

S&T BANCORP INC  
Form 10-Q  
May 06, 2015

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from \_\_\_\_\_ To \_\_\_\_\_  
Commission file number 0-12508

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

Pennsylvania 25-1434426  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

800 Philadelphia Street, Indiana, PA 15701  
(Address of principal executive offices) (zip code)

800-325-2265  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, \$2.50 Par Value - 34,796,390 shares as of April 30, 2015

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

	March 31, 2015	December 31, 2014
	(Unaudited)	(Audited)
(dollars in thousands, except per share data)		
<b>ASSETS</b>		
Cash and due from banks, including interest-bearing deposits of \$69,110 and \$57,048 at March 31, 2015 and December 31, 2014	\$ 124,737	\$ 109,580
Securities available-for-sale, at fair value	655,829	640,273
Loans held for sale	6,126	2,970
Portfolio loans, net of unearned income	4,683,698	3,868,746
Allowance for loan losses	(48,106)	(47,911)
Portfolio loans, net	4,635,592	3,820,835
Bank owned life insurance	78,738	62,252
Premises and equipment, net	49,660	38,166
Federal Home Loan Bank and other restricted stock, at cost	19,729	15,135
Goodwill	290,617	175,820
Other intangible assets, net	7,996	2,631
Other assets	102,269	97,024
<b>Total Assets</b>	<b>\$5,971,293</b>	<b>\$4,964,686</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing demand	\$ 1,177,623	\$ 1,083,919
Interest-bearing demand	686,546	335,099
Money market	617,609	376,612
Savings	1,073,755	1,027,095
Certificates of deposit	1,272,998	1,086,117
<b>Total Deposits</b>	<b>4,828,531</b>	<b>3,908,842</b>
Securities sold under repurchase agreements	46,721	30,605
Short-term borrowings	199,573	290,000
Long-term borrowings	18,838	19,442
Junior subordinated debt securities	50,619	45,619
Other liabilities	64,753	61,789
<b>Total Liabilities</b>	<b>5,209,035</b>	<b>4,356,297</b>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock (\$2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at March 31, 2015 and 31,197,365 at December 31, 2014	40,326	77,993
Outstanding—34,797,526 shares at March 31, 2015 and 29,796,397 shares at December 31, 2014		
Additional paid-in capital	209,150	78,818
Retained earnings	509,575	504,060
Accumulated other comprehensive income (loss)	(10,028)	(13,833)
Treasury stock (1,332,954 shares at March 31, 2015 and 1,400,968 shares at December 31, 2014, at cost)	(36,765)	(38,649)
<b>Total Shareholders' Equity</b>	<b>762,258</b>	<b>608,389</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$5,971,293</b>	<b>\$4,964,686</b>

See Notes to Consolidated Financial Statements

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

	Three Months Ended March	
	31,	2014
(dollars in thousands, except per share data)	2015	2014
<b>INTEREST INCOME</b>		
Loans, including fees	\$39,927	\$35,649
Investment Securities:		
Taxable	2,383	1,900
Tax-exempt	1,020	929
Dividends	586	187
Total Interest Income	43,916	38,665
<b>INTEREST EXPENSE</b>		
Deposits	3,007	2,510
Borrowings and junior subordinated debt securities	650	564
Total Interest Expense	3,657	3,074
<b>NET INTEREST INCOME</b>	40,259	35,591
Provision for loan losses	1,207	289
Net Interest Income After Provision for Loan Losses	39,052	35,302
<b>NONINTEREST INCOME</b>		
Securities gains, net	—	1
Wealth management fees	2,923	2,955
Debit and credit card fees	2,715	2,502
Service charges on deposit accounts	2,583	2,509
Insurance fees	1,651	1,677
Mortgage banking	525	132
Other	1,687	1,640
Total Noninterest Income	12,084	11,416
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	16,780	15,376
Net occupancy	2,588	2,230
Data processing	2,320	2,095
Furniture and equipment	1,226	1,271
Other taxes	842	631
Marketing	816	618
FDIC insurance	695	631
Professional services and legal	523	663
Merger related expenses	2,301	—
Other	5,530	5,399
Total Noninterest Expense	33,621	28,914
Income Before Taxes	17,515	17,804
Provision for income taxes	4,680	3,771
Net Income	\$12,835	\$14,033
Earnings per share—basic	\$0.41	\$0.47
Earnings per share—diluted	\$0.41	\$0.47
Dividends declared per share	\$0.18	\$0.16
Comprehensive Income	\$16,640	\$17,079

See Notes to Consolidated Financial Statements

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

(dollars in thousands, except shares and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2014	\$77,993	\$78,140	\$468,158	\$ (12,694 )	\$(40,291 )	\$571,306
Net income for three months ended March 31, 2014	—	—	14,033	—	—	14,033
Other comprehensive income (loss), net of tax	—	—	—	3,046	—	3,046
Cash dividends declared (\$0.16 per share)	—	—	(4,758 )	—	—	(4,758 )
Treasury stock issued for restricted awards (0 shares, net of 19,599 forfeitures)	—	—	357	—	(518 )	(161 )
Recognition of restricted stock compensation expense	—	185	—	—	—	185
Balance at March 31, 2014	\$77,993	\$78,325	\$477,790	\$ (9,648 )	\$(40,809 )	\$583,651
Balance at January 1, 2015	\$77,993	\$78,818	\$504,060	\$ (13,833 )	\$(38,649 )	\$608,389
Net income for three months ended March 31, 2015	—	—	12,835	—	—	12,835
Other comprehensive income (loss), net of tax	—	—	—	3,805	—	3,805
Cash dividends declared (\$0.18 per share)	—	—	(5,357 )	—	—	(5,357 )
Common stock issued in acquisition (4,933,115 shares)	12,333	130,136	—	—	—	142,469
Treasury stock issued for restricted awards (71,699 shares, net of 3,685 forfeitures)	—	—	(1,963 )	—	1,884	(79 )
Recognition of restricted stock compensation expense	—	319	—	—	—	319
Issuance costs	—	(123 )	—	—	—	(123 )
Balance at March 31, 2015	\$90,326	\$209,150	\$509,575	\$ (10,028 )	\$(36,765 )	\$762,258

See Notes to Consolidated Financial Statements

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

	Three Months Ended March	
	31,	
(dollars in thousands)	2015	2014
<b>OPERATING ACTIVITIES</b>		
Net income	\$12,835	\$14,033
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,207	289
Provision for unfunded loan commitments	198	(57)
Depreciation and amortization	1,460	1,115
Net amortization of discounts and premiums	913	966
Stock-based compensation expense	240	135
Securities gains, net	—	(1)
Mortgage loans originated for sale	(21,481)	(4,897)
Proceeds from the sale of loans	21,777	5,922
Gain on the sale of loans, net	(203)	(22)
Net increase in interest receivable	(2,288)	(543)
Net decrease in interest payable	(374)	(284)
Net decrease in other assets	2,945	3,648
Net increase in other liabilities	2,061	2,061
Net Cash Provided by Operating Activities	19,290	22,365
<b>INVESTING ACTIVITIES</b>		
Purchases of securities available-for-sale	(6,373)	(60,559)
Proceeds from maturities, prepayments and calls of securities available-for-sale	6,389	21,598
Net proceeds from Federal Home Loan Bank stock	4,024	1,666
Net increase in loans	(30,588)	(62,749)
Purchases of premises and equipment	(849)	(457)
Proceeds from the sale of premises and equipment	7	64
Net cash paid in excess of cash acquired from bank merger	(16,347)	—
Net Cash Used in Investing Activities	(43,737)	(100,437)
<b>FINANCING ACTIVITIES</b>		
Net increase in core deposits	240,719	157,874
Net (decrease) increase in certificates of deposit	(43,417)	38,061
Net increase in securities sold under repurchase agreements	16,116	4,587
Net decrease in short-term borrowings	(159,150)	(40,000)
Repayments of long-term borrowings	(605)	(584)
Repayment of junior subordinated debt	(8,500)	—
Treasury shares issued-net	(79)	(161)
Issuance costs	(123)	—
Cash dividends paid to common shareholders	(5,357)	(4,758)
Net Cash Provided by Financing Activities	39,604	155,019
Net increase in cash and cash equivalents	15,157	76,947
Cash and cash equivalents at beginning of period	109,580	108,356
Cash and Cash Equivalents at End of Period	\$124,737	\$185,303
<b>Supplemental Disclosures</b>		
Interest paid	\$3,781	\$3,358

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Income taxes paid, net of refunds	\$1,500	\$—
Net assets acquired from bank merger, excluding cash and cash equivalents	\$44,019	\$—
Transfers of loans to other real estate owned	\$—	\$186
See Notes to Consolidated Financial Statements		

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

NOTE 1. BASIS OF PRESENTATION

Principles of Consolidation

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

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of S&T have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission, or SEC, on February 20, 2015. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

Reclassification

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

Use of Estimates

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

Recently Adopted Accounting Standards Updates, or ASU

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

In April 2014, the Financial Accounting Standards Board, or FASB, issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The guidance applies to all entities that dispose of components. It will significantly change current practices for assessing discontinued operations and affect an entity's income and earnings per share from continuing operations. An entity is required to reclassify assets and liabilities of a discontinued operation that are classified as held for sale or disposed of in the current period for all comparative periods presented. The ASU requires that an entity present in the statement of cash flows or disclose in a note either total operating and investing cash flows for discontinued operations, or depreciation, amortization, capital expenditures and significant operating and investing noncash items related to discontinued operations. Additional disclosures are required when an entity retains significant continuing involvement with a discontinued operation after its disposal, including the amount of cash flows to and from a discontinued operation. The new standard applies prospectively after the effective date of December 15, 2014, and early adoption is permitted. The adoption of this ASU had no impact on our results of operations or financial position.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The ASU clarifies that an in substance repossession or foreclosure has occurred and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure. Interim and annual disclosure is required of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The new standard is effective using either the modified retrospective transition method or a prospective transition method for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. The adoption of this ASU had no impact on our results of operations or financial position.

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects. The ASU permits reporting entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. The proportional amortization method permits the amortization of the initial cost of the investment in proportion to the tax credits and other tax benefits received, and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The new standard is effective retrospectively for fiscal years and interim periods within those years, beginning after December 15, 2014, and early adoption is permitted. This ASU did not have a material impact on our results of operations or financial position. We did not adopt the proportional amortization method. Refer to Note 14 for additional disclosure.

Recently Issued Accounting Standards Updates not yet Adopted

Intangibles – Goodwill and Other – Internal-Use Software: Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued ASU No. 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. The main provisions of ASU 2015-05 provide a basis for evaluating whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, then the arrangement should be accounted for as a service contract. 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.

Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2016. We do not expect that this ASU will have a material impact on our results of operations or financial position.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION - continued

Consolidation: Amendments to the Consolidation Analysis

In April 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendments in this ASU affect reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. Specifically, the amendments: 1) Modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities, 2) Eliminate the presumption that a general partner should consolidate a limited partnership, 3) Affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and party relationships, 4) Provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2A-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in this Update are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. We are currently evaluating the impact that these amendments may have on our consolidated financial statements.

Income Statement – Extraordinary and Unusual Items: Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary

In January 2015, the FASB issued ASU No. 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary. The amendments of this ASU eliminate from GAAP the concept of extraordinary items and eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The standard is required to be adopted by public business entities in annual periods beginning on or after December 15, 2015. We are currently evaluating the impact of the adoption of this pronouncement on our consolidated financial statements.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 2. BUSINESS COMBINATIONS

On March 4, 2015, we completed the acquisition of 100 percent of the voting shares of Integrity Bancshares, Inc., or Integrity, located in Camp Hill, Pennsylvania, in a tax-free reorganization transaction structured as a merger of Integrity with and into S&T, with S&T being the surviving entity. As a result of the Integrity merger, or the merger, Integrity Bank, the wholly owned subsidiary bank of Integrity, became a separate wholly owned subsidiary bank of S&T.

Integrity shareholders were entitled to elect to receive for each share of Integrity common stock either \$52.50 in cash or 2.0627 shares of S&T common stock subject to allocation and proration procedures in the merger agreement. The total purchase price was approximately \$172.0 million which included \$29.5 million of cash and 4,933,115 S&T common shares at a fair value of \$28.88 per share. The fair value of \$28.88 per share of S&T common stock was based on the March 4, 2015 closing price.

The merger was accounted for under the acquisition method of accounting and our consolidated financial statements include all Integrity Bank transactions since March 4, 2015. Preliminary estimates of fair value have been recorded for loans, premises and other equipment, deposits, the core deposit intangible and other assets at March 31, 2015.

