowings	(2,367)	(12,291)	(15,088)

Repayment of junior subordinated debt	—	(45,000)	—
Purchase of treasury shares	(163)	(88)	(49)
Sale of treasury shares	—	—	1,047
Issuance costs	(271)	—	—
Cash dividends paid to common shareholders	(20,203)	(18,137)	(17,357)
Tax benefit (expense) from stock-based compensation	16	96	(30)
Net Cash Provided by (Used in) Financing Activities	360,169	(5,748)	(8,382)
Net increase (decrease) in cash and cash equivalents	1,224	(229,355)	67,185
Cash and cash equivalents at beginning of year	108,356	337,711	270,526

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	Years ended December 31,		
(dollars in thousands)	2014	2013	2012
Cash and Cash Equivalents at End of Year	$109,580	$108,356	$337,711
Supplemental Disclosures			
Transfers to other real estate owned and other repossessed assets	$586	$1,238	$1,915
Interest paid	12,609	16,568	22,329
Income taxes paid, net of refunds	18,075	13,130	4,063
Loans transferred to held for sale	—	5,158	19,255
Net assets (liabilities) from acquisitions, excluding cash and cash equivalents	—	—	(683)

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
S&T Bancorp, Inc. and Subsidiaries

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

S&T Bancorp, Inc., or S&T, was incorporated on March 17, 1983 under the laws of the Commonwealth of Pennsylvania as a bank holding company and has three wholly owned subsidiaries, S&T Bank, 9th Street Holdings, Inc. and STBA Capital Trust I. We own a one-half interest in Commonwealth Trust Credit Life Insurance Company, or CTCLIC.

We are presently engaged in nonbanking activities through the following five entities: 9th Street Holdings, Inc.; S&T Bancholdings, Inc.; CTCLIC; S&T Insurance Group, LLC and Stewart Capital Advisors, LLC. 9th Street Holdings, Inc. and S&T Bancholdings, Inc. are investment holding companies. CTCLIC, which is a joint venture with another financial institution, acts as a reinsurer of credit life, accident and health insurance policies sold by S&T Bank and the other institution. S&T Insurance Group, LLC, through its subsidiaries, offers a variety of insurance products. Stewart Capital Advisors, LLC is a registered investment advisor that manages private investment accounts for individuals and institutions and advises the Stewart Capital Mid Cap Fund.

On March 9, 2012 we completed the acquisition and conversion of Mainline Bancorp, Inc., or Mainline, a bank holding company based in Ebensburg, Pennsylvania. Mainline had one subsidiary, Mainline National Bank, with eight branches and $129.5 million in loans and $206.0 million in deposits. The acquisition expanded our market share and footprint throughout Cambria and Blair counties of western Pennsylvania. The total acquisition cost of Mainline was $27.8 million.

On August 13, 2012, we completed the acquisition of Gateway Bank of Pennsylvania, a bank with $99.1 million in loans and $105.4 million in deposits, headquartered in McMurray, Pennsylvania. The total acquisition cost of Gateway Bank was $19.8 million. As of December 31, 2012, Gateway was operating as a separate wholly-owned subsidiary of S&T, with all transactions since the acquisition date consolidated in our financial statements. On February 8, 2013, Gateway Bank was merged into S&T Bank, and their two branches are now fully operational branches of S&T Bank.

On October 29, 2014, S&T and Integrity Bancshares, Inc., or Integrity, based in Camp Hill, Pennsylvania with eight branches and approximately $860 million in assets as of September 2014, entered into a definitive Agreement and Plan of Merger of Integrity with and into S&T. The transaction, valued at approximately $155 million, is expected to close in the first quarter of 2015, after satisfaction of customary closing conditions. As soon as practicable following the merger, Integrity Bank, a Pennsylvania state-chartered bank subsidiary of Integrity, will be merged with and into S&T Bank with S&T Bank continuing as the surviving bank. The bank merger is expected to close in the second quarter of 2015. However, for a period of at least three years following the merger, S&T Bank intends to operate bank branches in the markets currently served by Integrity Bank using the name "Integrity Bank - A Division of S&T Bank".

Accounting Policies

Our financial statements have been prepared in accordance with U. S. generally accepted accounting principles, or GAAP. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the balance sheets and revenues and expenses for the periods then ended. Actual results could differ from those estimates. Our significant accounting policies are described below.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of 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.

