

S&T BANCORP INC
Form 10-Q
August 07, 2014
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

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

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

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

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

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

Not Applicable

(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, \$2.50 Par Value - 29,796,397 shares as of July 31, 2014

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CONSOLIDATED BALANCE SHEETS

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

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

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

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

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

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

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

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Cash and cash equivalents at beginning of period	108,356	337,711
Cash and Cash Equivalents at End of Period	\$130,235	\$247,432
Supplemental Disclosures		
Loans transferred to held for sale	\$1,300	\$—
Interest paid	6,278	9,372
Income taxes paid, net of refunds	8,400	5,155
Transfers of loans to other real estate owned	\$274	\$180
See Notes to Consolidated Financial Statements		

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

NOTE 1. BASIS OF PRESENTATION

Principles of Consolidation

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

Basis of Presentation

The accompanying unaudited interim Consolidated Financial Statements of S&T have been prepared in accordance with generally accepted accounting principles, or GAAP, in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with our annual report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission, or SEC, on February 21, 2014. In the opinion of management, the accompanying interim financial information reflects all adjustments, including normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results of operations that may be expected for a full year or any future period.

Reclassification

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

Use of Estimates

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

Recently Adopted Accounting Standards Updates, or ASU

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

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

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

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

beginning after December 15, 2013, and early adoption is permitted. The adoption of this ASU had no impact on our results of operations or financial position.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION – continued

Recently Issued Accounting Standards Updates not yet Adopted

Share-Based Payment Awards with Performance Targets

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

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

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

Revenues from Contracts with Customers

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

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 1. BASIS OF PRESENTATION – continued

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

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

Accounting for Investments in Qualified Affordable Housing Projects

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 2. EARNINGS PER SHARE

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

(dollars in thousands, except shares and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Numerator for Earnings per Share—Basic:				
Net income	\$ 14,720	\$ 14,103	\$ 28,753	\$ 26,433
Less: Income allocated to participating shares	29	36	64	81
Net Income Allocated to Shareholders	\$ 14,691	\$ 14,067	\$ 28,689	\$ 26,352
Numerator for Earnings per Share—Diluted:				
Net income	14,720	14,103	\$ 28,753	\$ 26,433
Net Income Available to Shareholders	\$ 14,720	\$ 14,103	\$ 28,753	\$ 26,433
Denominators for Earnings per Share:				
Weighted Average Shares Outstanding—Basic	29,684,300	29,654,018	29,672,611	29,637,825
Add: Dilutive potential shares	16,894	23,858	27,559	41,319
Denominator for Treasury Stock Method—Diluted	29,701,194	29,677,876	29,700,170	29,679,144
Weighted Average Shares Outstanding—Basic	29,684,300	29,654,018	29,672,611	29,637,825
Add: Average participating shares outstanding	58,973	74,994	66,563	91,530
Denominator for Two-Class Method—Diluted	29,743,273	29,729,012	29,739,174	29,729,355
Earnings per share—basic	\$ 0.49	\$ 0.47	\$ 0.97	\$ 0.89
Earnings per share—diluted	\$ 0.49	\$ 0.47	\$ 0.97	\$ 0.89
Warrants considered anti-dilutive excluded from dilutive potential shares	517,012	517,012	517,012	517,012
Stock options considered anti-dilutive excluded from dilutive potential shares	428,493	629,570	428,676	642,499
Restricted stock considered anti-dilutive excluded from dilutive potential shares	42,079	51,136	39,005	50,211

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

Recurring Basis**Securities Available-for-Sale**

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

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

Trading Assets

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

Derivative Financial Instruments

We use derivative instruments including interest rate swaps for commercial loans with our customers and we sell mortgage loans in the secondary market and enter into interest rate lock commitments. We calculate the fair value for derivatives using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. Each valuation considers the contractual terms of the derivative, including the period to maturity, and uses observable market based inputs, such as interest rate curves and implied volatilities. Accordingly, derivatives are classified as Level 2.

We incorporate credit valuation adjustments into the valuation models to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in calculating fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements and collateral postings.

Nonrecurring Basis

Loans Held for Sale

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

Impaired Loans

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

Appraisals may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or our knowledge of the borrower and the borrower's business. Impaired loans carried at fair value are classified as Level 3.

OREO and Other Repossessed Assets

OREO and other repossessed assets obtained in partial or total satisfaction of a loan are recorded at the lower of recorded investment in the loan or fair value less cost to sell. Subsequent to foreclosure, these assets are carried at the lower of the amount recorded at acquisition date or fair value less cost to sell. Accordingly, it may be necessary to record nonrecurring fair value adjustments. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Like impaired loans, appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets are classified as Level 3.

Mortgage Servicing Rights

The fair value of MSRs is determined by calculating the present value of estimated future net servicing cash flows, considering expected mortgage loan prepayment rates, discount rates, servicing costs and other economic factors, which are determined based on current market conditions. The expected rate of mortgage loan prepayments is the most significant factor affecting the value of MSRs. MSRs are considered impaired if the carrying value exceeds fair

value. The valuation model includes significant unobservable inputs; therefore, MSRs are classified as Level 3.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

Other Assets

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

Financial Instruments

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

Cash and Cash Equivalents and Other Short-Term Assets

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

Loans

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

Bank Owned Life Insurance

Fair value approximates net cash surrender value.

Deposits

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

Short-Term Borrowings

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

Long-Term Borrowings

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

Junior Subordinated Debt Securities

The variable rate junior subordinated debt securities reprice quarterly; therefore, the fair values are based on the carrying values.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

Loan Commitments and Standby Letters of Credit

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

Other

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

The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at June 30, 2014 and December 31, 2013. There were no transfers between Level 1 and Level 2 for items measured at fair value on a recurring basis during the periods presented.

(dollars in thousands)	June 30, 2014			
	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	\$—	\$270,248	\$—	\$270,248
Collateralized mortgage obligations of U.S. government corporations and agencies	—	94,604	—	94,604
Residential mortgage-backed securities of U.S. government corporations and agencies	—	46,389	—	46,389
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	39,920	—	39,920
Obligations of states and political subdivisions	—	128,313	—	128,313
Marketable equity securities	179	8,835	—	9,014
Total securities available-for-sale	179	588,309	—	588,488
Trading securities held in a Rabbi Trust	3,117	—	—	3,117
Total securities	3,296	588,309	—	591,605
Derivative financial assets:				
Interest rate swaps	—	14,082	—	14,082
Interest rate lock commitments	—	292	—	292
Forward sale contracts	—	—	—	—
Total Assets	\$3,296	\$602,683	\$—	\$605,979
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	\$—	\$14,050	\$—	\$14,050
Forward sale contracts	—	59	—	\$59
Total Liabilities	\$—	\$14,109	\$—	\$14,109

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

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

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

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

⁽¹⁾ Changes in estimated fair value of available-for-sale investments are recorded in accumulated other comprehensive income (loss), while realized gains and losses from sales are recorded in security gains (losses), net in the Consolidated Statements of Comprehensive Income.

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 3. FAIR VALUE MEASUREMENT – continued

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

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

⁽¹⁾ As reported in the Consolidated Balance Sheets

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

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

(1) As reported in the Consolidated Balance Sheets

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE

The following table indicates the composition of the securities available-for-sale portfolio as of the dates presented:

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

We do not believe any individual unrealized loss as of June 30, 2014 represents an other than temporary impairment, or OTTI. As of June 30, 2014, the unrealized losses on 19 debt securities were attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. There were no unrealized losses on marketable equity securities as of June 30, 2014. We do not intend to sell and it is not more likely than not that we will be required to sell any of the securities, referenced in the table above, in an unrealized loss position before recovery of their amortized cost.

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

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

The amortized cost and fair value of securities available-for-sale at June 30, 2014, by contractual maturity, are included in the table below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE

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

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

We attempt to limit our exposure to credit risk by diversifying our loan portfolio and actively managing concentrations. When concentrations exist in certain segments, we mitigate this risk by monitoring the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 74 percent of total portfolio loans at June 30, 2014 and 73 percent of total portfolio loans at December 31, 2013. Within our commercial portfolio, the commercial real estate, or CRE, and commercial construction portfolios combined comprised 66 percent of total commercial loans and 49 percent of total portfolio loans at June 30, 2014 and 68 percent of total commercial loans and 49 percent of total portfolio loans at December 31, 2013. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type revealed no concentration in excess of nine percent of total loans at either June 30, 2014 or December 31, 2013. The majority of both commercial and consumer loans are made to businesses and individuals in Western Pennsylvania resulting in a geographic concentration. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Management believes underwriting guidelines, active monitoring of economic conditions and ongoing review by credit administration mitigates the concentration risk present in the loan portfolio. Only the CRE and commercial construction portfolios combined have any significant out-of-state exposure, with 26 percent of the combined portfolio and 13 percent of total loans being out-of-state loans at June 30, 2014 and 23 percent of the combined portfolio and 11 percent of total loans being out-of-state loans at December 31, 2013. Our CRE and commercial construction portfolios combined out-of-state exposure, excluding the contiguous states of Ohio, West Virginia, New York and Maryland, was 7.2 percent of the combined portfolio and 3.6 percent of total loans at June 30, 2014 and 7.9 percent of the combined portfolio and 3.9 percent of total loans at December 31, 2013.