Additional adjustments may be required to finalize the acquisition accounting.

Goodwill of \$114.8 million was calculated as the excess of the consideration exchanged over the fair value of the identifiable net assets acquired. The goodwill arising from the merger consists largely of the synergies and economies of scale expected from combining the operations of S&T and Integrity. All of the goodwill was assigned to our Community Banking segment. The goodwill recognized will not be deductible for tax purposes.

The following table summarizes total consideration, assets acquired and liabilities assumed at March 4, 2015:

(dollars in thousands)

Consideration Paid	
Cash	\$29,510
Common stock	142,469
Fair Value of Total Consideration	\$171,979
Fair Value of Assets Acquired	
Cash and cash equivalents	\$13,163
Securities and other investments	11,502
Loans	788,687
Bank owned life insurance	15,974
Premises and equipment	11,685
Core deposit intangible	5,713
Other assets	19,050
Total Assets Acquired	865,774
Fair Value of Liabilities Assumed	
Deposits	722,308
Borrowings	82,286
Other liabilities	3,998
Total Liabilities Assumed	808,592
Total Fair Value of Identifiable Net Assets	57,182
Goodwill	\$114,797

Loans acquired in the merger were recorded at fair value with no carryover of the related allowance for loan losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. Loans acquired with evidence of credit quality deterioration were evaluated and not considered to be significant. The fair value of the loans acquired was \$788.7 million net of a \$14.8 million discount. The discount will be accreted to interest income over the remaining contractual life of the loans. Acquired loans included \$481.4 million of commercial real estate, or CRE, \$193.9 million of commercial & industrial, or C&I, \$44.8 million of commercial construction \$32.7 million of residential mortgage \$28.8 million of home equity \$5.6 million of installment and other consumer and \$1.5 million of consumer construction.



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 2. BUSINESS COMBINATIONS - continued

Direct costs related to the merger were expensed as incurred. During the first quarter of 2015, we recognized \$2.3 million of merger related expenses, including \$0.9 million for data processing contract termination and conversion costs, \$0.3 million in severance payments and \$1.1 million in legal and professional expenses.

The consolidated statements of comprehensive income for the three months ended March 31, 2015 include net interest income of \$2.2 million and net income of \$0.3 million from Integrity Bank since the March 4, 2015 acquisition date.

The following table presents unaudited pro forma financial information which combines the historical consolidated statements of income of S&T and Integrity to give effect to the merger as if it had occurred on January 1, 2014, for the periods presented.

(dollars in thousands, except per share data)	Unaudited Pro Forma Information Three Months Ended March 31,	
	2015	2014
Total revenue	\$58,208	\$53,996
Net income <sup>(1)</sup>	\$ 14,502	\$ 16,052
Earnings per common share: <sup>(1)</sup>		
Basic	\$0.42	\$0.46
Diluted	\$0.42	\$0.46

<sup>(1)</sup>Excludes merger expenses

Total pro forma revenue is defined as net interest income plus non-interest income, excluding gains and losses on sales of investment securities available-for-sale. Pro forma adjustments include intangible amortization expense, net amortization or accretion of valuation amounts and income tax expense.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 3. EARNINGS PER SHARE

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

(dollars in thousands, except shares and per share data)	Three Months Ended March 31,	
	2015	2014
Numerator for Earnings per Share—Basic:		
Net income	\$12,835	\$14,033
Less: Income allocated to participating shares	46	35
Net Income Allocated to Shareholders	\$12,789	\$13,998
Numerator for Earnings per Share—Diluted:		
Net income	12,835	14,033
Net Income Available to Shareholders	\$12,835	\$14,033
Denominators for Earnings per Share:		
Weighted Average Shares Outstanding—Basic	31,232,075	29,660,794
Add: Potentially dilutive shares	28,873	37,253
Denominator for Treasury Stock Method—Diluted	31,260,948	29,698,047
Weighted Average Shares Outstanding—Basic	31,232,075	29,660,794
Add: Average participating shares outstanding	111,774	74,237
Denominator for Two-Class Method—Diluted	31,343,849	29,735,031
Earnings per share—basic	\$0.41	\$0.47
Earnings per share—diluted	\$0.41	\$0.47
Warrants considered anti-dilutive excluded from potentially dilutive shares	517,012	517,012
Stock options considered anti-dilutive excluded from potentially dilutive shares	155,500	428,863
Restricted stock considered anti-dilutive excluded from potentially dilutive shares	82,901	36,984

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

Recurring Basis

Securities Available-for-Sale

Securities available-for-sale include both debt and equity securities. We obtain fair values for debt securities from a third-party pricing service which utilizes several sources for valuing fixed-income securities. We validate prices received from our pricing service through comparison to a secondary pricing service and broker quotes. We review the methodologies of the pricing service which provides us with a sufficient understanding of the valuation models, assumptions, inputs and pricing to reasonably measure the fair value of our debt securities. The market valuation sources for debt securities include observable inputs rather than significant unobservable inputs and are classified as Level 2. The service provider utilizes pricing models that vary by asset class and include available trade, bid and other market information. Generally, the methodologies include broker quotes, proprietary models and vast descriptive terms and conditions databases, as well as extensive quality control programs.

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. FAIR VALUE MEASUREMENTS – continued

Derivative Financial Instruments

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

Nonrecurring Basis

Loans Held for Sale

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

Impaired Loans

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

OREO and Other Repossessed Assets

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



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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. FAIR VALUE MEASUREMENTS – 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.

FHLB and Other Restricted Stock

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

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.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 4. FAIR VALUE MEASUREMENTS – continued

## Junior Subordinated Debt Securities

The variable rate junior subordinated debt securities reprice quarterly; therefore, the fair values approximate the carrying values. The fair value of the fixed rate junior subordinated debt securities assumed from the merger also approximates the carrying value due to our ability and intention to pay off the subordinated debt in the near future.

## Loan Commitments and Standby Letters of Credit

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

## Other

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

The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at March 31, 2015 and December 31, 2014. Due to limited trading volume, we transferred marketable equity securities with a fair value of \$0.2 million from Level 1 to Level 2 during the period ended March 31, 2015.

There were no other transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

(dollars in thousands)	March 31, 2015			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Securities available-for-sale:				
U.S. Treasury securities	\$—	\$15,030	\$—	\$15,030
Obligations of U.S. government corporations and agencies	—	271,383	—	271,383
Collateralized mortgage obligations of U.S. government corporations and agencies	—	131,404	—	131,404
Residential mortgage-backed securities of U.S. government corporations and agencies	—	48,165	—	48,165
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	40,080	—	40,080
Obligations of states and political subdivisions	—	140,676	—	140,676
Marketable equity securities	—	9,091	—	9,091
Total securities available-for-sale	—	655,829	—	655,829
Trading securities held in a Rabbi Trust	3,505	—	—	3,505
Total securities	3,505	655,829	—	659,334
Derivative financial assets:				
Interest rate swaps	—	14,020	—	14,020
Interest rate lock commitments	—	371	—	371
Total Assets	\$3,505	\$670,220	\$—	\$673,725
<b>LIABILITIES</b>				
Derivative financial liabilities:				
Interest rate swaps	\$—	\$13,979	\$—	\$13,979
Forward sale contracts	—	74	—	74
Total Liabilities	\$—	\$14,053	\$—	\$14,053





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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 4. FAIR VALUE MEASUREMENTS – continued

(dollars in thousands)	December 31, 2014			Total
	Level 1	Level 2	Level 3	
<b>ASSETS</b>				
Securities available-for-sale:				
U.S. Treasury securities	\$—	\$14,880	\$—	\$14,880
Obligations of U.S. government corporations and agencies	—	269,285	—	269,285
Collateralized mortgage obligations of U.S. government corporations and agencies	—	118,006	—	118,006
Residential mortgage-backed securities of U.S. government corporations and agencies	—	46,668	—	46,668
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	39,673	—	39,673
Obligations of states and political subdivisions	—	142,702	—	142,702
Marketable equity securities	178	8,881	—	9,059
Total securities available-for-sale	178	640,095	—	640,273
Trading securities held in a Rabbi Trust	3,456	—	—	3,456
Total securities	3,634	640,095	—	643,729
Derivative financial assets:				
Interest rate swaps	—	12,981	—	12,981
Interest rate lock commitments	—	235	—	235
Forward sale contracts	—	—	—	—
Total Assets	\$3,634	\$653,311	\$—	\$656,945
<b>LIABILITIES</b>				
Derivative financial liabilities:				
Interest rate swaps	\$—	\$12,953	\$—	\$12,953
Forward sale contracts	—	57	—	57
Total Liabilities	\$—	\$13,010	\$—	\$13,010

We classify financial instruments as Level 3 when valuation models are used because significant inputs are not observable in the market. We had no assets measured at fair value on a recurring basis for which we have utilized Level 3 inputs to determine the fair value at either March 31, 2015 or March 31, 2014.

We may be required to measure certain assets and liabilities on a nonrecurring basis. Nonrecurring assets are recorded at the lower of cost or fair value in our financial statements. The following table presents our assets that were measured at fair value on a nonrecurring basis by the fair value hierarchy level at March 31, 2015 and December 31, 2014. There were no liabilities measured at fair value on a nonrecurring basis during these periods.

(dollars in thousands)	March 31, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>ASSETS<sup>(1)</sup></b>								
Loans held for sale	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Impaired loans	—	—	14,940	14,940	—	—	12,916	12,916
Other real estate owned	—	—	1,294	1,294	—	—	117	117
Mortgage servicing rights	—	—	2,865	2,865	—	—	2,934	2,934
Total Assets	\$—	\$—	\$19,099	\$19,099	\$—	\$—	\$15,967	\$15,967

<sup>(1)</sup>This table presents only the nonrecurring items that are recorded at fair value in our financial statements.



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 4. FAIR VALUE MEASUREMENTS – continued

The carrying values and fair values of our financial instruments at March 31, 2015 and December 31, 2014 are presented in the following tables:

(dollars in thousands)	Carrying Value <sup>(1)</sup>	Fair Value Measurements at March 31, 2015			
		Total	Level 1	Level 2	Level 3
<b>ASSETS</b>					
Cash and due from banks, including interest-bearing deposits	\$ 124,737	\$ 124,737	\$ 124,737	\$—	\$—
Securities available-for-sale	655,829	655,829	—	655,829	—
Loans held for sale	6,126	6,160	—	—	6,160
Portfolio loans, net of unearned income	4,683,698	4,673,187	—	—	4,673,187
Bank owned life insurance	78,738	78,738	—	78,738	—
FHLB and other restricted stock	19,729	19,729	—	—	19,729
Trading securities held in a Rabbi Trust	3,505	3,505	3,505	—	—
Mortgage servicing rights	2,788	2,865	—	—	2,865
Interest rate swaps	14,020	14,020	—	14,020	—
Interest rate lock commitments	371	371	—	371	—
<b>LIABILITIES</b>					
Deposits	\$ 4,828,531	\$ 4,834,805	\$—	\$—	\$ 4,834,805
Securities sold under repurchase agreements	46,721	46,721	—	—	46,721
Short-term borrowings	199,573	199,573	—	—	199,573
Long-term borrowings	18,838	19,928	—	—	19,928
Junior subordinated debt securities	50,619	50,619	—	—	50,619
Interest rate swaps	13,979	13,979	—	13,979	—
Forward sale contracts	74	74	—	74	—

<sup>(1)</sup> As reported in the Consolidated Balance Sheets

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 4. FAIR VALUE MEASUREMENTS – continued

(dollars in thousands)	Carrying Value <sup>(1)</sup>	Fair Value Measurements at December 31, 2014			
		Total	Level 1	Level 2	Level 3
<b>ASSETS</b>					
Cash and due from banks, including interest-bearing deposits	\$ 109,580	\$ 109,580	\$ 109,580	\$—	\$—
Securities available-for-sale	640,273	640,273	178	640,095	—
Loans held for sale	2,970	2,991	—	—	2,991
Portfolio loans, net of unearned income	3,868,746	3,827,634	—	—	3,827,634
Bank owned life insurance	62,252	62,252	—	62,252	—
FHLB and other restricted stock	15,135	15,135	—	—	15,135
Trading securities held in a Rabbi Trust	3,456	3,456	3,456	—	—
Mortgage servicing rights	2,817	2,934	—	—	2,934
Interest rate swaps	12,981	12,981	—	12,981	—
Interest rate lock commitments	235	235	—	235	—
<b>LIABILITIES</b>					
Deposits	\$3,908,842	\$3,910,342	\$—	\$—	\$3,910,342
Securities sold under repurchase agreements	30,605	30,605	—	—	30,605
Short-term borrowings	290,000	290,000	—	—	290,000
Long-term borrowings	19,442	20,462	—	—	20,462
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	12,953	12,953	—	12,953	—
Forward sale contracts	57	57	—	57	—