Reclassification

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

Business Combinations

We account for business combinations using the acquisition method of accounting. Under this method of accounting, the acquired company's net assets are recorded at fair value at the date of acquisition, and the results of operations of the acquired company are combined with our results from that date forward. Acquisition costs are expensed when incurred. The difference between the purchase price and the fair value of the net assets acquired (including identified intangibles) is recorded as goodwill.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Fair Value Measurements

We use fair value measurements when recording and disclosing certain financial assets and liabilities. Securities available-for-sale, trading assets and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held for sale, impaired loans, other real estate owned, or OREO, mortgage servicing rights, or MSRs, and certain other assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction. In determining fair value, we use various valuation approaches, including market, income and cost approaches. The fair value standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, which is developed, based on market data we have obtained from independent sources. Unobservable inputs reflect our 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 securities. The market evaluation sources for debt securities include observable inputs rather than significant unobservable inputs and are classified as Level 2. The service provider utilizes pricing models that vary by asset class and include available trade, bid and other market information. Generally, the methodologies include broker quotes, proprietary models, and vast descriptive terms and conditions databases, as well as extensive quality control programs.

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

Trading Assets

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- 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 counterparty's nonperformance risk in calculating fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements and collateral postings.

Nonrecurring Basis

Loans Held for Sale

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

Impaired Loans

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

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.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Financial Instruments
In addition to financial instruments recorded at fair value in our financial statements, fair value accounting guidance requires disclosure of the fair value of all of an entity’s assets and liabilities that are considered financial instruments. The majority of our assets and liabilities are considered financial instruments. Many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaged in an exchange transaction. Also, it is our general practice and intent to hold our financial instruments to maturity and to not engage in trading or sales activities with respect to such financial instruments. For fair value disclosure purposes, we substantially utilize the fair value measurement criteria as required and explained above. In cases where quoted fair values are not available, we use present value methods to determine the fair value of our financial instruments.
Cash and Cash Equivalents
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 based on their carrying values less any specific reserve. The carrying amount of accrued interest approximates fair value.
Bank Owned Life Insurance
Fair value approximates net cash surrender value of bank owned life insurance, or BOLI.
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 and other short-term borrowings approximate their fair values.
Long-Term Borrowings
The fair values disclosed for fixed rate long-term borrowings are determined by discounting their contractual cash flows using current interest rates for long-term borrowings of similar remaining maturities. The carrying amounts of variable rate long-term borrowings approximate their fair values.
Junior Subordinated Debt Securities
The variable rate junior subordinated debt securities reprice quarterly; therefore, the fair values approximate the carrying values.
Loan Commitments and Standby Letters of Credit
Off-balance sheet financial instruments consist of commitments to extend credit and letters of credit. Except for interest rate lock commitments, estimates of the fair value of these off-balance sheet items are not made because of the short-term nature of these arrangements and the credit standing of the counterparties.
Other
Estimates of fair value are not made for items that are not defined as financial instruments, including such items as our core deposit intangibles and the value of our trust operations.
Cash and Cash Equivalents

We consider cash and due from banks, interest-bearing deposits with banks and federal funds sold as cash and cash equivalents.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Securities

We determine the appropriate classification of securities at the time of purchase. All securities, including both debt and equity securities, are classified as available-for-sale. These are securities that we intend to hold for an indefinite period of time, but that may be sold in response to changes in interest rates, prepayment risk, liquidity needs or other factors. Such securities are carried at fair value with net unrealized gains and losses deemed to be temporary, reported as a component of other comprehensive income (loss), net of tax. Realized gains and losses on the sale of available-for-sale securities and other-than-temporary impairment, or OTTI, charges are recorded within noninterest income in the Consolidated Statements of Net Income. Realized gains and losses on the sale of securities are determined using the specific-identification method. Bond premiums are amortized to the call date and bond discounts are accreted to the maturity date, both on a level yield basis.