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

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

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

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

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

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

(dollars in thousands)	June 30, 2014			December 31, 2013		
	Accruing TDRs	Nonaccruing TDRs	Total TDRs	Accruing TDRs	Nonaccruing TDRs	Total TDRs
Commercial real estate	\$16,934	\$1,431	\$18,365	\$19,711	\$3,898	\$23,609
Commercial and industrial	7,390	1,170	8,560	7,521	1,884	9,405
Commercial construction	6,310	1,869	8,179	5,338	2,708	8,046
Residential mortgage	2,647	645	3,292	2,581	1,356	3,937
Home equity	3,712	125	3,837	3,924	218	4,142
Installment and other consumer	127	1	128	154	3	157
Total	\$37,120	\$5,241	\$42,361	\$39,229	\$10,067	\$49,296

We returned four TDRs for \$1.4 million to accruing status during the three months ended June 30, 2014 and five TDRs for \$1.5 million to accruing status during the six months ended June 30, 2014. There were no TDRs returned to accruing status during the three months ended June 30, 2013 and one TDR for \$0.2 million was returned to accruing status during the six months ended June 30, 2013.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

The following tables present the restructured loans for the three and six month periods ended June 30, 2014 and June 30, 2013:

(dollars in thousands)	Three Months Ended June 30, 2014				Three Months Ended June 30, 2013			
	Number of Loans	Pre-Modification Outstanding Recorded Investment ⁽¹⁾	Post-Modification Outstanding Recorded Investment ⁽¹⁾	Total Difference in Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment ⁽¹⁾	Post-Modification Outstanding Recorded Investment ⁽¹⁾	Total Difference in Recorded Investment
Commercial real estate								
Principal forgiveness ⁽³⁾	—	\$ —	\$ —	\$ —	1	\$ 4,339	\$ 4,339	\$ —
Principal deferral	1	129	127	(2)	—	—	—	—
Chapter 7 bankruptcy ⁽²⁾	—	—	—	—	4	53	51	(2)
Commercial and industrial								
Maturity date extension	—	—	—	—	1	751	751	—
Residential mortgage								
Chapter 7 bankruptcy ⁽²⁾	1	52	52	—	2	84	75	(9)
Home equity								
Chapter 7 bankruptcy ⁽²⁾	4	43	41	(2)	17	486	478	(8)
Installment and other consumer								
Chapter 7 bankruptcy ⁽²⁾	1	9	9	—	—	—	—	—
Total by Concession Type								
Principal forgiveness ⁽³⁾	—	—	—	—	1	4,339	4,339	—
Principal deferral	1	129	127	(2)	—	—	—	—
Chapter 7 bankruptcy ⁽²⁾	6	104	102	(2)	23	623	604	(19)
Maturity date extension	—	—	—	—	1	751	751	—
Total	7	\$ 233	\$ 229	\$ 4	25	5,713	5,694	(19)

(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.

(3) This loan had debt forgiveness of \$0.1 million to the customer; however, the loan was previously charged off to a balance below the actual contractual balance.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

(dollars in thousands)	Six Months Ended June 30, 2014				Six Months Ended June 30, 2013			
	Number of Loans	Pre-Modification Outstanding Recorded Investment ⁽¹⁾	Post-Modification Outstanding Recorded Investment ⁽¹⁾	Total Difference in Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment ⁽¹⁾	Post-Modification Outstanding Recorded Investment ⁽¹⁾	Total Difference in Recorded Investment
Commercial real estate								
Principal deferral	1	\$ 129	\$ 127	\$(2)	3	\$ 1,541	\$ 1,288	\$(253)
Principal forgiveness ⁽³⁾	—	—	—	—	1	4,339	4,339	—
Chapter 7 bankruptcy ⁽²⁾	—	—	—	—	7	258	255	(3)
Commercial and industrial								
Principal deferral	—	—	—	—	1	392	387	(5)
Maturity date extension	—	—	—	—	1	751	751	—
Chapter 7 bankruptcy ⁽²⁾	1	287	286	(1)	1	3	3	—
Commercial Construction								
Maturity date extension	1	1,019	1,019	—	—	—	—	—
Residential mortgage								
Principal deferral	—	—	—	—	2	153	153	—
Chapter 7 bankruptcy ⁽²⁾	5	329	327	(2)	8	353	344	(9)
Home equity								
Principal deferral	—	—	—	—	1	174	45	(129)
Chapter 7 bankruptcy ⁽²⁾	10	269	251	(18)	23	648	640	(8)
Installment and other consumer								
Chapter 7 bankruptcy ⁽²⁾	1	9	9	—	6	73	73	—
Total by Concession Type								
Principal deferral	1	129	127	(2)	7	2,260	1,873	(387)
Principal forgiveness ⁽³⁾	—	—	—	—	1	4,339	4,339	—
Maturity date extension	1	1,019	1,019	—	1	751	751	—
Chapter 7 bankruptcy ⁽²⁾	17	894	873	(21)	45	1,335	1,315	(20)
Total	19	\$ 2,042	\$ 2,019	\$(23)	54	\$ 8,685	8,278	(407)

(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.

(3) This loan had debt forgiveness of \$0.1 million to the customer; however, the loan was previously charged off to a balance below the actual contractual balance.

For the three months ended June 30, 2014, we modified two CRE loans totaling \$1.2 million that were not considered to be TDRs. For the six months ended June 30, 2014, we modified three loans that were not considered to be TDRs, including a \$0.4 million commercial and industrial, or C&I, loan and two CRE loans for \$1.2 million. The

modifications primarily represented instances where we were adequately compensated through additional collateral and a higher interest rate or there was an insignificant delay in payment. As of June 30, 2014 we have no commitments to lend additional funds on any TDRs.

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 twelve months prior to defaulting:

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

(dollars in thousands)	Defaulted TDRs			
	For the Three Months ended June 30, 2014		For the Three Months ended June 30, 2013	
	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate	—	\$—	\$—	\$—
Commercial and Industrial	—	—	—	—
Commercial construction	—	—	—	—
Residential real estate	—	—	2	46
Home equity	—	—	2	33
Total	—	\$—	\$4	\$79

(dollars in thousands)	Defaulted TDRs			
	For the Six Months Ended June 30, 2014		For the Six Months Ended June 30, 2013	
	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate	—	\$—	\$—	\$—
Commercial and Industrial	—	—	—	—
Commercial construction	—	—	—	—
Residential real estate	1	72	3	64
Home equity	—	—	4	151
Total	1	\$72	\$7	\$215

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

(dollars in thousands)	Nonperforming Assets	
	June 30, 2014	December 31, 2013
Nonperforming Assets		
Nonaccrual loans	\$9,698	\$12,387
Nonaccrual TDRs	5,241	10,067
Total nonaccrual loans	14,939	22,454
OREO	431	410
Total Nonperforming Assets	\$15,370	\$22,864

OREO consists of eight properties and is included in other assets in the Consolidated Balance Sheets. It is our policy to obtain OREO appraisals on an annual basis.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

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

The following are key risks within each portfolio segment:

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

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

We continually monitor our ALL methodology to ensure that it is responsive to the current economic environment. No changes were made to our ALL methodology for the six months ended June 30, 2014.