<sup>(1)</sup> As reported in the Consolidated Balance  
Sheets

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 5. SECURITIES AVAILABLE-FOR-SALE

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

(dollars in thousands)	March 31, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$ 14,883	\$ 147	\$—	\$ 15,030	\$ 14,873	\$ 7	\$—	\$ 14,880
Obligations of U.S. government corporations and agencies	267,686	3,900	(203	) 271,383	268,029	2,334	(1,078	) 269,285
Collateralized mortgage obligations of U.S. government corporations and agencies	129,010	2,419	(25	) 131,404	116,897	1,257	(148	) 118,006
Residential mortgage-backed securities of U.S. government corporations and agencies	46,412	1,802	(49	) 48,165	45,274	1,548	(154	) 46,668
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,701	517	(138	) 40,080	39,834	232	(393	) 39,673
Obligations of states and political subdivisions	134,765	5,953	(42	) 140,676	136,977	5,789	(64	) 142,702
Debt Securities	632,457	14,738	(457	) 646,738	621,884	11,167	(1,837	) 631,214
Marketable equity securities	7,579	1,512	—	9,091	7,579	1,480	—	9,059
Total	\$ 640,036	\$ 16,250	\$ (457	) \$ 655,829	\$ 629,463	\$ 12,647	\$ (1,837	) \$ 640,273

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

(dollars in thousands)	Three Months Ended March 31,	
	2015	2014
Gross realized gains	\$—	\$ 1
Gross realized losses	—	—
Net Realized Gains	\$—	\$ 1



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 5. SECURITIES AVAILABLE-FOR-SALE – continued

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

(dollars in thousands)	March 31, 2015		12 Months or More		Total				
	Less Than 12 Months		12 Months or More		Total				
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	3	\$ 23,523	\$ (55 )	4	\$ 30,157	\$ (148 )	7	\$ 53,680	\$ (203 )
Collateralized mortgage obligations of U.S. government corporations and agencies	3	7,868	(25 )	—	—	—	3	7,868	(25 )
Residential mortgage-backed securities of U.S. government corporations and agencies	5	11,361	(49 )	—	—	—	5	11,361	(49 )
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	—	—	1	9,717	(138 )	1	9,717	(138 )
Obligations of states and political subdivisions	1	5,385	(42 )	—	—	—	1	5,385	(42 )
Total Temporarily Impaired Securities	12	\$ 48,137	\$ (171 )	5	\$ 39,874	\$ (286 )	17	\$ 88,011	\$ (457 )

(dollars in thousands)	December 31, 2014		12 Months or More		Total				
	Less Than 12 Months		12 Months or More		Total				
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Obligations of U.S. government corporations and agencies	4	\$ 39,745	\$ (207 )	8	\$ 63,149	\$ (871 )	12	\$ 102,894	\$ (1,078 )



Collateralized mortgage obligations of U.S. government corporations and agencies	1	9,323	(148 )	—	—	—	1	9,323	(148 )
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—	—	1	8,982	(154 )	1	8,982	(154 )
Commercial mortgage-backed securities of U.S. government corporations and agencies	1	9,998	(25 )	2	20,640	(368 )	3	30,638	(393 )
Obligations of states and political subdivisions	1	263	(1 )	2	10,756	(63 )	3	11,019	(64 )
Total Temporarily Impaired Securities	7	\$ 59,329	\$ (381 )	13	\$ 103,527	\$ (1,456 )	20	\$ 162,856	\$ (1,837 )

We do not believe any individual unrealized loss as of March 31, 2015 represents an other than temporary impairment, or OTTI. As of March 31, 2015, the unrealized losses on 17 debt securities were attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. There were no unrealized losses on marketable equity securities as of March 31, 2015. We do not intend to sell and it is not more likely than not that we will be required to sell any of the securities, referenced in the table above, in an unrealized loss position before recovery of their amortized cost.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 5. SECURITIES AVAILABLE-FOR-SALE – continued

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

(dollars in thousands)	March 31, 2015			December 31, 2014		
	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/(Losses)	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/(Losses)
Total unrealized gains/(losses) on securities available-for-sale	\$ 16,250	\$(457)	)\$ 15,793	\$ 12,647	\$(1,837)	)\$ 10,810
Income tax expense/(benefit)	5,688	(160)	)5,528	4,426	(643)	)3,783
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	\$ 10,562	\$(297)	)\$ 10,265	\$ 8,221	\$(1,194)	)\$ 7,027

The amortized cost and fair value of securities available-for-sale at March 31, 2015 by contractual maturity are included in the table below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	March 31, 2015 Amortized Cost	Fair Value
Obligations of the U.S. Treasury and U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	\$ 29,757	\$ 30,068
Due after one year through five years	206,322	208,787
Due after five years through ten years	80,865	83,329
Due after ten years	100,390	104,905
	417,334	427,089
Collateralized mortgage obligations of U.S. government corporations and agencies	129,010	131,404
Residential mortgage-backed securities of U.S. government corporations and agencies	46,412	48,165
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,701	40,080
Debt Securities	632,457	646,738
Marketable equity securities	7,579	9,091
Total	\$ 640,036	\$ 655,829

At March 31, 2015 and December 31, 2014, securities with carrying values of \$334.6 million and \$289.1 million were pledged for various regulatory and legal requirements.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 6. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of \$2.5 million and \$2.1 million at March 31, 2015 and December 31, 2014. The following table indicates the composition of the loans as of the dates presented:

(dollars in thousands)	March 31, 2015	December 31, 2014
Commercial		
Commercial real estate	\$2,152,413	\$1,682,236
Commercial and industrial	1,211,053	994,138
Commercial construction	286,166	216,148
Total Commercial Loans	3,649,632	2,892,522
Consumer		
Residential mortgage	521,506	489,586
Home equity	442,396	418,563
Installment and other consumer	65,754	65,567
Consumer construction	4,410	2,508
Total Consumer Loans	1,034,066	976,224
Total Portfolio Loans	4,683,698	3,868,746
Loans held for sale	6,126	2,970
Total Loans	\$4,689,824	\$3,871,716

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, collateral and industry and actively managing concentrations. When concentrations exist in certain segments, we mitigate this risk by monitoring the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 78 percent of total portfolio loans at March 31, 2015 and 75 percent of total portfolio loans at December 31, 2014. Within our commercial portfolio, CRE and commercial construction portfolios combined comprised \$2.4 billion or 67 percent of total commercial loans and 52 percent of total portfolio loans at March 31, 2015 and 66 percent of total commercial loans and 49 percent of total portfolio loans at December 31, 2014. Of the \$2.4 billion of CRE and commercial construction loans, \$527.9 million were added as a result of the merger. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type reveal no concentration in excess of 9.0 percent of total loans at March 31, 2015 and December 31, 2014.

Our market area includes Pennsylvania and the contiguous states of Ohio, West Virginia, New York and Maryland. The majority of our commercial and consumer loans are made to businesses and individuals in this market area resulting in a geographic concentration. We believe our knowledge and familiarity with customers and conditions locally outweighs this geographic concentration risk. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Management believes underwriting guidelines, active monitoring of economic conditions and ongoing review by credit administration mitigates the concentration risk present in the loan portfolio. Our CRE and commercial construction portfolios had out of market exposure of 6.1 percent of the combined portfolio and 3.2 percent of total loans at March 31, 2015 and 8.0 percent of the combined portfolio and 3.9 percent of total loans at December 31, 2014. Troubled debt restructurings, or TDRs, are loans where we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we would not otherwise grant. We strive to identify borrowers in financial difficulty early and work with them to modify the terms before their loan reaches nonaccrual status. These modified terms generally include extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics, reductions in contractual interest rates or principal deferment. While unusual, there may be instances of principal forgiveness. These modifications are generally for longer term periods that would not be considered insignificant. Additionally, we classify loans where the debt

obligation has been discharged through a Chapter 7 Bankruptcy and not reaffirmed as TDRs.

We individually evaluate all substandard commercial loans that have experienced a forbearance or change in terms agreement, as well as all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan to determine if they should be designated as TDRs. All TDRs are considered to be impaired loans and will be reported as impaired loans for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal 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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

accruing status. TDRs can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

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

(dollars in thousands)	March 31, 2015			December 31, 2014		
	Performing TDRs	Nonperforming TDRs	Total TDRs	Performing TDRs	Nonperforming TDRs	Total TDRs
Commercial real estate	\$ 16,722	\$ 5,030	\$ 21,752	\$ 16,939	\$ 2,180	\$ 19,119
Commercial and industrial	7,988	1,772	9,760	8,074	356	8,430
Commercial construction	5,724	1,973	7,697	5,736	1,869	7,605
Residential mortgage	2,507	625	3,132	2,839	459	3,298
Home equity	3,438	510	3,948	3,342	562	3,904
Installment and other consumer	44	6	50	53	10	63
Total	\$ 36,423	\$ 9,916	\$ 46,339	\$ 36,983	\$ 5,436	\$ 42,419

There were no TDRs returned to accruing status during the three months ended March 31, 2015 or three months ended March 31, 2014.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

The following tables present the restructured loans for the three month periods ended March 31, 2015 and March 31, 2014:

(dollars in thousands)	Three Months Ended March 31, 2015			Total Difference in Recorded Investment
	Number of Loans	Pre-Modification Outstanding Recorded Investment <sup>(1)</sup>	Post-Modification Outstanding Recorded Investment <sup>(1)</sup>	
Commercial real estate Principal deferral	2	\$ 2,851	\$ 2,851	\$—
Commercial and industrial Principal deferral	6	661	661	—
Chapter 7 bankruptcy <sup>(2)</sup>	1	3	1	(2 )
Maturity date extension	1	780	765	(15 )
Commercial Construction Principal deferral	1	104	103	(1 )
Home equity Chapter 7 bankruptcy <sup>(2)</sup>	8	142	133	(9 )
Maturity date extension	1	71	71	—
Total by Concession Type Principal deferral	9	3,616	3,615	(1 )
Chapter 7 bankruptcy <sup>(2)</sup>	9	145	134	(11 )
Maturity date extension	2	851	836	(15 )
Total	20	\$ 4,612	\$ 4,585	\$(27 )

<sup>(1)</sup> Excludes loans that were fully paid off or fully charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.

<sup>(2)</sup> Chapter 7 bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not reaffirmed.

(dollars in thousands)	Three Months Ended March 31, 2014			Total Difference in Recorded Investment
	Number of Loans	Pre-Modification Outstanding Recorded Investment <sup>(1)</sup>	Post-Modification Outstanding Recorded Investment <sup>(1)</sup>	
Commercial and industrial Chapter 7 bankruptcy <sup>(2)</sup>	1	\$ 287	\$ 286	\$(1 )
Commercial Construction Principal deferral	1	1,019	1,019	—
Residential mortgage Chapter 7 bankruptcy <sup>(2)</sup>	4	277	276	(1 )
Home equity Chapter 7 bankruptcy <sup>(2)</sup>	6	225	210	(15 )
Total by Concession Type Principal deferral	1	1,019	1,019	—
Chapter 7 bankruptcy <sup>(2)</sup>	11	789	772	(17 )

Total	12	\$ 1,808	\$ 1,791	\$(17 )
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(1) Excludes loans that were fully paid off or fully charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.

(2) Chapter 7 bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not reaffirmed.