An investment security is considered impaired if its fair value is less than its cost or amortized cost basis. We perform a quarterly review of our securities to identify those that may indicate an OTTI. Our policy for OTTI within the marketable equity securities portfolio generally requires an impairment charge when the security is in a loss position for 12 consecutive months, unless facts and circumstances would suggest the need for an OTTI prior to that time. Our policy for OTTI within the debt securities portfolio is based upon a number of factors, including but not limited to, the length of time and extent to which the estimated fair value has been less than cost, the financial condition of the underlying issuer, the ability of the issuer to meet contractual obligations, the best estimate of the impairment charge representing credit losses, the likelihood of the security’s ability to recover any decline in its estimated fair value and whether management intends to sell the security or if it is more likely than not that management will be required to sell the investment security prior to the security’s recovery. If the impairment is considered other-than-temporary based on management’s review, the impairment must be separated into credit and non-credit components. The credit component is recognized in the Consolidated Statements of Net Income and the non-credit component is recognized in other comprehensive income (loss), net of applicable taxes.

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. If a loan is transferred from the loan portfolio to the held-for-sale category, any write-down in the carrying amount of the loan at the date of transfer is recorded as a charge-off against the allowance for loan losses, or ALL. Subsequent declines in fair value are recognized as a charge to noninterest income. When a loan is placed in the held-for-sale category, we stop amortizing the related deferred fees and costs. The remaining unamortized fees and costs are recognized as part of the cost basis of the loan at the time it is sold. Gains and losses on sales of loans held for sale are included in other noninterest income in the Consolidated Statements of Net Income.

Loans

Loans are reported at the principal amount outstanding net of unearned income, unamortized premiums or discounts and deferred origination fees and costs. We defer certain nonrefundable loan origination and commitment fees. Accretion of discounts and amortization of premiums on loans are included in interest income in the Consolidated Statements of Net Income. Loan origination fees and direct loan origination costs are deferred and amortized as an adjustment of loan yield over the respective lives of the loans without consideration of anticipated prepayments. If a loan is paid off, the remaining unaccreted or unamortized net origination fees and costs are immediately recognized into income or expense. Interest is accrued and interest income is recognized on loans as earned.

Closed-end installment loans, amortizing loans secured by real estate and any other loans with payments scheduled monthly are reported past due when the borrower is in arrears two or more monthly payments. Other multi-payment obligations with payments scheduled other than monthly are reported past due when one scheduled payment is due and unpaid for 30 days or more.

Generally, consumer loans are charged off against the ALL upon the loan reaching 90 days past due. Commercial loans are charged off as management becomes aware of facts and circumstances that raise doubt as to the collectability

of all or a portion of the principal and when we believe a confirmed loss exists.
Nonaccrual or Nonperforming Loans
We stop accruing interest on a loan (nonaccrual loan) when the borrower's payment is 90 days past due. Loans are also placed on nonaccrual status when payment is not past due, but we have doubt about the borrower's ability to comply with contractual repayment terms. When the interest accrual is discontinued, all unpaid accrued interest is reversed against interest income. Interest income is recognized on nonaccrual loans on a cash basis if recovery of the remaining principal is reasonably assured. As a general rule, a nonaccrual loan may be restored to accrual status when its principal and interest is paid current and the bank expects repayment of the remaining contractual principal and interest, or when the loan otherwise becomes well secured and in the process of collection.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Troubled Debt Restructurings

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

We individually evaluate all substandard commercial loans that experienced a forbearance or change in terms agreement, as well as all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan to determine if they should be designated as TDRs.

All TDRs will be reported as impaired loans for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal and interest will be collected according to the restructured agreement. Further, all impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

Allowance for Loan Losses

The ALL reflects our estimates of probable losses inherent in the loan portfolio at the balance sheet date. 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.

A loan is considered impaired when 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. We individually evaluate all substandard and nonaccrual commercial loans greater than $0.5 million for impairment. 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 fully expected 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. Specific reserves are established based upon 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 estimated fair value of the collateral if the loan is collateral dependent. Our impairment evaluations consist primarily of the fair value of collateral method because most loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the impaired loan is less than the recorded investment in the loan balance.

The ALL for homogeneous loans is calculated using a systematic methodology with both a quantitative and a qualitative analysis that is applied on a quarterly basis. The ALL model is comprised of five distinct portfolio segments: 1) Commercial Real Estate, or CRE, 2) Commercial and Industrial, or C&I, 3) Commercial Construction, 4) Consumer Real Estate and 5) Other Consumer. Each segment has a distinct set of risk characteristics monitored by management. We further assess and monitor risk and performance at a more disaggregated level which includes our internal risk rating system for the commercial segments and type of collateral, lien position and loan-to-value, or LTV, for the consumer segments.