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&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

The following tables present the age analysis of past due loans segregated by class of loans as of June 30, 2014 and December 31, 2013:

(dollars in thousands)	June 30, 2014					Total Past Due	Total Loans
	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual			
Commercial real estate	\$1,629,928	\$753	\$44	\$5,658	\$6,455	\$1,636,383	
Commercial and industrial	918,846	559	249	2,537	3,345	922,191	
Commercial construction	185,428	—	1,014	1,869	2,883	188,311	
Residential mortgage	488,551	1,022	898	2,118	4,038	492,589	
Home equity	412,851	1,466	478	1,431	3,375	416,226	
Installment and other consumer	65,380	364	68	26	458	65,838	
Consumer construction	3,541	—	—	—	—	3,541	
Loans held for sale	1,802	—	—	1,300	1,300	3,102	
Totals	\$3,706,327	\$4,164	\$2,751	\$14,939	\$21,854	\$3,728,181	

(dollars in thousands)	December 31, 2013					Total Past Due	Total Loans
	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual			
Commercial real estate	\$1,595,590	\$1,209	\$207	\$10,750	\$12,166	\$1,607,756	
Commercial and industrial	836,276	2,599	278	3,296	6,173	842,449	
Commercial construction	139,133	1,049	751	2,742	4,542	143,675	
Residential mortgage	481,260	828	1,666	3,338	5,832	487,092	
Home equity	408,777	2,468	659	2,291	5,418	414,195	
Installment and other consumer	67,420	382	44	37	463	67,883	
Consumer construction	3,149	—	—	—	—	3,149	
Loans held for sale	2,136	—	—	—	—	2,136	
Totals	\$3,533,741	\$8,535	\$3,605	\$22,454	\$34,594	\$3,568,335	

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&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

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

June 30, 2014											
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total			
Pass	\$1,563,882	95.6	% \$872,686	94.6	% \$167,267	88.8	% \$2,603,835	94.8	%		
Special mention	45,275	2.8	% 33,966	3.7	% 12,882	6.8	% 92,123	3.4	%		
Substandard	27,226	1.6	% 15,539	1.7	% 8,162	4.4	% 50,927	1.8	%		
Total	\$1,636,383	100	% \$922,191	100.0	% \$188,311	100.0	% \$2,746,885	100.0	%		

December 31, 2013											
(dollars in thousands)	Commercial Real Estate	% of Total	Commercial and Industrial	% of Total	Commercial Construction	% of Total	Total	% of Total			
Pass	\$1,519,720	94.5	% \$792,029	94.0	% \$119,177	82.9	% \$2,430,926	93.7	%		
Special mention	57,073	3.6	% 34,085	4.1	% 15,621	10.9	% 106,779	4.1	%		
Substandard	30,963	1.9	% 16,335	1.9	% 8,877	6.2	% 56,175	2.2	%		
Total	\$1,607,756	100.0	% \$842,449	100.0	% \$143,675	100.0	% \$2,593,880	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 indicate the recorded investment in consumer loan classes by performing and nonperforming status as of the dates presented:

June 30, 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	\$490,471	99.6	% \$414,795	99.7	% \$65,812	99.9	% \$3,541	100.0	% \$974,619	99.6	%
Nonperforming	2,118	0.4	% 1,431	0.3	% 26	0.1	% —	—	% 3,575	0.4	%
Total	\$492,589	100.0	% \$416,226	100.0	% \$65,838	100.0	% \$3,541	100.0	% \$978,194	100.0	%

December 31, 2013											
(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	\$483,754	99.3	% \$411,904	99.4	% \$67,846	99.9	% \$3,149	100.0	% \$966,653	99.4	%
Nonperforming	3,338	0.7	% 2,291	0.6	% 37	0.1	% —	—	% 5,666	0.6	%
Total	\$487,092	100.0	% \$414,195	100.0	% \$67,883	100.0	% \$3,149	100.0	% \$972,319	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 are considered to be impaired loans and 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&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

The following table presents investments in loans considered to be impaired and related information on those impaired loans for the periods presented:

(dollars in thousands)	June 30, 2014			December 31, 2013		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Without a related allowance recorded:						
Commercial real estate	\$21,228	\$28,296	\$—	\$26,968	\$35,474	\$—
Commercial and industrial	9,545	9,660	—	9,580	9,703	—
Commercial construction	8,179	11,866	—	7,391	12,353	—
Consumer real estate	7,082	7,629	—	8,026	9,464	—
Other consumer	107	109	—	124	128	—
Total without a Related Allowance Recorded	46,141	57,560	—	52,089	67,122	—
With a related allowance recorded:						
Commercial real estate	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Commercial construction	—	—	—	681	1,383	25
Consumer real estate	47	47	47	53	53	53
Other consumer	21	21	11	33	33	19
Total with a Related Allowance Recorded	68	68	58	767	1,469	97
Total:						
Commercial real estate	21,228	28,296	—	26,968	35,474	—
Commercial and industrial	9,545	9,660	—	9,580	9,703	—
Commercial construction	8,179	11,866	—	8,072	13,736	25
Consumer real estate	7,129	7,676	47	8,079	9,517	53
Other consumer	128	130	11	157	161	19
Total	\$46,209	\$57,628	\$58	\$52,856	\$68,591	\$97

As of June 30, 2014, CRE loans of \$21.2 million comprised 46 percent of the total impaired loans of \$46.2 million. These impaired loans are collateralized primarily by commercial real estate properties such as retail or strip malls, office buildings and various other types of commercial purpose properties. These loans are generally considered collateral dependent and charge-offs are recorded when a confirmed loss exists. Approximately \$7.9 million of charge-offs have been recorded relating to these CRE loans over the life of these loans. It is our policy to order appraisals on an annual basis on impaired loans or sooner if facts and circumstances warrant. As of June 30, 2014, an estimated fair value less cost to sell of approximately \$34.7 million existed for CRE impaired loans. We have current appraisals on all but \$0.6 million of the \$21.2 million of impaired CRE loans. We have not ordered an appraisal on this loan due to an outstanding settlement agreement with the borrower which would result in the collection of the remaining recorded investment in the loan.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

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

(dollars in thousands)	For the Three Months Ended			
	June 30, 2014		June 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	\$21,382	\$159	\$30,956	\$174
Commercial and industrial	9,317	57	12,452	66
Commercial construction	8,279	57	16,376	87
Consumer real estate	7,166	100	8,708	156
Other consumer	109	1	114	2
Total without a Related Allowance Recorded	46,253	374	68,606	485
With a related allowance recorded:				
Commercial real estate	—	—	2,084	—
Commercial and industrial	—	—	—	—
Commercial construction	—	—	—	—
Consumer real estate	48	1	86	4
Other consumer	22	—	28	1
Total with a Related Allowance Recorded	70	1	2,198	5
Total:				
Commercial real estate	21,382	159	33,040	174
Commercial and industrial	9,317	57	12,452	66
Commercial construction	8,279	57	16,376	87
Consumer real estate	7,214	101	8,794	160
Other consumer	131	1	142	3
Total	\$46,323	\$375	\$70,804	\$490

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

(dollars in thousands)	For the Six Months Ended		June 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	\$21,980	\$329	\$31,181	\$415
Commercial and industrial	9,066	114	12,449	135
Commercial construction	8,301	114	16,854	221
Consumer real estate	7,260	203	9,194	215
Other consumer	112	2	106	2
Total without a Related Allowance Recorded	46,719	762	69,784	988
With a related allowance recorded:				
Commercial real estate	\$—	\$—	3,282	\$—
Commercial and industrial	—	—	—	—
Commercial construction	—	—	—	—
Consumer real estate	50	2	43	4
Other consumer	23	1	14	1
Total with a Related Allowance Recorded	73	3	3,339	5
Total:				
Commercial real estate	21,980	329	34,463	415
Commercial and industrial	9,066	114	12,449	135
Commercial construction	8,301	114	16,854	221
Consumer real estate	7,310	205	9,237	219
Other consumer	135	3	120	3
Total	\$46,792	\$765	\$73,123	\$993

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

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

(dollars in thousands)	Three Months Ended June 30, 2014					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$19,880	\$ 13,979	\$5,183	\$6,408	\$1,166	\$46,616
Charge-offs	(1,737)	(743)	(664)	(425)	(177)	(3,746)
Recoveries	1,294	2,936	324	164	126	4,844
Net Recoveries/ (Charge-offs)	(443)	2,193	(340)	(261)	(51)	1,098
Provision for loan losses	1,296	(3,168)	(84)	558	264	(1,134)
Balance at End of Period	\$20,733	\$ 13,004	\$4,759	\$6,705	\$1,379	\$46,580

(dollars in thousands)	Three Months Ended June 30, 2013					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	\$24,442	\$ 8,676	\$6,603	\$5,259	\$956	\$45,936
Charge-offs	(1,170)	(563)	(54)	(743)	(399)	(2,929)
Recoveries	1,572	190	2	225	86	2,075
Net (Charge-offs)/ Recoveries	402	(373)	(52)	(518)	(313)	(854)
Provision for loan losses	(1,360)	820	(739)	1,914	388	1,023
Balance at End of Period	\$23,484	\$ 9,123	\$5,812	\$6,655	\$1,031	\$46,105

(dollars in thousands)	Six Months Ended June 30, 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	(2,004)	(1,033)	(692)	(547)	(445)	(4,721)
Recoveries	1,834	3,249	375	223	210	5,891
Net Recoveries/ (Charge-offs)	(170)	2,216	(317)	(324)	(235)	1,170
Provision for loan losses	1,982	(3,645)	(298)	667	449	(845)
Balance at End of Period	\$20,733	\$ 13,004	\$4,759	\$6,705	\$1,379	\$46,580

(dollars in thousands)	Six Months Ended June 30, 2013					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans

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Balance at beginning of period	\$25,246	\$ 7,759	\$7,500	\$5,058	\$921	\$46,484
Charge-offs	(2,809)	(1,923)	(443)	(1,237)	(651)	(7,063)
Recoveries	2,322	290	55	508	179	3,354
Net (Charge-offs)/Recoveries	(487)	(1,633)	(388)	(729)	(472)	(3,709)
Provision for loan losses	(1,275)	2,997	(1,300)	2,326	582	3,330
Balance at End of Period	\$23,484	\$ 9,123	\$5,812	\$6,655	\$1,031	\$46,105

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 6. ALLOWANCE FOR LOAN LOSSES

The following tables present the ALL and recorded investments in loans by category as of June 30, 2014 and December 31, 2013:

(dollars in thousands)	June 30, 2014			Portfolio Loans		
	Allowance for Loan Losses			Individually Collectively		
	Individually	Collectively	Total	Individually	Collectively	Total
	Evaluated for Impairment	Evaluated for Impairment		Evaluated for Impairment	Evaluated for Impairment	
Commercial real estate	\$—	\$20,733	\$20,733	\$21,228	\$1,615,155	\$1,636,383
Commercial and industrial	—	13,004	13,004	9,545	912,646	922,191
Commercial construction	—	4,759	4,759	8,179	180,132	188,311
Consumer real estate	47	6,658	6,705	7,129	905,227	912,356
Other consumer	11	1,368	1,379	128	65,710	65,838
Total	\$58	\$46,522	\$46,580	\$46,209	\$3,678,870	\$3,725,079

(dollars in thousands)	December 31, 2013			Portfolio Loans		
	Allowance for Loan Losses			Individually Collectively		
	Individually	Collectively	Total	Individually	Collectively	Total
	Evaluated for Impairment	Evaluated for Impairment		Evaluated for Impairment	Evaluated for Impairment	
Commercial real estate	\$—	\$18,921	\$18,921	\$26,968	\$1,580,788	\$1,607,756
Commercial and industrial	—	14,433	14,433	9,580	832,869	842,449
Commercial construction	25	5,349	5,374	8,072	135,603	143,675
Consumer real estate	53	6,309	6,362	8,079	896,357	904,436
Other consumer	19	1,146	1,165	157	67,726	67,883
Total	\$97	\$46,158	\$46,255	\$52,856	\$3,513,343	\$3,566,199

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Swaps

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, such as 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 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 can encounter pricing risk 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 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&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 7. 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)	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Derivatives not Designated as Hedging Instruments				
Interest Rate Swap Contracts—Commercial Loans				
Fair value	\$14,082	\$13,698	\$14,050	\$13,647
Notional amount	245,865	261,754	245,865	261,754
Collateral posted	—	—	11,559	12,611
Interest Rate Lock Commitments—Mortgage Loans				
Fair value	292	85	—	—
Notional amount	9,594	3,989	—	—
Forward Sale Contracts—Mortgage Loans				
Fair value	—	34	59	—
Notional amount	\$—	\$5,250	\$7,210	\$—

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)	
	June 30, 2014	December 31, 2013	June 30, 2014	December 31, 2013
Derivatives not Designated as Hedging Instruments				
Gross amounts recognized	\$14,349	\$14,012	\$14,317	\$13,961
Gross amounts offset	(267	)(314	)(267	)(314
Net amounts presented in the Consolidated Balance Sheets	14,082	13,698	14,050	13,647
Gross amounts not offset ⁽¹⁾	—	—	(11,559	)(12,611
Net Amount	\$14,082	\$13,698	\$2,491	\$1,036

⁽¹⁾ 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013

Derivatives not Designated as Hedging

Instruments

Interest rate swap contracts—commercial loans	\$(11	)\$ (27	)	\$(19	)\$ (156)
Interest rate lock commitments—mortgage loans	199	(266	)	207	(492)
Forward sale contracts—mortgage loans	64)381		(93)405	
Total Derivatives Gain (Loss)	\$124	\$88		\$95	\$(243)

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 8. BORROWINGS

Short-term borrowings are for terms under one year and were comprised of securities sold under repurchase agreements, or REPOs, and Federal Home Loan Bank, or FHLB, advances. Our REPOs were with our local retail customers. 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 our 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 their short-term equivalents. We had total long-term borrowings outstanding of \$17.3 million at a fixed rate and \$48.7 million at a variable rate at June 30, 2014, excluding our capital lease of \$0.2 million.

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

(dollars in thousands)	June 30, 2014		December 31, 2013		
	Balance	Weighted Average Rate	Balance	Weighted Average Rate	
Short-term borrowings					
Securities sold under repurchase agreements	\$25,269	0.01	% \$33,847	0.01	%
Short-term borrowings	185,000	0.28	% 140,000	0.30	%
Total short-term borrowings	210,269	0.25	% 173,847	0.24	%
Long-term borrowings					
Other long-term borrowings	20,636	2.98	% 21,810	3.01	%
Junior subordinated debt securities	45,619	2.69	% 45,619	2.70	%
Total long-term borrowings	66,255	2.78	% 67,429	2.80	%
Total Borrowings	\$276,524	0.85	% \$241,276	0.96	%

We had total borrowings at June 30, 2014 and December 31, 2013 at the FHLB of Pittsburgh of \$205.4 million and \$161.6 million. This consisted of \$185.0 million in short-term borrowings and \$20.4 million in long-term borrowings at June 30, 2014. Our maximum borrowing capacity with the FHLB of Pittsburgh was \$1.6 billion at June 30, 2014, with a remaining borrowing availability of \$1.4 billion.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 9. COMMITMENTS AND CONTINGENCIES

Commitments

In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event a customer does not satisfy the terms of their 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. Since 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 \$3.1 million at June 30, 2014 and \$2.9 million at December 31, 2013. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets. 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:

(dollars in thousands)	June 30, 2014	December 31, 2013
Commitments to extend credit	\$1,117,511	\$1,038,529
Standby letters of credit	78,427	78,639
Total	\$1,195,938	\$1,117,168

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 will not have a material adverse effect on our consolidated financial position.

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 10. 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 June 30, 2014			Three Months Ended June 30, 2013		
	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in unrealized gains/losses on securities available-for-sale	\$5,401	\$(1,891)	)\$3,510	\$(12,061)	)\$4,221	\$(7,840)
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income ⁽¹⁾	(40)	)15	(25)	—	—	—
Adjustment to funded status of employee benefit plans	211	(74)	)137	598	(210)	)388
Other Comprehensive Income (Loss)	\$5,572	\$(1,950)	)\$3,622	\$(11,463)	)\$4,011	\$(7,452)

⁽¹⁾ 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.

(dollars in thousands)	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in unrealized gains/losses on securities available-for-sale	\$9,876	\$(3,457)	)\$6,419	\$(13,829)	)\$4,840	\$(8,989)
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income ⁽¹⁾	(41)	)15	(26)	(2)	)1	(1)
Adjustment to funded status of employee benefit plans	423	(148)	)275	1,196	(419)	)777
Other Comprehensive Income (Loss)	\$10,258	\$(3,590)	)\$6,668	\$(12,635)	)\$4,422	\$(8,213)

⁽¹⁾ Reclassification adjustments are comprised of realized security gains. The gains have been reclassified out of accumulated other comprehensive income and have affected certain lines in the consolidated statement 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&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 11. 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 2014. The expected long-term rate of return on plan assets is 8.00 percent. Through June 30, 2014, there have been no changes to the Plan.

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

(dollars in thousands)	Three Months Ended June		Six Months Ended June 30,	
	2014	2013	2014	2013
Components of Net Periodic Pension Cost				
Service cost—benefits earned during the period	\$631	\$708	\$1,262	\$1,416
Interest cost on projected benefit obligation	1,106	996	2,212	1,992
Expected return on plan assets	(1,735)	(1,565)	(3,470)	(3,130)
Amortization of prior service cost (credit)	(35)	(34)	(70)	(68)
Recognized net actuarial loss	209	588	418	1,176
Net Periodic Pension Expense	\$176	\$693	\$352	\$1,386

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 12. SEGMENTS

We manage three reportable operating segments including Community Banking, Insurance and Wealth Management.

Our Community Banking segment offers services which include accepting time and demand deposit accounts, 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 table represents total assets by reportable operating segment as of the dates presented:

(dollars in thousands)	June 30, 2014	December 31, 2013
Community Banking	\$4,778,233	\$4,524,939
Insurance	7,715	6,926
Wealth Management	2,082	1,325
Total Assets	\$4,788,030	\$4,533,190

The following tables provide financial information for our three segments for the three and six month periods ended June 30, 2014 and 2013. The financial results of the business segments include allocations for shared services based on an internal analysis that supports line of business performance measurement. Shared services include expenses such as employee benefits, occupancy expense, computer support and corporate overhead. Even with these allocations, the financial results are not necessarily indicative of the business segments' financial condition and results of operations 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.