For the three months ended March 31, 2015, we modified 2 commercial and industrial, or C&I, loans totaling \$0.2 million, and 2 CRE loans totaling \$0.2 million that were not considered to be TDRs. The modifications represented instances where there was an insignificant delay in payment. As of March 31, 2015 we have no commitments to lend additional funds on any TDRs.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 6. LOANS AND LOANS HELD FOR SALE - continued

Defaulted TDRs are defined as loans having a payment default of 90 days or more after the restructuring takes place. The following tables present a summary of TDRs which defaulted during the periods presented that had been restructured within the last 12 months prior to defaulting:

(dollars in thousands)	Defaulted TDRs			
	For the Three Months Ended			
	March 31, 2015		March 31, 2014	
	Number of Recorded Defaults	Investment	Number of Recorded Defaults	Investment
Residential mortgage	1	\$ 183	1	\$ 72
Home equity	1	5	—	—
Total	2	\$ 188	1	\$ 72

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

(dollars in thousands)	Nonperforming Assets	
	March 31, 2015	December 31, 2014
Nonperforming Assets		
Nonaccrual loans	\$8,218	\$7,021
Nonaccrual TDRs	9,916	5,436
Total nonaccrual loans	18,134	12,457
OREO	1,294	166
Total Nonperforming Assets	\$19,428	\$12,623



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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 7. ALLOWANCE FOR LOAN LOSSES

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

The following are key risks within each portfolio segment:

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

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

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

Consumer Real Estate—Loans secured by first and second liens such as home equity loans, home equity lines of credit and 1-4 family 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 for this segment. The state of the local housing market can also have a significant impact on this segment because low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

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

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

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

Another key assumption is the look-back period, or LBP, which represents the historical data period utilized to calculate loss rates.

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 7. ALLOWANCE FOR LOAN LOSSES – continued

The following tables present the age analysis of past due loans segregated by class of loans as of March 31, 2015 and December 31, 2014:

(dollars in thousands)	March 31, 2015						Total Loans
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due <sup>(1)</sup>	Nonaccrual	Total Past Due	
Commercial real estate	\$2,138,815	\$2,955	\$522	\$1,735	\$8,386	\$13,598	\$2,152,413
Commercial and industrial	1,202,897	4,089	517	—	3,550	8,156	1,211,053
Commercial construction	281,084	969	—	2,140	1,973	5,082	286,166
Residential mortgage	516,515	1,548	63	1,154	2,226	4,991	521,506
Home equity	438,629	1,583	198	—	1,986	3,767	442,396
Installment and other consumer	65,465	249	27	—	13	289	65,754
Consumer construction	4,410	—	—	—	—	—	4,410
Loans held for sale	6,126	—	—	—	—	—	6,126
Totals	\$4,653,941	\$11,393	\$1,327	\$5,029	\$18,134	\$35,883	\$4,689,824

<sup>(1)</sup>Represents acquired loans that were recorded at fair value at the acquisition date.

(dollars in thousands)	December 31, 2014						Total Loans
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Nonaccrual	Total Past Due	
Commercial real estate	\$1,674,930	\$2,548	\$323	\$—	\$4,435	\$7,306	\$1,682,236
Commercial and industrial	991,136	1,227	153	—	1,622	3,002	994,138
Commercial construction	214,174	—	—	—	1,974	1,974	216,148
Residential mortgage	485,465	565	1,220	—	2,336	4,121	489,586
Home equity	414,303	1,756	445	—	2,059	4,260	418,563
Installment and other consumer	65,111	352	73	—	31	456	65,567
Consumer construction	2,508	—	—	—	—	—	2,508
Loans held for sale	2,970	—	—	—	—	—	2,970
Totals	\$3,850,597	\$6,448	\$2,214	\$—	\$12,457	\$21,119	\$3,871,716

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

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

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

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

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



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 7. ALLOWANCE FOR LOAN LOSSES – continued

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

		March 31, 2015							
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total	
Pass	\$2,073,492	96.3 %	\$1,137,101	93.9 %	\$247,967	86.7 %	\$3,458,560	94.8 %	
Special mention	25,204	1.2 %	55,529	4.6 %	20,600	7.2 %	101,333	2.8 %	
Substandard	53,717	2.5 %	18,423	1.5 %	17,599	6.1 %	89,739	2.4 %	
Total	\$2,152,413	100 %	\$1,211,053	100.0 %	\$286,166	100.0 %	\$3,649,632	100.0 %	

		December 31, 2014							
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total	
Pass	\$1,635,132	97.2 %	\$948,663	95.4 %	\$196,520	90.9 %	\$2,780,315	96.1 %	
Special mention	23,597	1.4 %	30,357	3.1 %	12,014	5.6 %	65,968	2.3 %	
Substandard	23,507	1.4 %	15,118	1.5 %	7,614	3.5 %	46,239	1.6 %	
Total	\$1,682,236	100.0 %	\$994,138	100.0 %	\$216,148	100.0 %	\$2,892,522	100.0 %	

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

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

		March 31, 2015								
(dollars in thousands)	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	\$519,280	99.6 %	\$440,410	99.6 %	\$65,741	100.0 %	\$4,410	100.0 %	\$1,029,841	99.6 %
Nonperforming	2,226	0.4 %	1,986	0.4 %	13	— %	—	— %	4,225	0.4 %
Total	\$521,506	100.0 %	\$442,396	100.0 %	\$65,754	100.0 %	\$4,410	100.0 %	\$1,034,066	100.0 %

		December 31, 2014								
(dollars in thousands)	Residential Mortgage	% of Total	Home Equity	% of Total	Installment and other consumer	% of Total	Consumer Construction	% of Total	Total	% of Total
Performing	\$487,250	99.5 %	\$416,504	99.5 %	\$65,536	99.9 %	\$2,508	100.0 %	\$971,798	99.5 %
Nonperforming	2,336	0.5 %	2,059	0.5 %	31	0.1 %	—	— %	4,426	0.5 %
Total	\$489,586	100.0 %	\$418,563	100.0 %	\$65,567	100.0 %	\$2,508	100.0 %	\$976,224	100.0 %

We individually evaluate all substandard and nonaccrual commercial loans greater than \$0.5 million for impairment. Loans are considered to be impaired when based upon current information and events it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. All TDRs will be reported as an impaired loan for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the

restructuring for a new loan with comparable risk and it is expected that the remaining principal and interest will be fully collected according to the restructured agreement. For all TDRs, regardless of size, as well as all other impaired loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 7. ALLOWANCE FOR LOAN LOSSES – continued

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

(dollars in thousands)	March 31, 2015			December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Without a related allowance recorded:						
Commercial real estate	\$22,515	\$27,937	\$—	\$19,890	\$25,262	\$—
Commercial and industrial	10,338	11,238	—	9,218	9,449	—
Commercial construction	7,696	11,385	—	7,605	11,293	—
Consumer real estate	7,039	7,637	—	7,159	7,733	—
Other consumer	31	34	—	42	48	—
Total without a Related Allowance Recorded	47,619	58,231	—	43,914	53,785	—
With a related allowance recorded:						
Commercial real estate	811	811	39	—	—	—
Commercial and industrial	—	—	—	—	—	—
Commercial construction	—	—	—	—	—	—
Consumer real estate	41	41	41	43	43	43
Other consumer	18	18	8	20	20	11
Total with a Related Allowance Recorded	870	870	88	63	63	54
Total:						
Commercial real estate	23,326	28,748	39	19,890	25,262	—
Commercial and industrial	10,338	11,238	—	9,218	9,449	—
Commercial construction	7,696	11,385	—	7,605	11,293	—
Consumer real estate	7,080	7,678	41	7,202	7,776	43
Other consumer	49	52	8	62	68	11
Total	\$48,489	\$59,101	\$88	\$43,977	\$53,848	\$54

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 7. ALLOWANCE FOR LOAN LOSSES – continued

The following tables summarize investments in loans considered to be impaired and related information on those impaired loans the periods presented:

(dollars in thousands)	For the Three Months Ended			
	March 31, 2015		March 31, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	\$22,627	\$164	\$23,539	\$167
Commercial and industrial	10,847	62	9,826	55
Commercial construction	7,704	53	8,324	57
Consumer real estate	7,073	96	8,258	103
Other consumer	34	—	121	1
Total without a Related Allowance Recorded	48,285	375	50,068	383
With a related allowance recorded:				
Commercial real estate	823	8	—	—
Commercial and industrial	—	—	—	—
Commercial construction	—	—	—	—
Consumer real estate	42	1	51	1
Other consumer	19	—	32	1
Total with a Related Allowance Recorded	884	9	83	2
Total:				
Commercial real estate	23,450	172	23,539	167
Commercial and industrial	10,847	62	9,826	55
Commercial construction	7,704	53	8,324	57
Consumer real estate	7,115	97	8,309	104
Other consumer	53	—	153	2
Total	\$49,169	\$384	\$50,151	\$385



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 7. ALLOWANCE FOR LOAN LOSSES – continued

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

(dollars in thousands)	Three Months Ended March 31, 2015					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$20,164	\$ 13,668	\$6,093	\$6,333	\$1,653	\$47,911
Charge-offs	(66 )	(707 )	—	(375 )	(303 )	(1,451 )
Recoveries	103	114	1	136	85	439
Net (Charge-offs)/Recoveries	37	(593 )	1	(239 )	(218 )	(1,012 )
Provision for loan losses	(1,130 )	636	775	629	297	1,207
Balance at End of Period	\$19,071	\$ 13,711	\$6,869	\$6,723	\$1,732	\$48,106

(dollars in thousands)	Three Months Ended March 31, 2014					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$18,921	\$ 14,433	\$5,374	\$6,362	\$1,165	\$46,255
Charge-offs	(266 )	(290 )	(28 )	(123 )	(267 )	(974 )
Recoveries	540	314	50	59	83	1,046
Net (Charge-offs)/Recoveries	274	24	22	(64 )	(184 )	72
Provision for loan losses	685	(478 )	(213 )	110	185	289
Balance at End of Period	\$19,880	\$ 13,979	\$5,183	\$6,408	\$1,166	\$46,616

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 7. ALLOWANCE FOR LOAN LOSSES – continued

The following tables present the ALL and recorded investments in loans by category as of March 31, 2015 and December 31, 2014:

(dollars in thousands)	March 31, 2015			Portfolio Loans		
	Allowance for Loan Losses			Individually/Collectively		
	Individually	Collectively	Evaluated for Total	Individually	Collectively	Evaluated for Total <sup>(1)</sup>
	Evaluated for Impairment	Evaluated for Impairment		Evaluated for Impairment	Evaluated for Impairment	
Commercial real estate	\$39	\$ 19,032	\$19,071	\$23,326	\$ 2,129,087	\$2,152,413
Commercial and industrial	—	13,711	13,711	10,338	1,200,715	1,211,053
Commercial construction	—	6,869	6,869	7,696	278,470	286,166
Consumer real estate	41	6,682	6,723	7,080	961,232	968,312
Other consumer	8	1,724	1,732	49	65,705	65,754
Total	\$88	\$ 48,018	\$48,106	\$48,489	\$ 4,635,209	\$4,683,698

<sup>(1)</sup>Includes acquired loans.

(dollars in thousands)	December 31, 2014			Portfolio Loans		
	Allowance for Loan Losses			Individually/Collectively		
	Individually	Collectively	Evaluated for Total	Individually	Collectively	Evaluated for Total <sup>(1)</sup>
	Evaluated for Impairment	Evaluated for Impairment		Evaluated for Impairment	Evaluated for Impairment	
Commercial real estate	\$—	\$ 20,164	\$20,164	\$19,890	\$ 1,662,346	\$1,682,236
Commercial and industrial	—	13,668	13,668	9,218	984,920	994,138
Commercial construction	—	6,093	6,093	7,605	208,543	216,148
Consumer real estate	43	6,290	6,333	7,202	903,455	910,657
Other consumer	11	1,642	1,653	62	65,505	65,567
Total	\$54	\$ 47,857	\$47,911	\$43,977	\$ 3,824,769	\$3,868,746

<sup>(1)</sup>Includes acquired loans.

Acquired loans are recorded at fair value with no carryover of the ALL. Credit deterioration on any acquired loan incurred subsequent to the acquisition date will be recognized in the ALL through the provision. At March 31, 2015, no additional ALL was recorded for acquired loans.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Swaps

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

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

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

Interest Rate Lock Commitments and Forward Sale Contracts

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – continued

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

(dollars in thousands)	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Derivatives not Designated as Hedging Instruments:				
Interest Rate Swap Contracts- Commercial Loans				
Fair value	\$ 14,020	\$ 12,981	\$ 13,979	\$ 12,953
Notional amount	228,800	245,152	228,800	245,152
Collateral posted	—	—	12,498	12,059
Interest Rate Lock Commitments- Mortgage Loans				
Fair value	371	235	—	—
Notional amount	11,923	8,822	—	—
Forward Sale Contracts- Mortgage Loans				
Fair value	—	—	74	57
Notional amount	\$—	\$—	\$ 10,680	\$ 7,789

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

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

(dollars in thousands)	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Derivatives not Designated as Hedging Instruments:				
Gross amounts recognized	\$ 14,020	\$ 13,203	\$ 13,979	\$ 13,175
Gross amounts offset	—	(222	) —	(222
Net amounts presented in the Consolidated Balance Sheets	14,020	12,981	13,979	12,953
Gross amounts not offset <sup>(1)</sup>	—	—	(12,498	)(12,059
Net Amount	\$ 14,020	\$ 12,981	\$ 1,481	\$ 894

<sup>(1)</sup> Amounts represent posted collateral.