We first apply historical loss rates to pools of loans with similar risk characteristics. Loss rates are calculated by historical charge-offs that have occurred within each pool of loans over the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from the point at which a loss is incurred on a loan to the point at which the loss is confirmed. In general, the LEP will be shorter in an economic slowdown or recession and longer during times of economic stability or growth, as customers are better able to delay loss confirmation after a potential loss event has occurred.

In conjunction with our annual review of the ALL assumptions, we have updated our study of LEPs for our commercial portfolio segments using our loan charge-off history. Our study showed that the LEP for our commercial construction portfolio has lengthened and that our current estimated LEPs for the CRE and C&I portfolio segments did not materially change. We estimate the LEP to be 3.5 years for CRE and commercial construction and 2.5 years for C&I. This is an increase from the prior LEP of 1.5 years for commercial construction. We believe that the LEPs for the consumer portfolio segments have also lengthened as they are influenced by the same improvement in economic conditions that has impacted the commercial portfolio segments over the past two years. We therefore also lengthened the LEP assumption for the consumer portfolio to 2.0 years. This is an increase from prior LEPs of 1.5 years for the consumer portfolio segment.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Another key assumption is the look-back period, or LBP, which represents the historical data period utilized to calculate loss rates. We lengthened the LBP for C&I, Commercial Construction and the consumer loan portfolio segments in order to capture relevant historical data believed to be reflective of losses inherent in the portfolios. We use a five and one quarter years LBP for our commercial portfolio segments and three and one quarter years LBP for our consumer portfolio segments.

After consideration of the historic loss calculations, management applies additional qualitative adjustments so that the ALL is reflective of the inherent losses that exist in the loan portfolio at the balance sheet date. Qualitative adjustments are made based upon changes in economic conditions, loan portfolio and asset quality data and credit process changes, such as credit policies or underwriting standards. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

The changes made to the ALL assumptions were applied prospectively and did not result in a material change to the total ALL. Lengthening the LEPs does increase the historical loss rates and therefore the quantitative component of the ALL. We believe this makes the quantitative component of the ALL more reflective of inherent losses that exist within the loan portfolio, which resulted in a decrease in the qualitative component of the ALL. The ALL at December 31, 2014 reflects these changes within the C&I, Commercial Construction and consumer portfolio segments.

Qualitative adjustments are aggregated into five categories, including process, economic conditions, loan portfolio, asset quality and other external factors.

Within the five aforementioned categories, the following qualitative factors are considered:

1) Changes in our lending policies and procedures, including underwriting standards, collection, charge-off and recovery practices not considered elsewhere in estimating credit losses;
2) Changes in national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
3) Changes in the nature and volume of our loan portfolio and terms of loans;
4) Changes in the experience, ability and depth of our lending management and staff;
5) Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;
6) Changes in the quality of our loan review system;
7) Changes in the value of the underlying collateral for collateral-dependent loans;
8) The existence and effect of any concentrations of credit and changes in the level of such concentrations; and
9) The effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in our current loan portfolio.

Our ALL Committee meets quarterly to verify the overall adequacy of the ALL. Additionally, on an annual basis, the ALL Committee meets to validate our ALL model. This validation includes reviewing the pools of loans to ensure the segmentation results in relevant homogeneous pools of loans. The ALL Committee reviews the LEP and LBP used to calculate the loss rates. Further, the ALL Committee reviews the qualitative factors to ensure that both the categories, as noted above, and the range of qualitative adjustments remain appropriate. As a result of this ongoing monitoring process, we may make changes to our ALL assumptions to be responsive to the economic environment.

Bank Owned Life Insurance

We have purchased life insurance policies on certain executive officers and employees. We receive the cash surrender value of each policy upon its termination or benefits are payable upon the death of the insured. Changes in net cash surrender value are recognized in noninterest income or expense in the Consolidated Statements of Net Income.