(dollars in thousands)	Three Months Ended June 30, 2014				Consolidated
	Community Banking	Insurance	Wealth Management	Eliminations	
Interest income	\$39,845	\$—	\$136	\$(109)	\$39,872
Interest expense	3,415	—	—	(398)	3,017
Net interest income	36,430	—	136	289	36,855
Provision for loan losses	(1,134)	)—	—	—	(1,134)
Noninterest income	7,522	1,245	2,828	176	11,771
Noninterest expense	25,092	1,044	2,442	465	29,043
Depreciation expense	805	13	7	—	825
Amortization of intangible assets	274	13	10	—	297
Provision for income taxes	4,637	61	177	—	4,875
Net Income	\$14,278	\$114	\$328	\$—	\$14,720

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S&T BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

NOTE 12. SEGMENTS – continued

(dollars in thousands)	Three Months Ended June 30, 2013				Consolidated
	Community Banking	Insurance	Wealth Management	Eliminations	
Interest income	\$38,505	\$—	\$135	\$(87)	)\$38,553
Interest expense	4,663	—	—	(706)	)3,957
Net interest income	33,842	—	135	619	34,596
Provision for loan losses	1,023	—	—	—	1,023
Noninterest income	8,467	1,349	2,812	239	12,867
Noninterest expense	21,786	1,105	2,389	1,797	27,077
Depreciation expense	876	12	8	—	896
Amortization of intangible assets	387	13	13	—	413
Provision (benefit) for income taxes	4,592	77	221	(939)	)3,951
Net Income	\$13,645	\$142	\$316	\$—	\$14,103

(dollars in thousands)	Six Months Ended June 30, 2014				Consolidated
	Community Banking	Insurance	Wealth Management	Eliminations	
Interest income	\$78,475	\$—	\$310	\$(248)	)\$78,537
Interest expense	6,897	—	—	(806)	)6,091
Net interest income	71,578	—	310	558	72,446
Provision for loan losses	(845)	)—	—	—	(845)
Noninterest income	14,375	2,766	5,764	282	23,187
Noninterest expense	49,066	2,199	4,716	840	56,821
Depreciation expense	1,607	25	13	—	1,645
Amortization of intangible assets	566	25	22	—	613
Provision for income taxes	8,002	181	463	—	8,646
Net Income	\$27,557	\$336	\$860	\$—	\$28,753

(dollars in thousands)	Six Months Ended June 30, 2013				Consolidated
	Community Banking	Insurance	Wealth Management	Eliminations	
Interest income	\$76,194	\$1	\$273	\$(72)	)\$76,396
Interest expense	9,454	—	—	(1,323)	)8,131
Net interest income	66,740	1	273	1,251	68,265
Provision for loan losses	3,330	—	—	—	3,330
Noninterest income	18,823	2,947	5,386	517	27,673
Noninterest expense	46,427	2,552	4,878	3,468	57,325
Depreciation expense	1,795	22	16	—	1,833
Amortization of intangible assets	792	26	26	—	844
Provision (benefit) for income taxes	7,438	122	313	(1,700))6,173
Net Income	\$25,781	\$226	\$426	\$—	\$26,433

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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 and six month periods ended June 30, 2014 and 2013. 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 or the documents incorporated by reference. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements we may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information actually known to us at that time. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Future Factors include:

- credit losses;
- cyber-security concerns, including an interruption or breach in the security of our information systems;
- rapid technological developments and changes;
- sensitivity to the interest rate environment including a prolonged period of low interest rates, a rapid increase in interest rates or a change in the shape of the yield curve;
- a change in spreads on interest-earning assets and interest-bearing liabilities;
- regulatory supervision and oversight, including Basel III required capital levels, and public policy changes, including environmental regulations;
- legislation affecting the financial services industry as a whole, and/or S&T or S&T Bank, in particular, including the effects of the Dodd-Frank Act;
 - the outcome of pending and future litigation and governmental proceedings;
- increasing price and product/service competition, including new entrants;
- the ability to continue to introduce competitive new products and services on a timely, cost-effective basis;
- managing our internal growth and acquisitions;
- containing costs and expenses;
- reliance on significant customer relationships;
- the possibility that the anticipated benefits from acquisitions cannot be fully realized in a timely manner or at all, or that integrating future acquired operations will be more difficult, disruptive or costly than anticipated;
-

general economic or business conditions, either nationally or regionally in Western Pennsylvania and our other market areas, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other services;

• deterioration of the housing market and reduced demand for mortgages;

• a deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income;

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

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

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

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 June 30, 2014 have remained unchanged from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2013 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 \$4.8 billion at June 30, 2014. We provide a full range of financial services through offices in 12 Pennsylvania counties with retail and commercial banking products, cash management services, insurance and traditional trust and discount brokerage services. We also have two loan production offices, or LPOs, in Northeast and Central Ohio. Our common stock trades on the NASDAQ Global Select Market under the symbol "STBA."

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

Our mission is to become the financial services provider of choice within the markets that we serve. We strive to do this by delivering exceptional service and value, one customer at a time. Our strategic plan focuses on growth through expansion, acquisition and organic 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 six months ended June 30, 2014, we successfully executed on our growth strategy through expanding into new markets and growing organically in our existing markets. On January 21, 2014, we announced the opening of an LPO in Central Ohio. On June 18, 2014, we opened a new branch with a team of experienced banking professionals in State College, Pennsylvania. During the six months ended June 30, 2014, we grew our business organically with portfolio loans increasing \$158.9 million, or 4.5 percent, compared to December 31, 2013. This growth was primarily in our commercial loan portfolio.

Our focus throughout 2014 will be on loan 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 focus on an organic growth strategy will help to mitigate the impact in 2014. We plan to evaluate new markets and strive to replicate the success of our LPO in Northeast Ohio in our recently established LPO in Central Ohio. Our focus is also on maintaining and attracting new sales personnel to execute on our loan and fee growth strategies. Our capital position remains strong and we are well positioned to take advantage of acquisition opportunities as they arise.

Earnings Summary

Net income available to common shareholders for the three months ended June 30, 2014 was \$14.7 million, or diluted earnings per share of \$0.49, compared to \$14.1 million, or \$0.47 for the same period in 2013. Net income for the six months ended June 30, 2014 was \$28.8 million, or diluted earnings per share of \$0.97, compared to \$26.4 million, or \$0.89, for the same period in 2013. The increase in net income was primarily driven by an increase in net interest income and a lower provision for loan losses in both the three and six months ended June 30, 2014.

Net interest income increased \$2.3 million, or 6.5 percent, and \$4.2 million, or 6.1 percent, for the three and six month periods ended June 30, 2014 compared to the same periods in 2013. The increase in net interest income for both periods is mainly due to interest earning asset growth. Total average interest earning assets increased \$219.1 million, or 5.4 percent, and \$213.4 million, or 5.2 percent, for the three and six month periods ended June 30, 2014 compared to the same periods in 2013. The increase was driven by higher average loans, which is due to our successful efforts in growing our loan portfolio organically over the past year.

The provision for loan losses decreased \$2.2 million for the three months ended June 30, 2014 and decreased \$4.2 million for the six months ended June 30, 2014 compared to the same periods in 2013. The decrease in the provision for loan losses was due in part to net recoveries of \$1.1 million and \$1.2 million for the three and six months ended June 30, 2014. In addition, the lower provision was due to improving economic conditions which have positively impacted our asset quality metrics in all categories, including decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio.

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

Our total noninterest income decreased \$1.1 million to \$11.8 million for the three months ended June 30, 2014 and \$4.5 million to \$23.2 million for the six months ended June 30, 2014 compared to the same periods in 2013. The decrease in noninterest income for the three months ended June 30, 2014 was primarily related to a decline in mortgage banking income, debit and credit card fees and insurance fees. The decrease in noninterest income for the six months ended June 30, 2014 was primarily related to a \$3.1 million gain on the sale of our merchant card servicing business that occurred in the first quarter of 2013 and decreases in mortgage banking income, debit and credit card fees and insurance fees. These decreases for the six months ended June 30, 2014 were partially offset by an increase in our wealth management fees due to new business development efforts and certain fee increases.

Total noninterest expense increased \$1.8 million for the three months ended June 30, 2014 and decreased \$0.9 million for the six months ended June 30, 2014 compared to the same periods in 2013. The increase for the three months ended June 30, 2014 primarily related to higher salaries and benefits due to higher incentives and other noninterest expense due to a higher provision for unfunded loan commitments. The decrease for the six months ended June 30, 2014 was due to no merger related expenses in 2014 compared to \$0.8 million in 2013, and lower professional services and legal, other taxes and Federal Deposit Insurance Corporation, or FDIC, insurance.

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 and six months ended June 30, 2014 and 2013.