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

(dollars in thousands)	Three Months Ended March 31,	
	2015	2014
Derivatives not Designated as Hedging Instruments		
Interest rate swap contracts—commercial loans	\$ 13	\$(8
Interest rate lock commitments—mortgage loans	136	8

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Forward sale contracts—mortgage loans	(17	)	(29	)
Total Derivatives Gain (Loss)	\$132		\$(29	)

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 9. BORROWINGS

Short-term borrowings are for terms under one year and were comprised of retail repurchase agreements, or REPOs, and Federal Home Loan Bank, or FHLB, advances. We define REPOs with our local retail customers as retail REPOs. 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 original terms greater than one year and were comprised of FHLB advances, a capital lease and junior subordinated debt securities. Long-term FHLB advances have the same collateral requirements as short-term borrowings. We had total long-term borrowings outstanding of \$15.6 million at a fixed rate and \$53.7 million at a variable rate at March 31, 2015, excluding our capital lease of \$0.2 million. On March 5, 2015, we paid off \$8.5 million of the junior subordinated debt assumed in the merger.

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

(dollars in thousands)	March 31, 2015		December 31, 2014		
	Balance	Weighted Average Rate	Balance	Weighted Average Rate	
Short-term borrowings					
Securities sold under repurchase agreements	\$46,721	0.01	% \$30,605	0.01	%
Short-term borrowings	199,573	0.33	% 290,000	0.31	%
Total short-term borrowings	246,294	0.27	% 320,605	0.27	%
Long-term borrowings					
Other long-term borrowings	18,838	2.92	% 19,442	3.00	%
Junior subordinated debt securities	50,619	2.95	% 45,619	2.70	%
Total long-term borrowings	69,457	2.94	% 65,061	2.79	%
Total Borrowings	\$315,751	0.86	% \$385,666	0.70	%

We had total borrowings at March 31, 2015 and December 31, 2014 at the FHLB of Pittsburgh of \$218.2 million and \$309.3 million. The \$218.2 million at March 31, 2015 consisted of \$199.6 million in short-term borrowings and \$18.7 million in long-term borrowings. Our maximum borrowing capacity with the FHLB of Pittsburgh was \$2.0 billion at March 31, 2015. Our remaining borrowing availability is \$1.6 billion.

## NOTE 10. COMMITMENTS AND CONTINGENCIES

## Commitments

In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event a customer does not satisfy the terms of the agreement, equals the contractual amount of the obligation less the value of any collateral. We apply the same credit policies in making commitments and standby letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Our allowance for unfunded commitments totaled \$2.9 million at March 31, 2015 and \$2.3 million at December 31, 2014. 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 and qualitative adjustments to our unfunded commitments.

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

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

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(dollars in thousands)

Commitments to extend credit  
Standby letters of credit  
Total

March 31, 2015

\$1,370,341  
97,386  
\$1,467,727

December 31, 2014

\$1,158,628  
73,584  
\$1,232,212

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## Litigation

In the normal course of business, we are subject to various legal and administrative proceedings and claims. While any type of litigation contains a level of uncertainty, we believe that the outcome of such proceedings or claims pending will not have a material adverse effect on our consolidated financial position or results of operations.

## NOTE 11. OTHER COMPREHENSIVE INCOME

The following table presents the tax effects of the components of other comprehensive income (loss) for the periods presented:

(dollars in thousands)	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in unrealized gains on securities available-for-sale	\$4,983	\$(1,745)	)\$3,238	\$4,475	\$(1,566)	)\$2,909
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income <sup>(1)</sup>	—	—	—	(1)	)—	(1)
Adjustment to funded status of employee benefit plans	729	(162)	)567	212	(74)	)138
Other Comprehensive Income	\$5,712	\$(1,907)	)\$3,805	\$4,686	\$(1,640)	)\$3,046

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



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 12. EMPLOYEE BENEFITS

We maintain a defined benefit pension plan, or Plan, covering substantially all employees hired prior to January 1, 2008. The benefits are based on years of service and the employee's compensation for the highest five consecutive years in the last ten years. Contributions are intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future. At this time, we are not required to make a cash contribution to the Plan in 2015. The expected long-term rate of return on plan assets is 8.00 percent. Effective January 1, 2015, the Plan was amended to provide unmarried participants with the ability to name a beneficiary to receive a lump sum death benefit equal to 80% of the participant's accrued benefit payable at normal retirement age, in the event the participant dies while employed by S&T.

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

(dollars in thousands)	Three Months Ended March	
	2015	2014
Components of Net Periodic Pension Cost		
Service cost—benefits earned during the period	\$672	\$631
Interest cost on projected benefit obligation	1,100	1,106
Expected return on plan assets	(1,807 )	(1,735 )
Amortization of prior service cost (credit)	(35 )	(35 )
Recognized net actuarial loss	468	209
Net Periodic Pension Expense	\$398	\$176

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S&amp;T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 13. SEGMENTS

We operate three reportable operating segments: Community Banking, Insurance and Wealth Management.

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.

Our 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.

Our Wealth Management segment offers discount brokerage services, services as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisor that manages private investment accounts for individuals and institutions.

The following represents total assets by reportable operating segment as of the dates presented:

(dollars in thousands)	March 31, 2015	December 31, 2014
Community Banking	\$5,959,651	\$4,954,728
Insurance	8,098	7,468
Wealth Management	3,544	2,490
Total Assets	\$5,971,293	\$4,964,686

The following tables provide financial information for our three segments for the three month periods ended March 31, 2015 and 2014. The financial results of the business segments include allocations for shared services based on an internal analysis that supports line of business and branch performance measurement. Shared services include expenses such as employee benefits, occupancy expense, computer support and other corporate overhead. Even with these allocations, the financial results are not necessarily indicative of the business segments' financial condition and results of operations as if they existed as independent entities. The information provided under the caption "Eliminations" represents operations not considered to be reportable segments and/or general operating expenses and eliminations and adjustments, which are necessary for purposes of reconciling to the Consolidated Financial Statements.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

## NOTE 13. SEGMENTS – continued

(dollars in thousands)	Three Months Ended March 31, 2015				Consolidated
	Community Banking	Insurance	Wealth Management	Eliminations	
Interest income	\$43,887	\$—	\$140	\$(111)	)\$43,916
Interest expense	3,889	—	—	(232)	)3,657
Net interest income	39,998	—	140	121	40,259
Provision for loan losses	1,207	—	—	—	1,207
Noninterest income	7,537	1,553	2,916	78	12,084
Noninterest expense	28,687	1,137	2,220	199	32,243
Depreciation expense	1,011	12	7	—	1,030
Amortization of intangible assets	326	13	9	—	348
Provision for income taxes	4,256	137	287	—	4,680
Net Income	\$12,048	\$254	\$533	\$—	\$12,835

(dollars in thousands)	Three Months Ended March 31, 2014				Consolidated
	Community Banking	Insurance	Wealth Management	Eliminations	
Interest income	\$38,630	\$—	\$174	\$(139)	)\$38,665
Interest expense	3,482	—	—	(408)	)3,074
Net interest income	35,148	—	174	269	35,591
Provision for loan losses	289	—	—	—	289
Noninterest income	6,854	1,521	2,935	106	11,416
Noninterest expense	23,973	1,155	2,274	375	27,777
Depreciation expense	803	11	7	—	821
Amortization of intangible assets	292	13	11	—	316
Provision for income taxes	3,365	120	286	—	3,771
Net Income	\$13,280	\$222	\$531	\$—	\$14,033

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 14. QUALIFIED AFFORDABLE HOUSING PROJECTS

We invest in affordable housing projects primarily to satisfy our Community Reinvestment Act requirements. As a limited partner in these operating partnerships, we receive tax credits and tax deductions for losses incurred by the underlying properties. We use the cost method to account for these partnerships. Our total investment in qualified affordable housing projects totaled \$17.7 million at March 31, 2015 and \$18.6 million at December 31, 2014. We had no open commitments to fund current or future investments in qualified affordable housing projects at March 31, 2015 or December 31, 2014. Amortization expense included in noninterest expense was \$0.9 million for the three months ended March 31, 2015 and \$1.0 million for the three months ended March 31, 2014. The amortization expense was offset by tax credits of \$1.0 million for the three months ended March 31, 2015 and \$1.1 million for the three months ended March 31, 2014 as a reduction to our federal tax provision.

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S&T BANCORP, INC. AND SUBSIDIARIES

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, represents an overview of our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations at and for the three month periods ended March 31, 2015 and 2014. Our MD&A should be read in conjunction with our Consolidated Financial Statements and notes thereto. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

Important Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains or incorporates statements that we believe are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 described in this Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which is on file 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, S&T, 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, particularly our recent acquisition of Integrity Bancshares, Inc., or Integrity;
- containing costs and expenses;
- reliance on significant customer relationships;
- the possibility that the anticipated benefits from the recent Integrity acquisition and any other future acquisitions cannot be fully realized in a timely manner or at all, or that integrating the operations of Integrity or 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;

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S&T BANCORP, INC. AND SUBSIDIARIES

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

a re-emergence of turbulence in significant portions of the global financial and real estate markets that could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities and indirectly, by affecting the economy generally; and

access to capital in the amounts, at the times and on the terms required to support our future businesses.

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.

Critical Accounting Policies and Estimates

Our critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of March 31, 2015 have remained unchanged from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2014 under the section "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Overview

We are a bank holding company headquartered in Indiana, Pennsylvania with assets of \$6.0 billion at March 31, 2015. We provide a full range of financial services through offices in 16 Pennsylvania counties with retail and commercial banking products, cash management services, insurance and trust and brokerage services. We also have three loan production offices, or LPOs, in northeast and central Ohio and in western New York. 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 the first quarter of 2015, we successfully executed on our growth strategy through growth in our current footprint and expanding into new markets. On March 4, 2015, we completed the Integrity merger, or the merger, which expanded our geographic footprint into south central Pennsylvania. On March 23, 2015, we expanded our commercial banking operations by opening an LPO in western New York. During the three months ended March 31, 2015, portfolio loans increased \$815.0 million compared to December 31, 2014. The merger with Integrity contributed significantly to this increase by adding \$788.7 million of loans.

The merger, which resulted in Integrity Bank becoming a separate wholly owned subsidiary of S&T, expanded our geographic footprint through the addition of eight branches into south central Pennsylvania to include Cumberland, Dauphin, Lancaster and York counties. The transaction was valued at \$172.0 million, added total assets of \$980.7 million, including \$788.7 million in loans and \$722.3 million in deposits. We expect that in the second quarter of 2015, Integrity Bank will be merged with and into S&T Bank with S&T Bank continuing as the surviving bank. 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 using the name "Integrity Bank – A Division of S&T Bank".

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. Our focus is also on maintaining and attracting new sales personnel to execute on our loan and fee growth strategies.

Earnings Summary

Net income for the first quarter of 2015 was \$12.8 million, or \$0.41 per share, compared to \$14.0 million, or \$0.47 per share, for the first quarter of 2014. The decrease in net income was primarily due to an increase in noninterest expense and the provision for loan losses offset by an increase in net interest income and noninterest income for the first quarter of 2015 compared to the same period in 2014. Noninterest expense included \$2.3 million of merger related expenses.



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S&T BANCORP, INC. AND SUBSIDIARIES

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

Net interest income increased \$4.7 million, or 13.1 percent, for the first quarter of 2015 compared to the same period in 2014. The increase in net interest income was mainly driven by a \$596.0 million, or 14.0 percent, increase in average interest-earning assets, primarily due to increased average loan balances. Average loan balances increased organically by \$299.1 million and \$247.0 million as a result of the merger. Integrity added \$2.2 million to net interest income since the acquisition date of March 4, 2015.

The provision for loan losses increased \$0.9 million to \$1.2 million for the three months ended March 31, 2015 compared to \$0.3 million for the same period of 2014. The increase in the provision is related to an increase of \$1.1 million in net loan charge-offs to \$1.0 million for the first quarter of 2015 compared to a net recovery of \$0.1 million for the first quarter of 2014.

Noninterest income increased \$0.7 million to \$12.1 million for the three months ended March 31, 2015 compared to the same period of 2014. The increase in noninterest income was primarily due to the merger, which added \$0.4 million of noninterest income.