Premises and Equipment

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Maintenance and repairs are charged to expense as incurred, while improvements that extend an asset’s useful life are capitalized and depreciated over the estimated remaining life of the asset. Depreciation expense is computed by the

straight-line method for financial reporting purposes and accelerated methods for income tax purposes over the estimated useful lives of the particular assets. Management reviews long-lived assets using events and circumstances to determine if and when an asset is evaluated for recoverability.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

The estimated useful lives for the various asset categories are as follows:

1) Land and Land Improvements	Non-depreciating assets
2) Buildings	25 years
3) Furniture and Fixtures	5 years
4) Computer Equipment and Software	5 years or term of license
5) Other Equipment	5 years
6) Vehicles	5 years
7) Leasehold Improvements	Lesser of estimated useful life of the asset (generally 15 years unless established otherwise) or the remaining term of the lease, including renewal options in the lease that are reasonably assured of exercise

Restricted Investment in Bank Stock

Federal Home Loan Bank, or FHLB, stock is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We hold FHLB stock because we are a member of the FHLB of Pittsburgh. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon on the members asset value, level of borrowings and participation in other programs offered. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the low-cost products and services offered by the FHLB. Unlike equity securities of traditional for-profit enterprises, the stock of the FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value. Both cash and stock dividends are reported as income in taxable investment securities in the Consolidated Statements of Net Income. FHLB stock is evaluated for OTTI on a quarterly basis.

Atlantic Community Bankers' Bank, or ACBB, stock is carried at cost and evaluated for impairment based on the ultimate recoverability of the carrying value. We do not currently use their membership products and services. We acquired ACBB stock through various mergers of banks that were ACBB members. ACBB stock is evaluated for OTTI on a quarterly basis.

Goodwill and Other Intangible Assets

We have three reporting units: Community Banking, Insurance and Wealth Management. At December 31, 2014, we had goodwill of $175.8 million, including $171.6 million in Community Banking, representing 98 percent of total goodwill and $4.2 million in Insurance, representing two percent of total goodwill. The carrying value of goodwill is tested annually for impairment each October 1 or more frequently if it is determined that we should do so. We first assess qualitatively whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Our qualitative assessment considers such factors as macroeconomic conditions, market conditions specifically related to the banking industry, our overall financial performance and various other factors. If we determine that it is more likely than not that the fair value is less than the carrying amount, we proceed to test for impairment. The evaluation for impairment involves comparing the current estimated fair value of each reporting unit to its carrying value, including goodwill. If the current estimated fair value of a reporting unit exceeds its carrying value, no additional testing is required and impairment loss is not recorded. If the estimated fair value of a reporting unit is less than the carrying value, further valuation procedures are performed and could result in impairment of goodwill being recorded. Further valuation procedures would include allocating the estimated fair value to all assets and liabilities of the reporting unit to determine an implied goodwill value. If the implied value of goodwill of a reporting unit is less than the carrying amount of that goodwill, an impairment loss is recognized in an amount equal to that excess.

We have core deposit and other intangible assets resulting from acquisitions which are subject to amortization. We determine the amount of identifiable intangible assets based upon independent core deposit and insurance contract analyses at the time of the acquisition. Intangible assets with finite useful lives are evaluated for impairment whenever

events or changes in circumstances indicate that their carrying amount may not be recoverable.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Variable Interest Entities

Variable interest entities, or VIEs, are legal entities that generally either do not have equity investors with voting rights or that have equity investors that do not provide sufficient financial resources for the entity to support its activities. When an enterprise has both the power to direct the economic activities of the VIE and the obligation to absorb losses of the VIE or the right to receive benefits of the VIE, the entity has a controlling financial interest in the VIE. A VIE often holds financial assets, including loans or receivables, or other property. The company with a controlling financial interest, the primary beneficiary, is required to consolidate the VIE into its consolidated balance sheets. S&T has one wholly-owned trust subsidiary, STBA Capital Trust I, or the Trust, for which it does not absorb a majority of expected losses or receive a majority of the expected residual returns. At its inception in 2008, the Trust issued floating rate trust preferred securities to the Trustee, another financial institution, and used the proceeds from the sale to invest in junior subordinated debt, which is the sole asset of the Trust. The Trust pays dividends on the trust preferred securities at the same rate as the interest we pay on our junior subordinated debt held by the Trust. Because the third-party investors are the primary beneficiaries, the Trust qualifies as a VIE. Accordingly, the Trust and its net assets are not included in our Consolidated Financial Statements. However, the junior subordinated debt issued by S&T is included in our Consolidated Balance Sheets.