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

RESULTS OF OPERATIONS

Three and Six Months Ended June 30, 2014 Compared to

Three and Six Months Ended June 30, 2013

Net Interest Income

Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 76 percent of operating revenue (net interest income plus noninterest income, excluding non-recurring income and expenses) for the three and six month periods ended June 30, 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 maintain an acceptable net interest margin on interest-earning assets.

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

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

(dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,		
	2014	2013	2014	2013	
Total interest income	\$39,872	\$38,553	\$78,537	\$76,396	
Total interest expense	3,017	3,957	6,091	8,131	
Net interest income per consolidated statements of comprehensive income	36,855	34,596	72,446	68,265	
Adjustment to FTE basis	1,394	1,169	2,717	2,341	
Net Interest Income (FTE) (non-GAAP)	\$38,249	\$35,765	\$75,163	\$70,606	
Net interest margin	3.43	% 3.40	% 3.41	% 3.38	%
Adjustment to FTE basis	0.13	% 0.11	% 0.13	% 0.12	%
Net Interest Margin (FTE) (non-GAAP)	3.56	% 3.51	% 3.54	% 3.50	%

Income amounts are annualized for rate calculations.

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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 June 30, 2014				Three Months Ended June 30, 2013			
	Average Balance	Interest	Rate		Average Balance	Interest	Rate	
ASSETS								
Loans ^{(1) (2)}	\$3,650,050	\$37,444	4.11	%	\$3,419,393	\$36,459	4.28	%
Interest-bearing deposits with banks	88,064	62	0.28	%	186,265	132	0.28	%
Taxable investment securities ⁽³⁾	428,618	2,129	1.99	%	365,799	1,866	2.04	%
Tax-exempt investment securities ⁽²⁾	129,687	1,507	4.65	%	106,194	1,255	4.73	%
Federal Home Loan Bank and other restricted stock	12,752	124	3.89	%	12,420	10	0.31	%
Total Interest-earning Assets	4,309,171	41,266	3.84	%	4,090,071	39,722	3.89	%
Noninterest-earning assets:								
Cash and due from banks	48,846				52,219			
Premises and equipment, net	35,689				36,881			
Other assets	336,985				358,555			
Less allowance for loan losses	(49,075)				(47,063)			
Total Assets	\$4,681,616				\$4,490,663			
LIABILITIES AND SHAREHOLDERS' EQUITY								
EQUITY								
Interest-bearing demand	\$311,719	\$20	0.03	%	\$303,461	\$18	0.02	%
Money market	327,666	125	0.15	%	327,733	112	0.14	%
Savings	1,035,691	403	0.16	%	1,001,258	452	0.18	%
Certificates of deposit	899,086	1,742	0.78	%	984,304	2,330	0.95	%
CDARS and brokered deposits	230,036	186	0.32	%	63,564	39	0.25	%
Total Interest-bearing deposits	2,804,198	2,476	0.35	%	2,680,320	2,951	0.44	%
Securities sold under repurchase agreements	30,718	2	0.01	%	67,461	22	0.13	%
Short-term borrowings	108,640	80	0.30	%	71,429	44	0.25	%
Long-term borrowings	20,873	156	3.01	%	23,196	176	3.05	%
Junior subordinated debt securities	45,619	303	2.66	%	82,817	764	3.70	%
Total Interest-bearing Liabilities	3,010,048	3,017	0.40	%	2,925,223	3,957	0.54	%
Noninterest-bearing liabilities:								
Noninterest-bearing demand	1,028,997				946,862			
Other liabilities	51,390				72,370			
Shareholders' equity	591,181				546,208			
Total Liabilities and Shareholders' Equity	\$4,681,616				\$4,490,663			
Net Interest Income ⁽²⁾⁽³⁾		\$38,249				\$35,765		
Net Interest Margin ^{(2) (3)}			3.56	%			3.51	%

⁽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 2014 and 2013.

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

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

(dollars in thousands)	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013				
	Average Balance	Interest	Rate	Average Balance	Interest	Rate		
ASSETS								
Loans ^{(1) (2)}	\$3,613,470	\$73,878	4.12	%	\$3,388,915	\$72,190	4.30	%
Interest-bearing deposits with banks	117,812	147	0.25	%	198,379	252	0.25	%
Taxable investment securities ⁽³⁾	412,142	4,079	1.98	%	359,622	3,731	2.07	%
Tax-exempt investment securities ⁽²⁾	125,591	2,936	4.68	%	108,310	2,536	4.68	%
Federal Home Loan Bank and other restricted stock	13,070	214	3.28	%	13,415	28	0.42	%
Total Interest-earning Assets	4,282,085	81,254	3.82	%	4,068,641	78,737	3.90	%
Noninterest-earning assets:								
Cash and due from banks	48,463				52,116			
Premises and equipment, net	35,662				37,316			
Other assets	339,070				358,996			
Less allowance for loan losses	(48,255)				(47,527)			
Total Assets	\$4,657,025				\$4,469,542			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest-bearing demand	\$312,565	\$35	0.02	%	\$306,792	\$37	0.02	%
Money market	338,928	253	0.15	%	332,961	237	0.14	%
Savings	1,025,007	791	0.16	%	987,616	945	0.19	%
Certificates of deposit	904,869	3,565	0.79	%	998,041	4,878	0.99	%
CDARS and brokered deposits	210,426	342	0.33	%	47,480	56	0.24	%
Total Interest-bearing deposits	2,791,795	4,986	0.36	%	2,672,890	6,153	0.46	%
Securities sold under repurchase agreements	33,641	2	0.01	%	65,411	48	0.15	%
Short-term borrowings	118,156	178	0.30	%	66,298	78	0.24	%
Long-term borrowings	21,168	320	3.04	%	26,323	407	3.12	%
Junior subordinated debt securities	45,619	605	2.68	%	86,696	1,445	3.36	%
Total Interest-bearing Liabilities	3,010,379	6,091	0.41	%	2,917,618	8,131	0.56	%
Noninterest-bearing liabilities:								
Noninterest-bearing demand	1,009,506				936,141			
Other liabilities	52,116				72,450			
Shareholders' equity	585,024				543,333			
Total Liabilities and Shareholders' Equity	\$4,657,025				\$4,469,542			
Net Interest Income ^{(2) (3)}		\$75,163				\$70,606		
Net Interest Margin ^{(2) (3)}			3.54	%			3.50	%

⁽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 2014 and 2013.

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

Net interest income on a FTE basis increased \$2.5 million, or 6.9 percent, for the three months ended June 30, 2014 and \$4.6 million, or 6.5 percent, for the six months ended June 30, 2014 compared to the same periods in 2013. The

net interest margin on a FTE basis increased 5 basis points for the three months ended June 30, 2014 and 4 basis points for the six months ended June 30, 2014 compared to the same periods in 2013. The increase in net interest income is mainly due to interest earning asset growth.

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

Interest income on a FTE basis increased \$1.5 million, or 3.9 percent, and \$2.5 million, or 3.2 percent, to \$41.3 million and \$81.3 million for the three and six months ended June 30, 2014 compared to the same periods in 2013. The increase in interest income was mainly driven by the \$219.1 million and \$213.4 million increases in interest-earning assets for the three and six month periods ended June 30, 2014 compared to the same periods in 2013. The interest-earning asset balance increase is mainly attributable to loan growth. Average loan balances increased by \$230.7 million and \$224.6 million for the three and six months ended June 30, 2014 compared to the same periods in 2013 as a result of organic growth, primarily in our commercial loan portfolio. Due to the continued low interest rate environment our rate earned on loans decreased 17 basis points and 18 basis points for the three and six months ended June 30, 2014 when compared to the three and six months ended June 30, 2013. Average interest-bearing deposits with banks, which is primarily cash at the Federal Reserve, decreased \$98.2 million for the three months and \$80.6 million for the six months ended June 30, 2014 when compared to the same periods in 2013. Average investment securities, including Federal Home Loan Bank, or FHLB, and other restricted stock, increased \$86.6 million for the three months and \$69.5 million for the six months ended June 30, 2014 compared to the same periods in 2013. The deployment of excess cash at the Federal Reserve to higher yielding investment securities had a positive impact on the interest-earning asset rate. Overall, the FTE rate on total interest-earning assets decreased 5 basis points to 3.84 percent for the three months ended June 30, 2014 and decreased 8 basis points to 3.82 percent for the six months ended June 30, 2014 as compared to 3.89 percent and 3.90 percent for the same periods in 2013.