Total noninterest expense increased \$4.7 million to \$33.6 million for the three months ended March 31, 2015 compared to the same period in 2014. The increase was primarily due to merger related expenses of \$2.3 million, \$1.4 million of operating expenses related to Integrity and higher salaries and employee benefit costs.

The provision for income taxes increased \$0.9 million to \$4.7 million for the three months ended March 31, 2015 compared to \$3.8 million for the same period in 2014. The increase to the tax provision was due to an increase in our annual projected tax rate for 2015 as a result of higher projected pretax income related to the merger.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with generally accepted accounting principles, or GAAP, management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent, or FTE, basis and operating revenue. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying business, operational performance and performance trends as they facilitate comparisons with the performance of others in the financial services industry. Although management believes 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 are they 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 the comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Consolidated Statements of Comprehensive Income is reconciled to net interest income adjusted to a FTE basis in the next section for the three months ended March 31, 2015 and 2014.

Operating revenue is the sum of net interest income and noninterest income less 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.

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

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

## RESULTS OF OPERATIONS

Three Months Ended March 31, 2015 Compared to

Three Months Ended March 31, 2014

## 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 77 percent of operating revenue (net interest income plus noninterest income, excluding security gains/losses and non-recurring income) for the three months ended March 31, 2015 and 76 percent of operating revenue for the three months ended March 31, 2014. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our Asset and Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to produce an acceptable level of net interest income.

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 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 Comprehensive Income to net interest income and rates adjusted to a FTE basis for the periods presented:

(dollars in thousands)	Three Months Ended March 31,			
	2015	2014		
Total interest income	\$43,916	\$38,665		
Total interest expense	3,657	3,074		
Net interest income per consolidated statements of comprehensive income	40,259	35,591		
Adjustment to FTE basis	1,392	1,323		
Net Interest Income (FTE) (non-GAAP)	\$41,651	\$36,914		
Net interest margin	3.37	%	3.38	%
Adjustment to FTE basis	0.11	%	0.13	%
Net Interest Margin (FTE) (non-GAAP)	3.48	%	3.51	%

Income amounts are annualized for rate calculations.

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

## Item 2. 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 periods presented:

(dollars in thousands)	Three months ended March 31, 2015				Three months ended March 31, 2014			
	Average Balance	Interest	Rate		Average Balance	Interest	Rate	
<b>ASSETS</b>								
Loans <sup>(1) (2)</sup>	\$4,122,631	\$40,734	4.01	%	\$3,576,484	\$36,433	4.13	%
Interest-bearing deposits with banks	65,575	35	0.22	%	147,890	85	0.23	%
Taxable investment securities <sup>(3)</sup>	504,867	2,482	1.97	%	395,470	1,950	1.98	%
Tax-exempt investment securities <sup>(2)</sup>	142,194	1,569	4.41	%	121,464	1,429	4.71	%
Federal Home Loan Bank and other restricted stock	15,427	488	12.66	%	13,391	91	2.70	%
Total Interest-earning Assets	4,850,694	45,308	3.78	%	4,254,699	39,988	3.82	%
Noninterest-earning assets:								
Cash and due from banks	50,096				48,076			
Premises and equipment, net	40,951				35,635			
Other assets	378,708				341,176			
Less allowance for loan losses	(48,623 )				(47,425 )			
Total Assets	\$5,271,826				\$4,632,161			
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>								
<b>EQUITY</b>								
Interest-bearing demand	\$432,009	\$87	0.08	%	\$313,420	\$15	0.02	%
Money market	362,939	161	0.18	%	350,314	129	0.15	%
Savings	1,052,347	403	0.16	%	1,014,205	388	0.16	%
Certificates of deposit	991,542	2,137	0.87	%	910,716	1,822	0.81	%
Brokered deposits	260,555	219	0.34	%	190,598	156	0.33	%
Total Interest-bearing deposits	3,099,392	3,007	0.39	%	2,779,253	2,510	0.37	%
Securities sold under repurchase agreements	40,039	1	0.01	%	36,596	1	0.01	%
Short-term borrowings	236,440	185	0.32	%	127,778	98	0.31	%
Long-term borrowings	19,086	142	3.01	%	21,466	162	3.06	%
Junior subordinated debt securities	47,175	322	2.77	%	45,619	303	2.69	%
Total Interest-bearing Liabilities	3,442,132	3,657	0.43	%	3,010,712	3,074	0.41	%
Noninterest-bearing liabilities:								
Noninterest-bearing demand	1,101,795				989,799			
Other liabilities	64,643				52,851			
Shareholders' equity	663,256				578,799			
Total Liabilities and Shareholders' Equity	\$5,271,826				\$4,632,161			
Net Interest Income <sup>(2)(3)</sup>		\$41,651				\$36,914		
Net Interest Margin <sup>(2) (3)</sup>			3.48	%			3.51	%

<sup>(1)</sup> Nonaccruing loans are included in the daily average loan amounts outstanding.

<sup>(2)</sup> Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2015 and 2014.

<sup>(3)</sup> Taxable investment income is adjusted for the dividend-received deduction for equity securities. Net interest income on a FTE basis increased \$4.7 million, or 12.8 percent, to \$41.7 million for the three months ended March 31, 2015 compared to \$36.9 million for the same period of 2014. The net interest margin on a FTE basis decreased 3 basis points for the three months ended March 31, 2015 compared to the same period of 2014. Interest income on a FTE basis increased \$5.3 million to \$45.3 million for the three months ended March 31, 2015 compared to \$40.0 million for the same period of 2014. The merger added \$2.2 million to net interest income and assets were included in average assets since the date of the merger, March 4, 2015. Average interest-earning assets increased \$596.0 million

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primarily due to increased average loan balances. Average loan balances increased organically by \$299.1 million and \$247.0 million as a result of the merger. Due to the continued low interest rate environment, the rate earned on loans decreased 12 basis points. Compared to the same period of 2014, average interest-bearing deposits with banks decreased \$82.3 million and average investment securities, including Federal Home Loan Bank, or FHLB, and other restricted stock, increased \$132.2 million. A shift from interest-bearing deposits at the Federal Reserve to investment securities and an increase in the FHLB dividend rate, due to a special dividend, had a positive impact on the interest-earning asset rate. Overall, the FTE rate on interest-earning assets decreased 4 basis points compared to the same period of 2014.

Interest expense increased \$0.6 million to \$3.7 million for the three months ended March 31, 2015 compared to \$3.1 million for the same period of 2014. The increase in interest expense was mainly driven by a \$320.1 million increase in average interest-bearing deposits. Average customer deposits increased organically by \$57.8 million and \$192.3 million as a result of the merger. Average brokered deposits increased by \$70.0 million. The cost of total interest-bearing deposits increased 2 basis points due to an increase in longer-term promotional certificates of deposits, or CDs, and higher costing deposits from the merger. Interest expense on average borrowings remained relatively unchanged at March 31, 2015. Overall, the cost of interest-bearing liabilities increased by 2 basis points compared to the same period of 2014.

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

(dollars in thousands)	Three Months Ended March 31, 2015 Compared to March 31, 2014		
	Volume <sup>(4)</sup>	Rate <sup>(4)</sup>	Net
Interest earned on:			
Loans <sup>(1) (2)</sup>	\$5,564	\$(1,263)	)\$4,301
Interest-bearing deposits with banks	(47)	) (3)	) (50)
Taxable investment securities <sup>(3)</sup>	539	(7)	) 532
Tax-exempt investment securities <sup>(2)</sup>	244	(104)	) 140
Federal Home Loan Bank and other restricted stock	14	383	397
Total Interest-earning Assets	6,314	(994)	) 5,320
Interest paid on:			
Interest-bearing demand	6	66	72
Money market	5	27	32
Savings	15	—	15
Certificates of deposit	162	153	315
Brokered deposits	57	6	63
Short-term borrowings	83	4	87
Long-term borrowings	(18)	) (2)	) (20)
Junior subordinated debt securities	10	9	19
Total Interest-bearing Liabilities	320	263	583
Net Change in Net Interest Income	\$5,994	\$(1,257)	)\$4,737

(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 for 2015 and 2014.

(3) Taxable investment income is adjusted for the dividend-received deduction for equity securities.

(4) Changes to rate/volume are allocated to both rate and volume on a proportionate dollar basis.

Provision for Loan Losses

The provision for loan losses is the adjustment to the allowance for loan losses, or ALL, after considering loan charge-offs and recoveries to bring the ALL to a level determined to be appropriate in management's judgment to absorb probable losses inherent in the loan portfolio. The provision for loan losses increased \$0.9 million to \$1.2 million for the first quarter of 2015 compared to \$0.3 million for the same period of 2014 primarily due to an increase in net loan charge-offs. Net loan charge-offs increased \$1.1 million to \$1.0 million for the first quarter of 2015 compared to a net recovery of \$0.1 million for the first quarter of 2014. Nonaccrual loans decreased 14 percent to \$18.1 million at March 31, 2015 compared to \$21.0 million at March 31, 2014.

Total special mention and substandard commercial loans have increased \$23.0 million from the first quarter 2014 to \$191.1 million at March 31, 2015 primarily related to loans acquired from Integrity. The ALL was 1.27 percent of total originated loans

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at March 31, 2015 compared to 1.28 percent at March 31, 2014. Refer to "Allowance for Loan Losses" in the MD&A of this report for additional information.

## Noninterest Income

(dollars in thousands)	Three Months Ended March 31,			
	2015	2014	\$ Change	% Change
Securities gains, net	\$—	\$1	\$(1)	(100.0)%
Wealth management fees	2,923	2,955	(32)	(1.1)
Debit and credit card fees	2,715	2,502	213	8.5
Service charges on deposit accounts	2,583	2,509	74	2.9
Insurance fees	1,651	1,677	(26)	(1.6)
Mortgage banking	525	132	393	297.7
Other	1,687	1,640	47	2.9
Total Noninterest Income	\$12,084	\$11,416	\$668	5.9%

Noninterest income increased \$0.7 million to \$12.1 million for the three months ended March 31, 2015 compared to the same period of 2014. The merger added \$0.4 million of noninterest income for the three months ended March 31, 2015.

The increase in debit and credit card fees of \$0.2 million was primarily due to an increase in merchant revenue resulting from the timing of referral revenue and increased debit card usage.

The increase in mortgage banking income related to an increase in the volume of loans originated for sale in the secondary market and more favorable pricing on loan sales. During the three months ended March 31, 2015, we had \$21.6 million in loan sales compared to \$5.5 million during the same period in 2014.

## Noninterest Expense

(dollars in thousands)	Three Months Ended March 31,			
	2015	2014	\$ Change	% Change
Salaries and employee benefits <sup>(1)</sup>	\$16,780	\$15,376	\$1,404	9.1%
Net occupancy <sup>(1)</sup>	2,588	2,230	358	16.1
Data processing <sup>(1)</sup>	2,320	2,095	225	10.7
Furniture and equipment	1,226	1,271	(45)	(3.5)
Other Taxes	842	631	211	33.4
Marketing	816	618	198	32.0
FDIC insurance	695	631	64	10.1
Professional services and legal <sup>(1)</sup>	523	663	(140)	(21.1)
Merger related expense	2,301	—	2,301	NM
Other noninterest expense <sup>(1)</sup>	5,530	5,399	131	2.4
Total Noninterest Expense	\$33,621	\$28,914	\$4,707	16.3%

<sup>(1)</sup> Excludes merger related expense for 2015.

Noninterest expense increased \$4.7 million to \$33.6 million for the three months ended March 31, 2015. The increase was primarily driven by \$2.3 million in merger related expenses and \$1.4 million of additional operating expenses related to Integrity.

During the three months ended March 31, 2015, we recognized \$2.3 million of merger related expenses, including \$0.9 million for data processing contract termination and conversion costs, \$0.3 million in severance payments and \$1.1 million in legal and professional expenses.

Salaries and employee benefits expense increased \$1.4 million due to additional employees, annual merit increases and higher pension and incentive expense. Approximately \$0.5 million of the increase related to the addition of new employees resulting from the merger. Annual merit increases resulted in \$0.4 million of additional salary expense.

Pension expense increased \$0.2 million due to a change in actuarial assumptions used to calculate our pension liability. Incentive expense increased \$0.3 million due to a higher number of plan participants.



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Net occupancy expense increased \$0.4 million primarily due to the additional locations acquired as part of the merger. Data processing increased \$0.2 million due to the annual increase with our third party data processor and data processing expense from Integrity.