Joint Ventures

We have made investments directly in Low Income Housing Tax Credit, or LIHTC, partnerships formed with third parties. As a limited partner in these operating partnerships, we receive tax credits and tax deductions for losses incurred by the underlying properties. These investments are amortized over a maximum of 10 years, which represents the period that the tax credits will be utilized. We have determined that we are not the primary beneficiary of these investments because the general partners have the power to direct the activities that most significantly impact the economic performance of the partnership and have both the obligation to absorb expected losses and the right to receive benefits.

OREO and Other Repossessed Assets

OREO and other repossessed assets are included in other assets in the Consolidated Balance Sheets and are comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of a foreclosure. At the time of foreclosure, these properties are recorded at the lower of the recorded investment in the loan or fair value less cost to sell. Loan losses arising from the acquisition of such property initially are charged against the ALL. Subsequently, these assets are carried at the lower of carrying value or current fair value less cost to sell. Gains or losses realized upon disposition of the asset are recorded in other expenses in the Consolidated Statements of Net Income.

Mortgage Servicing Rights

MSRs are recognized as separate assets when commitments to fund a loan to be sold are made. Upon commitment, the MSR is established, which represents the then current estimated fair value of future net cash flows expected to be realized for performing the servicing activities. The estimated fair value of the MSRs is estimated 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. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced. In determining the estimated fair value of MSRs, mortgage interest rates, which are used to determine prepayment rates, are held constant over the estimated life of the portfolio. MSRs are reported in other assets in the Consolidated Balance Sheets and are amortized into noninterest income in the Consolidated Statements of Net Income in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage loans. MSRs are regularly evaluated for impairment based on the estimated fair value of those rights. The MSRs are stratified by certain risk characteristics, primarily loan term and note rate. If temporary impairment exists within a risk stratification tranche, a valuation allowance is established through a charge to income equal to the amount by which the carrying value exceeds the estimated fair value. If it is later determined that all or a portion of the temporary

impairment no longer exists for a particular tranche, the valuation allowance is reduced.

MSRs are also reviewed for OTTI. OTTI exists when the recoverability of a recorded valuation allowance is determined to be remote, taking into consideration historical and projected interest rates and loan pay-off activity. When this situation occurs, the unrecoverable portion of the valuation allowance is applied as a direct write-down to the carrying value of the MSR. Unlike a valuation allowance, a direct write-down permanently reduces the carrying value of the MSR and the valuation allowance, precluding subsequent recoveries.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Derivative Financial Instruments

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 a same notional amount at a fixed rate. At the same time, we agree to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our customer to effectively convert a variable rate loan to a fixed rate loan 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 Net 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 can 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 Net Income.

Allowance for Unfunded 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. 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. The reserve is calculated by applying historical loss rates from our ALL model to the estimated future utilization of our unfunded commitments.

Treasury Stock

The repurchase of our common stock is recorded at cost. At the time of reissuance, the treasury stock account is reduced using the average cost method. Gains and losses on the reissuance of common stock are recorded in additional paid-in capital, to the extent additional paid-in capital from previous treasury share transactions exists. Any deficiency is charged to retained earnings.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

Revenue Recognition

We recognize revenues as they are earned based on contractual terms or as services are provided when collectability is reasonably assured. Our principal source of revenue is interest income, which is recognized on an accrual basis. Interest and dividend income, loan fees, trust fees, fees and charges on deposit accounts, insurance commissions and other ancillary income related to our deposits and lending activities are accrued as earned.

Wealth Management Fees

Assets held in a fiduciary capacity by the subsidiary bank, S&T Bank, are not our assets and are therefore not included in our Consolidated Financial Statements. Wealth management fee income is reported in the Consolidated Statements of Net Income on an accrual basis.

Stock-Based Compensation

Stock-based compensation may include stock options and restricted stock which is measured using the fair value method of accounting. The grant date fair value is recognized over the period during which the recipient is required to provide service in exchange for the award. Stock option expense is determined utilizing the Black-Scholes model. Restricted stock expense is determined using the grant date fair value. We estimate expected forfeitures when stock-based awards are granted and record compensation expense only for awards that are expected to vest.