Interest expense decreased \$0.9 million and \$2.0 million to \$3.0 million and \$6.1 million for the three and six months ended June 30, 2014 compared to the same periods in 2013. The decrease in interest expense is a result of a shift in the mix of our interest-bearing liabilities from higher rate certificates of deposit, or CDs, and subordinated debt to lower cost deposits and borrowings. Total interest-bearing deposits increased \$123.9 million and \$118.9 million for the three months and six months ended June 30, 2014 compared to the same periods in 2013. Higher interest-bearing deposits are due to an increase of \$166.5 million and \$162.9 million in brokered deposits and an increase of \$42.6 million and \$49.1 million in interest-bearing demand, money market and savings balances offset by a decrease in CDs of \$85.2 million and \$93.2 million for the three and six month periods ended June 30, 2014 compared to the same periods in 2013. The cost of total interest-bearing deposits was 0.35 percent and 0.36 percent for the three and six month periods ended June 30, 2014, compared to 0.44 percent and 0.46 percent for the three and six month periods ended June 30, 2013. The decrease in the cost of interest-bearing deposits was mainly due to the maturity of higher rate CDs being replaced by lower rate deposits. Interest expense on average borrowings decreased \$0.5 million and \$0.9 million over the three and six month periods ended June 30, 2014 compared to the same periods in 2013. The decrease was primarily a result of the redemption of \$45.0 million of subordinated debt during the second quarter of 2013. Overall, the cost of interest-bearing liabilities decreased 14 basis points and 15 basis points for the three months and six months ended June 30, 2014 compared to the same periods in 2013.

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

The following table sets forth for the periods indicated 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 June 30, 2014 Compared to June 30, 2013			Six Months Ended June 30, 2014 Compared to June 30, 2013		
	Volume ⁽⁴⁾	Rate ⁽⁴⁾	Net	Volume	Rate	Net
Interest earned on:						
Loans ^{(1) (2)}	\$2,460	\$(1,475	)\$985	\$4,784	\$(3,096	)\$1,688
Interest-bearing deposits with banks	(70	)—	(70	) (103	) (2	) (105
Taxable investment securities ⁽³⁾	320	(57	) 263	544	(196	) 348
Tax-exempt investment securities ⁽²⁾	277	(25	) 252	404	(4	) 400
Federal Home Loan Bank and other restricted stock	—	114	114	(1	) 187	186
Total Interest-earning Assets	2,987	(1,443	) 1,544	5,628	(3,111	) 2,517
Interest paid on:						
Interest-bearing demand	1	1	2	—	(2	) (2
Money market	—	13	13	4	12	16
Savings	16	(65	) (49	) 36	(190	) (154
Certificates of deposit	(202	) (385	) (587	) (455	) (857	) (1,312
CDARS and brokered deposits	102	45	147	194	92	286
Securities sold under repurchase agreements	(12	) (9	) (21	) (23	) (23	) (46
Short-term borrowings	23	13	36	60	40	100
Long-term borrowings	(18	) (2	) (20	) (79	) (9	) (88
Junior subordinated debt securities	(343	) (118	) (461	) (686	) (154	) (840
Total Interest-bearing Liabilities	(433	) (507	) (940	) (949	) (1,091	) (2,040
Net Change in Net Interest Income	\$3,420	\$(936	) \$2,484	\$6,577	\$(2,020	) \$4,557

⁽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 2014 and 2013.

⁽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 appropriate to absorb probable losses inherent in the loan portfolio. The provision for loan losses decreased \$2.1 million from \$1.0 million to (\$1.1) million for the three months ended June 30, 2014 and decreased \$4.1 million from \$3.3 million to (\$0.8) million for the six months ended June 30, 2014 compared to the same periods in 2013. The negative provision for loan losses was primarily due to net recoveries of \$1.1 million and \$1.2 million for the three and six months ended June 30, 2014. We continue to experience favorable asset quality trends with decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio. Net loan charge-offs decreased \$2.0 million to a net recovery of \$1.1 million for the three months ended June 30, 2014 compared to a net charge-off of \$0.9 million for the three months ended June 30, 2013 and decreased \$4.9 million to a net recovery of \$1.2 million for the six months ended June 30, 2014 compared to a net charge-off of \$3.7 million for the six months ended June 30, 2013. Nonaccrual loans decreased 61 percent to \$14.9 million at June 30, 2014 compared to \$37.9 million at June 30, 2013. Total special mention and substandard commercial loans have decreased \$98.5 million, or 41 percent, over the last twelve months

to \$143.1 million at June 30, 2014. The ALL was 1.25 percent of total loans at June 30, 2014 compared to 1.34 percent at June 30, 2013. Refer to “Allowance for Loan Losses” in the MD&A of this report for additional information.

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

Noninterest Income

(dollars in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
Securities gains, net	\$40	\$—	\$40	NM	\$41	\$2	\$39	NM
Wealth management fees	2,837	2,820	17	0.6	5,792	5,396	396	7.3
Debit and credit card fees	2,724	3,150	(426)	(13.5)	5,226	5,601	(375)	(6.7)
Service charges on deposit accounts	2,574	2,495	79	3.2	5,083	4,943	140	2.8
Insurance fees	1,425	1,643	(218)	(13.3)	3,102	3,418	(316)	(9.2)
Mortgage banking	264	911	(647)	(71.0)	396	1,393	(997)	(71.6)
Gain on sale of merchant card servicing business	—	—	—	—	—	3,093	(3,093)	(100.0)
Other	1,907	1,848	59	3.2	3,547	3,827	(280)	(7.3)
Total Noninterest Income	\$11,771	\$12,867	\$(1,096)	(8.5)%	\$23,187	\$27,673	\$(4,486)	(16.2)%

NM- percentage not meaningful

Noninterest income decreased \$1.1 million, or 8.5 percent, and \$4.5 million, or 16.2 percent, to \$11.8 million and \$23.2 million for the three and six month periods ended June 30, 2014 compared to the same periods in 2013. The decreases related to declines in fees from mortgage banking, debit and credit cards and insurance for both periods. Additional decreases in the six month period ended June 30, 2014 related to the sale of our merchant card servicing business and other noninterest income offset by an increase in wealth management fees.

During the first quarter of 2013, we sold our merchant card servicing business for \$4.8 million and paid deconversion and termination fees of \$1.7 million to the merchant processor resulting in a net gain of \$3.1 million. In conjunction with the sale of the merchant card servicing business, we entered into a marketing and sales alliance agreement with the purchaser, providing transition fees, royalties and referral revenue. Income from the marketing and sales alliance agreement is included in debit and credit card fees. The decrease in debit and credit card fees for both the three and six month periods ended June 30, 2014 primarily relates to transition fees that we received during the first five months after the sale of the merchant card servicing business that did not recur during 2014, combined with the timing of referral revenue. Mortgage banking income decreased \$0.6 million and \$1.0 million for the three and six month periods ended June 30, 2014 compared to the same periods in 2013. The decrease in mortgage banking income relates to the increase in mortgage rates that occurred in the second quarter of 2013, resulting in a decrease in the volume of loans originated for sale in the secondary market and less favorable pricing on loan sales. During the six months ended June 30, 2014, we sold 65 percent fewer mortgages with \$13.1 million in loan sales compared to \$37.7 million during the same period in 2013. Insurance fees decreased \$0.2 million and \$0.3 million for the three and six month periods ended June 30, 2014 compared to the same periods in 2013 due to increased competition.

The decrease in other noninterest income of \$0.3 million for the six month period ended June 30, 2014, as compared to the same period in 2013, was primarily due to a decrease in interest rate swap fees from our commercial customers. Wealth management fees increased \$0.4 million for the six month period ended June 30, 2014, as compared to the same period in 2013, due to higher assets under management, new business development efforts and fee increases.

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

Noninterest Expense

(dollars in thousands)	Three Months Ended June 30,				Six Months Ended June 30,			
	2014	2013	\$ Change	% Change	2014	2013	\$ Change	% Change
Salaries and employee benefits (1)	\$15,772	\$14,725	\$1,047	7.1	% \$31,148	\$30,737	\$411	1.3
Data processing (1)	2,219	2,110	109	5.2	4,314	4,043	\$271	6.7
Net occupancy (1)	1,984	1,958	26	1.3	4,214	4,122	\$92	2.2
Furniture and equipment	1,277	1,230	47	3.8	2,548	2,538	\$10	0.4
Marketing	960	793	167	21.1	1,578	1,482	\$96	6.5
Other Taxes	893	915	(22)	(2.4)	1,524	1,914	\$(390)	(20.4)
Professional services and legal (1)	875	1,171	(296)	(25.3)	1,538	2,143	\$(605)	(28.2)
FDIC insurance	579	707	(128)	(18.1)	1,210	1,483	\$(273)	(18.4)
Other noninterest expense (1)	5,606	4,749	857	18.0	11,005	10,702	\$303	2.8
Merger related expense	—	28	(28)	(100.0)	—	838	\$(838)	(100.0)
Total Noninterest Expense	\$30,165	\$28,386	\$1,779	6.3	% \$59,079	\$60,002	\$(923)	(1.5)

(1) Excludes one-time merger related expense for 2013.