## Provision for Income Taxes

The provision for income taxes increased \$0.9 million to \$4.7 million for the three months ended March 31, 2015 compared to \$3.8 million for the same period in 2014. The increase to the provision for income taxes was due to an increase in our 2015 annual projected tax rate due to higher pretax income related to the merger. The effective tax rate for the three months ended March 31, 2015 increased to 26.7 percent compared to 21.2 percent for the same period in 2014.

## Financial Condition

## March 31, 2015

Total assets increased \$1.0 billion to \$6.0 billion at March 31, 2015 compared to \$5.0 billion at December 31, 2014. The increase was a result of the merger, which increased total assets \$980.7 million, including adding \$114.8 million of goodwill. Loans increased \$815.0 million compared to December 31, 2014 primarily due to the merger which added \$788.7 million of loans. Our commercial loan portfolio increased by \$757.1 million, or 26.2 percent, of which \$720.1 million related to the merger and our consumer loan portfolio increased by \$57.8 million, or 5.9 percent, of which \$68.6 million related to the merger. Securities increased \$15.6 million, or 2.4 percent, compared to December 31, 2014 primarily related to the merger.

Our deposit base increased \$919.7 million with total deposits of \$4.8 billion at March 31, 2015 compared to \$3.9 billion at December 31, 2014. The increase in deposits consisted of \$722.3 million related to the merger, \$133.1 million of organic growth and \$64.3 million of brokered deposits. Borrowings decreased by \$69.9 million to \$315.8 million at March 31, 2015 compared to \$385.7 million at December 31, 2014. The short-term borrowing decrease of \$90.4 million was due to the increase in our deposits. Total shareholder's equity increased by \$153.9 million, or 25.3 percent, during the three months ended March 31, 2015 compared to December 31, 2014. The increase was primarily related to the issuance of common stock for the merger of \$142.5 million and net income of \$12.8 million, which was partially offset by dividends of \$5.4 million.

## Securities Activity

(dollars in thousands)	March 31, 2015	December 31, 2014	\$ Change
U.S. Treasury securities	\$ 15,030	\$ 14,880	\$ 150
Obligations of U.S. government corporations and agencies	271,383	269,285	2,098
Collateralized mortgage obligations of U.S. government corporations and agencies	131,404	118,006	13,398
Residential mortgage-backed securities of U.S. government corporations and agencies	48,165	46,668	1,497
Commercial mortgage-backed securities of U.S. government corporations and agencies	40,080	39,673	407
Obligations of states and political subdivisions	140,676	142,702	(2,026)
Debt Securities Available-for-Sale	646,738	631,214	15,524
Marketable equity securities	9,091	9,059	32
Total Securities Available-for-Sale	\$ 655,829	\$ 640,273	\$ 15,556

We invest in various securities in order to maintain a source of liquidity, to 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 risk 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 \$15.6 million from December 31, 2014.

Investment securities acquired from the merger accounted for \$11.5 million of the increase and the remaining increase was primarily due to the increase in market value.

Management evaluates the securities portfolio for other than temporary impairment, or OTTI, on a quarterly basis. At March 31, 2015 our bond portfolio was in a net unrealized gain position of \$14.3 million, compared to a net unrealized gain of \$9.3 million at December 31, 2014. At March 31, 2015, total gross unrealized gains were \$14.7 million offset by total gross unrealized losses of \$0.5 million. At December 31, 2014, total gross unrealized gains were \$11.2 million offset by gross unrealized losses of \$1.8 million. The increase in the value of our securities portfolio was due to a decrease in rates during the first quarter of 2015. 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.

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There were no unrealized losses on marketable equity securities as of March 31, 2015. We do not intend to sell and it is not 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. During the first quarter of 2015 and 2014 we did not record any OTTI. The performance of the debt and equity securities markets could generate impairments in future periods requiring realized losses to be reported.

## Loan Composition

(dollars in thousands)	March 31, 2015		December 31, 2014		
	Amount	% of Loans	Amount	% of Loans	
Commercial					
Commercial real estate	\$2,152,413	46.0	% \$1,682,236	43.5	%
Commercial and industrial	1,211,053	25.9	% 994,138	25.7	%
Construction	286,166	6.1	% 216,148	5.6	%
Total Commercial Loans	3,649,632	77.9	% 2,892,522	74.8	%
Consumer					
Residential mortgage	521,506	11.1	% 489,586	12.7	%
Home equity	442,396	9.4	% 418,563	10.8	%
Installment and other consumer	65,754	1.4	% 65,567	1.7	%
Construction	4,410	0.1	% 2,508	0.1	%
Total Consumer Loans	1,034,066	22.1	% 976,224	25.2	%
Total Portfolio Loans	4,683,698	100.0	% 3,868,746	100.0	%
Loans Held for Sale	6,126		2,970		
Total Loans	\$4,689,824		\$3,871,716		

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

Total portfolio loans increased \$815.0 million to \$4.7 billion compared to \$3.9 billion at December 31, 2014. The increase was primarily due to the addition of \$788.7 million of loans from the merger and \$29.3 million of organic growth. The \$788.7 million of loans related to the merger consisted of \$481.4 million of commercial real estate, or CRE, \$193.9 million of commercial and industrial, or C&I, \$44.8 million of commercial construction, \$32.7 million of residential mortgage, \$28.8 million of home equity, \$5.6 million of installment and other consumer and \$1.5 million of consumer construction. The organic growth for the period primarily related to the CRE and C&I portfolios.

## 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: 1) evaluation and impairment tests of individual loans, and 2) impairment tests of certain groups of homogeneous loans with similar risk characteristics.

An inherent risk to the loan portfolio as a whole is the condition of the 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. The following is a discussion of the key risks by portfolio segment that management assesses in preparing the ALL.

CRE loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as hotels, strip malls and apartments. Operations of the individual projects as well as global cash flows of the debtors are the primary sources of repayment for these loans. The condition of the local

economy is an important indicator of risk, but there are also more specific risks depending on the collateral type as well as the business prospects of the lessee, if the project is not owner occupied.

C&I loans are made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Cash flow from the operations of the company is the primary source of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific

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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 liens 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 for this segment. The state of the local housing markets can also have a significant impact on this segment because low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Other consumer loans are made to individuals and may be secured by assets other than 1-4 family residences, as well as unsecured loans. This segment includes auto loans, 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.

Significant to our ALL is a higher concentration of commercial loans. At March 31, 2015, approximately 82 percent of the ALL was related to our commercial loan portfolio, and approximately 78 percent of our total loan portfolio was comprised of commercial loans. We believe the inherent risk in the commercial loan portfolio to be higher than in the consumer portfolio as commercial loans tend to be riskier than consumer loans as they are larger and more volatile along with the fact that we have experienced higher historical losses on our commercial loans.

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

(dollars in thousands)	March 31, 2015					
	Allowance for Loan Losses			Portfolio Loans		
	Individually	Collectively	Evaluated for Total Impairment	Individually	Collectively	Evaluated for Total Impairment
	Evaluated	Evaluated		Evaluated	Evaluated	
Commercial real estate	\$39	\$ 19,032	\$19,071	\$23,326	\$ 2,129,087	\$2,152,413
Commercial and industrial	—	13,711	13,711	10,338	1,200,715	1,211,053
Commercial construction	—	6,869	6,869	7,696	278,470	286,166
Consumer real estate	41	6,682	6,723	7,080	961,232	968,312
Other consumer	8	1,724	1,732	49	65,705	65,754
Total	\$88	\$ 48,018	\$48,106	\$48,489	\$ 4,635,209	\$4,683,698

(dollars in thousands)	December 31, 2014					
	Allowance for Loan Losses			Portfolio Loans		
	Individually	Collectively	Evaluated for Total Impairment	Individually	Collectively	Evaluated for Total Impairment
	Evaluated	Evaluated		Evaluated	Evaluated	
Commercial real estate	\$—	\$ 20,164	\$20,164	\$19,890	\$ 1,662,346	\$1,682,236
Commercial and industrial	—	13,668	13,668	9,218	984,920	994,138
Commercial construction	—	6,093	6,093	7,605	208,543	216,148
Consumer real estate	43	6,290	6,333	7,202	903,455	910,657
Other consumer	11	1,642	1,653	62	65,505	65,567
Total	\$54	\$ 47,857	\$47,911	\$43,977	\$ 3,824,769	\$3,868,746

	March 31, 2015		December 31, 2014	
Ratio of net charge-offs to average loans outstanding	0.10	%*	0.00%	
Allowance for loan losses as a percentage of total loans	1.03	%	1.24	%
Allowance for loan losses as a percentage of originated loans	1.27	%	1.27	%
Allowance for loan losses to nonperforming loans	265	%	385	%

\* Annualized

The ALL was \$48.1 million, or 1.03 percent of total portfolio loans and 1.27 percent of originated loans at March 31, 2015 compared to \$47.9 million, or 1.24 percent of total portfolio loans and 1.27 percent of originated loans at December 31, 2014. Acquired loans of \$788.7 million were recorded at fair value with no carryover of the ALL. Credit deterioration on acquired loans incurred subsequent to the acquisition date will be recognized in the ALL through the provision. At March 31, 2015, no additional ALL was recorded for acquired loans. Impaired loans increased \$4.5 million from December 31, 2014. The increase was primarily due to the addition of \$4.9 million of commercial impaired loans. No significant specific reserves were required for these loans. The reserve for loans collectively evaluated for impairment did not change significantly at March 31, 2015 compared to December 31, 2014.

Net loan charge-offs were \$1.0 million for the three months ended March 31, 2015. Commercial special mention and substandard loans for the quarter increased by \$78.9 million to \$191.1 million compared to \$112.2 million at December 31, 2014 primarily related to the acquired loans which were recorded at fair value on the acquisition date.

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

Troubled debt restructurings, or TDRs, whether on accrual or nonaccrual status, are also classified as impaired loans. TDRs are loans where we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

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

As an example, consider a substandard commercial construction loan that is currently 90 days past due where the loan is restructured to extend the maturity date for a period longer than would be considered an insignificant period of time. The post-modification interest rate given to the borrower is considered to be lower than the current market rate for new debt with similar risk and all other terms remain the same according to the original loan agreement. This loan will be considered a TDR as the borrower is experiencing financial difficulty and a concession has been granted due to the long extension, resulting in payment delay as well as the rate being lower than current market rate for new debt with similar risk. The loan will be reported as a nonaccrual TDR and an impaired loan. In addition, the loan could be charged down to the fair value of the collateral if a confirmed loss exists. If the loan subsequently performs, by means of making on-time principal and interest payments according to the newly restructured terms for a period of six months, and it is expected that all remaining principal and interest will be collected according to the terms of the restructured agreement, the loan will be returned to accrual status and reported as an accruing TDR. The loan will remain an impaired loan for the remaining life of the loan because the interest rate was not adjusted to be equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk. At March 31, 2015, TDR's totaled \$46.3 million, which was an increase of \$3.9 million from December 31, 2014. Of the total TDR's for the quarter, \$36.4 million, or 78.6 percent, were accruing while \$9.9 million, or 21.4 percent, were nonaccrual.

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

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



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

Our allowance for lending-related commitments is computed using a methodology similar to that used to determine the ALL. Amounts are added to the allowance for lending-related commitments by a charge to current earnings through noninterest expense. The reserve is calculated by applying historical loss rates and considering qualitative factors to unfunded commitments. The balance in the allowance for unfunded loan commitments was approximately \$2.9 million at March 31, 2015 as compared to \$2.3 million at December 31, 2014. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets.

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

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

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

(dollars in thousands)	March 31, 2015	December 31, 2014	\$ Change
Nonaccrual Loans			
Commercial real estate	\$3,356	\$2,255	\$1,101
Commercial and industrial	1,778	1,266	512
Commercial construction	—	105	(105)
Residential mortgage	1,601	1,877	(276)
Home equity	1,476	1,497	(21)
Installment and other consumer	7	21	(14)
Consumer construction	—	—	—
Total Nonaccrual Loans	8,218	7,021	1,197
Nonaccrual Troubled Debt Restructurings			
Commercial real estate	5,030	2,180	2,850
Commercial and industrial	1,772	356	1,416
Commercial construction	1,973	1,869	104
Residential mortgage	625	459	166
Home equity	510	562	(52)
Installment and other consumer	6	10	(4)
Total Nonaccrual Troubled Debt Restructurings	9,916	5,436	4,480
Total Nonaccrual Loans	18,134	12,457	5,677
OREO	1,294	166	1,128
Total Nonperforming Assets	\$19,428	\$12,623	\$6,805

## Asset Quality Ratios:

Nonperforming loans as a percent of total loans	0.39	%0.32	%
Nonperforming assets as a percent of total loans plus OREO	0.41	%0.33	%

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

Nonperforming assets, or NPAs, increased by \$6.8 million to \$19.4 million at March 31, 2015 compared to \$12.6 million at December 31, 2014. The increase in NPAs was primarily due to a \$5.7 million increase in nonperforming loans and a \$1.3 million increase in OREO acquired from the merger. The increase in nonperforming loans was primarily due to the addition of \$4.9 million of commercial loans.