Pensions

The expense for S&T Bank's qualified and nonqualified defined benefit pension plans is actuarially determined using the projected unit credit actuarial cost method. It requires us to make economic assumptions regarding future interest rates and asset returns as well as various demographic assumptions. We estimate the discount rate used to measure benefit obligations by applying the projected cash flow for future benefit payments to a yield curve of high-quality corporate bonds available in the marketplace and by employing a model that matches bonds to our pension cash flows. The expected return on plan assets is an estimate of the long-term rate of return on plan assets, which is determined based on the current asset mix and estimates of return by asset class. We recognize in the Consolidated Balance Sheets an asset for the plan's overfunded status or a liability for the plan's underfunded status. Gains or losses related to changes in benefit obligations or plan assets resulting from experience different from that assumed are recognized as other comprehensive income (loss) in the period in which they occur. To the extent that such gains or losses exceed ten percent of the greater of the projected benefit obligation or plan assets, they are recognized as a component of pension costs over the future service periods of active plan participants. The funding policy for the qualified plan is to contribute an amount each year that is at least equal to the minimum required contribution as determined under the Pension Protection Act of 2006 and Moving Ahead for Progress in the 21st Century Act, but not more than the maximum amount permissible for taxable plan sponsors. Our nonqualified plans are unfunded.

Marketing Costs

We expense all marketing-related costs, including advertising costs, as incurred.

Income Taxes

We estimate income tax expense based on amounts expected to be owed to the tax jurisdictions where we conduct business. On a quarterly basis, management assesses the reasonableness of our effective tax rate based upon our current estimate of the amount and components of net income, tax credits and the applicable statutory tax rates expected for the full year. We classify interest and penalties as an element of tax expense.

Deferred income tax assets and liabilities are determined using the asset and liability method and are reported in other assets or other liabilities, as appropriate, in the Consolidated Balance Sheets. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities and recognizes enacted changes in tax rate and laws. When deferred tax assets are recognized, they are subject to a valuation allowance based on management's judgment as to whether realization is more likely than not.

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in other assets or other liabilities, as appropriate, in the Consolidated Balance Sheets. We evaluate and assess the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent

and other information and maintain tax accruals consistent with the evaluation of these relative risks and merits.
Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance. These changes, when they occur, can affect deferred taxes and accrued taxes, as well as the current period's income tax expense and can be significant to our operating results.
Tax positions are recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -- continued

is greater than 50 percent likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

Earnings Per Share

Basic earnings per share, or EPS, is calculated using the two-class method to determine income allocated to common shareholders. Unvested share-based payment awards that contain nonforfeitable rights to dividends are considered participating securities under the two-class method. Income allocated to common shareholders is then divided by the weighted average number of common shares outstanding during the period. Potentially dilutive securities are excluded from the basic EPS calculation.

Diluted EPS is calculated under the more dilutive of either the treasury stock method or the two-class method. Under the treasury stock method, the weighted average number of common shares outstanding is increased by the potentially dilutive common shares. For the two-class method, diluted EPS is calculated for each class of shareholders using the weighted average number of shares attributed to each class. Potentially dilutive common shares are common stock equivalents relating to our outstanding warrants, stock options and restricted stock.

Recently Adopted Accounting Standards Updates, or ASU

Business Combinations (Topic 805): Pushdown Accounting

In November 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-17, Pushdown Accounting - Business Combinations (Topic 805). The ASU provides an acquired entity with an option to elect to apply pushdown accounting. The amendments of this ASU apply to the separate financial statements of an acquired entity and its subsidiaries that are a business activity upon the occurrence of an event in which an acquirer obtains control of the entity. Pushdown accounting refers to the use of the acquirer's basis in the preparation of the acquiree's separate financial statements. The new standard became effective upon issuance on November 18, 2014. The adoption of this ASU had no impact on our results of operations or financial position.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists. The ASU requires that entities should present an unrecognized tax benefit as a reduction of the deferred tax asset for a net operating loss, or NOL, or similar tax loss or tax credit carry forward rather than as a liability when the uncertain tax position would reduce the NOL or other carry forward under the tax law. The new standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, and should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of this ASU had no impact on our results of operations or financial position.

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

In February 2013, the FASB issued ASU No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. The ASU requires the measurement of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors as well as any additional amount that the entity expects to pay on behalf of its co-obligors. The new standard is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2013, and early adoption is permitted. The adoption of this ASU had no impact on our results of operations or financial position.

Recently Issued Accounting Standards Updates not yet Adopted

Share-Based Payment Awards with Performance Targets

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

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