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

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

## Deposits

(dollars in thousands)	March 31, 2015	December 31, 2014	\$ Change
Noninterest-bearing demand	\$1,177,623	\$1,083,919	\$93,704
Interest-bearing demand	649,706	333,015	316,691
Money market	448,070	309,245	138,825
Savings	1,073,755	1,027,095	46,660
Certificates of deposit	1,127,548	933,210	194,338
Brokered deposits	351,829	222,358	129,471
Total Deposits	\$4,828,531	\$3,908,842	\$919,689

Deposits are our primary source of funds. We believe that our deposit base is stable and that we have the ability to attract new deposits, mitigating any funding dependency on other more volatile sources. Total deposits increased \$919.7 million at March 31, 2015 which included \$722.3 million related to the merger.

Overall, our customer deposits, which exclude brokered deposits, increased by \$790.2 million from December 31, 2014. This increase consisted of \$657.2 million from the merger and \$133.0 million of organic growth. Our customer deposits include noninterest-bearing deposits which increased \$93.7 million, interest-bearing deposits increased \$316.7 million, money market increased \$138.8 million, savings deposits increased \$46.7 million, and CDs increased \$194.3 million as compared December 31, 2014.

Brokered deposits consist of CDs, money market, and interest-bearing demand funds and are an additional source of funds utilized by ALCO as a way to diversify funding sources, as well as manage our funding costs and structure. The increase of \$129.5 million of brokered deposits included \$65.2 million from the merger.

## Borrowings

(dollars in thousands)	March 31, 2015	December 31, 2014	\$ Change
Securities sold under repurchase agreements	\$46,721	\$30,605	\$16,116
Short-term borrowings	199,573	290,000	(90,427)
Long-term borrowings	18,838	19,442	(604)
Junior subordinated debt securities	50,619	45,619	5,000
Total Borrowings	\$315,751	\$385,666	\$(69,915)

Borrowings are an additional source of funding for us. Total borrowings decreased by \$69.9 million from December 31, 2014. The short-term borrowing decrease of \$90.4 million was due to an increase in deposits for the three months ended March 31, 2015. On March 5, 2015, we paid off \$8.5 million of the \$13.5 million junior subordinated debt assumed in the merger.

Information pertaining to short-term borrowings is summarized in the tables below for the three and twelve month periods ended March 31, 2015 and December 31, 2014.

(dollars in thousands)	Securities Sold Under Repurchase Agreements			
	March 31, 2015		December 31, 2014	
Balance at the period end	\$46,721		\$30,605	
Average balance during the period	40,039		28,372	
Average interest rate during the period	0.01	%	0.01	%
Maximum month-end balance during the period	\$46,721		\$40,983	
Average interest rate at the period end	0.01	%	0.01	%

(dollars in thousands)	Short-Term Borrowings	
	March 31, 2015	December 31, 2014

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Balance at the period end	\$ 199,573		\$ 290,000	
Average balance during the period	236,440		164,811	
Average interest rate during the period	0.27	%	0.31	%
Maximum month-end balance during the period	\$ 290,000		\$ 290,000	
Average interest rate at the period end	0.33	%	0.30	%

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

## Item 2. 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 for the three and twelve month periods ended March 31, 2015 and December 31, 2014.

(dollars in thousands)	Long-Term Borrowings			
	March 31, 2015		December 31, 2014	
Balance at the period end	\$18,838		\$19,442	
Average balance during the period	19,086		20,571	
Average interest rate during the period	3.01	%	3.00	%
Maximum month-end balance during the period	\$19,242		\$21,616	
Average interest rate at the period end	2.92	%	2.97	%

(dollars in thousands)	Junior Subordinated Debt Securities			
	March 31, 2015		December 31, 2014	
Balance at the period end	\$50,619		\$45,619	
Average balance during the period	47,175		45,619	
Average interest rate during the period	2.77	%	2.68	%
Maximum month-end balance during the period	\$50,619		\$45,619	
Average interest rate at the period end	2.95	%	2.70	%

**Liquidity and Capital Resources**

Liquidity is defined as a financial institution's ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or of borrowers needing to access funds to meet their credit needs. In order to manage liquidity risk our Board of Directors has delegated authority to the ALCO for formulation, implementation and oversight of liquidity risk management for S&T. 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 define graduated risk tolerance levels. If our liquidity position moves to a level that has been defined as high risk, specific actions are required, such as increased monitoring or the development of an action plan to reduce the risk position.

Our primary funding and liquidity source is a stable customer deposit base. We believe S&T has the ability to retain existing and attract new deposits, mitigating any funding dependency on other more volatile sources. Refer to the Deposits Section of Item 2, 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. Additional funding sources available to S&T include borrowing availability at the FHLB of Pittsburgh, Federal Funds lines with other financial institutions and access to the brokered deposit market. Additional funding sources available to Integrity Bank include borrowing availability at the FHLB of Pittsburgh, borrowing lines with other financial institutions, availability through the Federal Reserve Borrower-In-Custody program, and access to the brokered deposits 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 March 31, 2015 S&T had \$383.8 million in highly liquid assets, which consisted of \$74.7 million in interest-bearing deposits with banks, \$303.0 million in unpledged securities and \$6.1 million in loans held for sale. The highly liquid assets to total assets resulted in an asset liquidity ratio of 6.5 percent at March 31, 2015. Also, at March 31, 2015, S&T had a remaining borrowing availability of \$1.6 billion with the FHLB of Pittsburgh. Refer to Note 9 Borrowings, and the Borrowing section of Item 2,

MD&A, for more details.

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

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - continued

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

(dollars in thousands)	Adequately Well-		March 31, 2015		December 31, 2014			
	Capitalized	Capitalized <sup>(2)</sup>	Amount	Ratio	Amount	Ratio		
S&T Bancorp, Inc.								
Tier 1 leverage	4.00	% 5.00	% \$499,390	10.06	% \$465,114	9.80		%
Common equity tier 1 to risk-weighted assets	4.50	% 6.50	% 479,510	9.82	% 445,114	11.81		%
Tier 1 capital to risk-weighted assets	6.00	% 8.00	% 499,390	10.22	% 465,114	12.34		%
Total capital to risk-weighted assets	8.00	% 10.00	% 579,653	11.86	% 537,935	14.27		%
S&T Bank								
Tier 1 leverage	4.00	% 5.00	% \$367,047	7.72	% \$403,593	8.53		%
Common equity tier 1 to risk-weighted assets	4.50	% 6.50	% 367,047	9.15	% 403,593	10.76		%
Tier 1 capital to risk-weighted assets	6.00	% 8.00	% 367,047	9.15	% 403,593	10.76		%
Total capital to risk-weighted assets	8.00	% 10.00	% 442,227	11.02	% 475,538	12.68		%
Integrity Bank								
Tier 1 leverage	4.00	% 5.00	% \$102,556	11.74	% \$70,990	8.55		%
Common equity to tier 1 to risk-weighted assets	4.50	% 6.50	% 102,556	11.56	% 70,990	9.30		%
Tier 1 capital to risk-weighted assets	6.00	% 8.00	% 102,556	11.56	% 70,990	9.30		%
Total capital to risk-weighted assets	8.00	% 10.00	% 106,556	12.01	% 84,529	11.08		%

<sup>(1)</sup> For an institution to qualify as "adequately capitalized" under regulatory guidelines, Tier 1 leverage, Common equity tier 1 risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios must be at least 4 percent, 4.50 percent, 6 percent and 8 percent. At March 31, 2015, we exceeded those requirements.

<sup>(2)</sup> For an institution to qualify as "well capitalized" under regulatory guidelines, Tier 1 leverage, Common equity tier 1 risk-based capital, Tier 1 risk-based capital and total risk-based capital ratios must be at least 5 percent, 6.50 percent, 8 percent and 10 percent. At March 31, 2015, we exceeded those requirements.

When comparing March 31, 2015 to December 31, 2014, the capital ratios were impacted by our merger with Integrity and new regulatory requirements under Basel III. The merger between S&T and Integrity closed on March 4, 2015.

The new regulatory requirements under Basel III were effective January 1, 2015 with a phase-in period ending January 1, 2019. The new regulatory requirements include a common equity tier 1 to risk-weighted assets ratio and increased the capital required for certain categories of assets. S&T, S&T Bank, and Integrity Bank continue to be well-capitalized under the new regulatory guidelines.

In October 2012, we filed a shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the Securities and Exchange Commission, or SEC, for the issuance of up to \$300 million of a variety of securities including debt and capital securities, preferred and common stock and warrants. We may use the proceeds from the sale of securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to subsidiaries, possible acquisitions and stock repurchases. As of March 31, 2015 we had not issued any securities pursuant to the shelf registration statement.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect a financial institution's earnings or capital. For most financial institutions, including S&T, market risk primarily reflects exposures to changes in interest rates. Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes 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.



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

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - continued

Rate shock analyses results are compared to a base case to provide an estimate of the impact that market rate changes may have on 12 months of pretax net interest income. The base case and rate shock analyses are performed on a static balance sheet. A static balance sheet is a no growth balance sheet in which all maturing and/or repricing cash flows are reinvested in the same product at the existing product spread. Rate shock analyses assume an immediate parallel shift in market interest rates and also include management assumptions regarding the impact of interest rate changes on non-maturity deposit products (noninterest-bearing demand, interest-bearing demand, money market and savings) and changes in the prepayment behavior of 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 analysis results. Both are in the minimal risk tolerance level.

Change in Interest Rate (basis points)	March 31, 2015		December 31, 2014	
	% Change in Pretax Net Interest Income	% Change in EVE	% Change in Pretax Net Interest Income	% Change in EVE
+300	8.7	8.5	6.7	1.8
+200	5.5	8.4	4.1	3.9
+100	2.5	4.2	1.8	3.5
-100	(3.8	)(12.5	)(3.4	)(12.3

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. Due to an increase in our asset sensitivity position, the percent change in pretax net interest income for our rates up shock scenarios increased when comparing March 31, 2015 and December 31, 2014.

When comparing the EVE results for March 31, 2015 and December 31, 2014 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 March 31, 2015 compared to December 31, 2014. The lower long-term rates resulted in a lower March 31, 2015 base case EVE mainly as result of lower non-maturity deposits values.

In addition to rate shocks analysis and EVE analysis, we perform a market risk stress test at least annually. The market risk stress test includes sensitivity analyses and simulations. Sensitivity analyses are performed to help us identify which model assumptions cause the greatest impact on pretax net interest income. Sensitivity analyses may include changing prepayment behavior of 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.

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S&T BANCORP, INC. AND SUBSIDIARIES

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of S&T's Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of S&T's disclosure controls and procedures as of March 31, 2015. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to S&T's management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2015, there were no changes made to S&T's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, S&T's internal control over financial reporting.

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S&T BANCORP, INC. AND SUBSIDIARIES

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

There have been no material changes to the risk factors that we have previously disclosed in Item 1A – “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on February 20, 2015.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

31.1 Rule 13a-14(a) Certification of the Chief Executive Officer.

31.2 Rule 13a-14(a) Certification of the Chief Financial Officer.

32 Rule 13a-14(b) Certification of the Chief Executive Officer and Chief Financial Officer.

101 The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheet at March 31, 2015 and Audited Consolidated Balance Sheet at December 31, 2014, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three Months ended March 31, 2015 and 2014, (iii) Unaudited Consolidated Statements of Changes in Shareholders' Equity for the Three Months ended March 31, 2015 and 2014, (iv) Unaudited Consolidated Statements of Cash Flows for the Three Months ended March 31, 2015 and 2014 and (v) Notes to Unaudited Consolidated Financial Statements.

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S&T BANCORP, INC. AND SUBSIDIARIES

SIGNATURES

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

S&T Bancorp, Inc.  
(Registrant)

Date: May 5, 2015

/s/ Mark Kochvar  
Mark Kochvar  
Senior Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer and Duly Authorized Signatory)