Noninterest expense increased \$1.8 million, or 6.3 percent, and decreased \$0.9 million, or 1.5 percent, to \$30.2 million and \$59.1 million for the three and six month periods ended June 30, 2014 compared to the same periods in 2013. Increases in salaries and employee benefits expenses and other noninterest expenses were offset by decreases in professional services and legal for both periods. Additional decreases in merger related expenses, other taxes and FDIC insurance contributed to the decrease for the six month period ended June 30, 2014 as compared to the same period in 2013.

The \$0.8 million of merger related expense recognized in the six months ended June 30, 2013 related primarily to the data processing system conversion of Gateway Bank. Although the Gateway Bank acquisition occurred in August 2012, the merger with S&T Bank and the system conversion was completed on February 8, 2013.

Salaries and employee benefits expenses increased \$1.0 million and \$0.4 million in the three and six month periods ended June 30, 2014, compared to the same periods in 2013, primarily due to an increase in incentive expense offset by a decrease in pension expense. Incentive expense increased \$0.8 million and \$1.3 million for the three and six months ended June 30, 2014, compared to the same periods in 2013, due to strong performance in the first half of 2014. Offsetting this increase to incentives was a reduction in our pension expense for the three and six months ended June 30, 2014, compared to the same periods in 2013, of \$0.5 million and \$1.0 million due to a decrease in our pension liability resulting from a change in actuarial assumptions. Other noninterest expense increased \$0.9 million for the six months ended June 30, 2014 and was relatively unchanged for the three months ended June 30, 2014, compared to the same periods in 2013. The \$0.9 million increase during the current period primarily relates to an increase in the provision for unfunded loan commitments. Data processing increased \$0.1 million and \$0.3 million for the three and six month periods ended June 30, 2014 primarily due to the implementation of software that strengthens the authentication of our customers that use our online banking product

Professional services and legal expense decreased \$0.3 million and \$0.6 million for the three and six months ended June 30, 2014, compared to the same periods in 2013, primarily due to additional external accounting and consulting charges that were incurred in 2013. The decrease of \$0.4 million for the six months ended June 30, 2014 in other taxes primarily relates to legislative changes that have resulted in a reduction in Pennsylvania shares tax expense. FDIC insurance charges are based in part on our financial ratios which have improved, resulting in a decrease of \$0.1 million and \$0.3 million for the three and six month periods ended June 30, 2014, compared to the same periods in 2013.

Provision for Income Taxes

The provision for income taxes increased \$0.9 million to \$4.9 million for the three month period and increased \$2.5 million to \$8.6 million for the six month period ended June 30, 2014 compared to a provision of \$4.0 million and \$6.2 million for the same periods in 2013. The increases to the provision for income taxes for the three and six month periods ended June 30, 2014 were primarily due to increases of \$1.5 million for the three month period and \$4.8 million for the six month period in

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pre-tax income and an increase in the expected full year tax rate. The effective tax rate for the six months ended June 30, 2014 increased to 23.1 percent compared to 18.9 percent for the same period in 2013. The increase in our effective tax rate was primarily due to increases in pre-tax income.

Financial Condition

June 30, 2014

Total assets increased by 5.6 percent to \$4.8 billion at June 30, 2014 compared to \$4.5 billion at December 31, 2013. Loan growth was strong, resulting in an increase to total portfolio loans of \$158.9 million, or 4.5 percent, compared to December 31, 2013. Our commercial loan portfolio grew by \$153.0 million, or 5.9 percent, to \$2.7 billion and our consumer loan portfolio grew by \$5.9 million, or 0.6 percent, to \$978.2 million at June 30, 2014. Securities increased \$79.1 million, or 15.5 percent, compared to December 31, 2013. Our deposit base increased \$192.9 million, or 5.3 percent, with total deposits of \$3.9 billion at June 30, 2014 compared to \$3.7 billion at December 31, 2013. Demand deposits increased \$92.3 million, or 7.1 percent, compared to December 31, 2013. Our Certificate of Deposit Account Registry Services, or CDARS, One Way Buy, or OWB, and brokered CDs increased by \$83.0 million during the six month period ended June 30, 2014 compared to December 31, 2013. Borrowings increased by \$35.2 million to \$276.5 million at June 30, 2014 compared to \$241.3 million at December 31, 2013. The short-term borrowing increase of \$45.0 million was utilized as a source of funds to support our asset growth during the first half of 2014. Total shareholder's equity increased by \$25.9 million, or 4.5 percent, during the six months ended June 30, 2014 compared to December 31, 2013. The increase was primarily due to net income of \$28.8 million and an increase to other comprehensive income of \$6.7 million primarily resulting from higher market values on our available-for-sale securities offset by \$9.8 million in dividends.

Securities Activity

(dollars in thousands)	June 30, 2014	December 31, 2013	\$ Change
Obligations of U.S. government corporations and agencies	\$270,248	\$234,751	\$35,497
Collateralized mortgage obligations of U.S. government corporations and agencies	94,604	63,774	30,830
Residential mortgage-backed securities of U.S. government corporations and agencies	46,389	48,669	(2,280)
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,920	39,052	868
Obligations of states and political subdivisions	128,313	114,264	14,049
Debt Securities Available-for-Sale	579,474	500,510	78,964
Marketable equity securities	9,014	8,915	99
Total Securities Available-for-Sale	\$588,488	\$509,425	\$79,063

We invest in various securities in order to provide 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 investment policies approved annually by our Board of Directors and administered through ALCO and our treasury function. The securities portfolio increased \$79.1 million, or 15.5 percent, from December 31, 2013. The increase is primarily due to the investment of cash into higher yielding assets.

On a quarterly basis, management evaluates the securities portfolio for other than temporary impairment, or OTTI. The bond portfolio had a net unrealized gain of \$7.4 million at June 30, 2014 compared to a net unrealized loss of \$2.3 million at December 31, 2013. Net unrealized gains at June 30, 2014 included \$9.7 million of unrealized gains offset

by \$2.3 million of unrealized losses. Net unrealized losses at December 31, 2013 included unrealized gains of \$5.5 million offset by \$7.8 million of unrealized losses. The changes in unrealized gains and losses during the six months ended June 30, 2014 was a result of the changing interest rate environment during the period and is 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 security. There were no unrealized losses on marketable equity securities as of June 30, 2014. During the three and six months ended June 30, 2014, no OTTI was recorded. We do not intend to sell and it is not more likely than not that we will be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost.

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Loan Composition

(dollars in thousands)	June 30, 2014		December 31, 2013		
	Amount	% of Loans	Amount	% of Loans	
Commercial					
Commercial real estate	\$1,636,383	43.9	% \$1,607,756	45.1	%
Commercial and industrial	922,191	24.8	% 842,449	23.6	%
Construction	188,311	5.1	% 143,675	4.0	%
Total Commercial Loans	2,746,885	73.7	% 2,593,880	72.7	%
Consumer					
Residential mortgage	492,589	13.2	% 487,092	13.7	%
Home equity	416,226	11.2	% 414,195	11.6	%
Installment and other consumer	65,838	1.8	% 67,883	1.9	%
Construction	3,541	0.1	% 3,149	0.1	%
Total Consumer Loans	978,194	26.3	% 972,319	27.3	%
Total Portfolio Loans	3,725,079	100.0	% 3,566,199	100.0	%
Loans Held for Sale	3,102		2,136		
Total Loans	\$3,728,181		\$3,568,335		

Our loan portfolio represents the most significant source of interest income for us. The risk that borrowers will be unable to pay such obligations is inherent in the loan portfolio. Conditions such as the overall economic climate can significantly impact a borrower's ability to pay. Total portfolio loans increased \$158.9 million, or 4.5 percent, since December 31, 2013 to \$3.7 billion at June 30, 2014 primarily due to organic loan growth in our commercial loan portfolios. The increase in loans can be attributed to the execution of our strategic initiative to grow our loan portfolio by adding seasoned lenders to our staff and our expansion through two LPO's in Ohio. Our expansion into new markets continued in the second quarter of 2014 with the opening of a branch in State College, Pennsylvania on June 18, 2014.

Total commercial loans have increased \$153.0 million, or 5.9 percent, from December 31, 2013 with growth in all portfolios. C&I loans increased \$79.7 million, or 9.5 percent, due to new loan originations and increased line utilization. CRE loans increased \$28.6 million, or 1.8 percent, due to improved loan demand. Commercial construction loans increased \$44.6 million, or 31.1 percent, due to an increase in activity and seasonality. Residential mortgages increased \$5.5 million, or 1.1 percent, from December 31, 2013 to June 30, 2014. Residential mortgage lending continues to be a strategic focus through a centralized mortgage origination department, ongoing product redesign, secondary market activities and the utilization of commission compensated originators. Management believes that continued adherence to our conservative mortgage lending policies for portfolio loans will be as important in a growing economy as it was during the downturn in recent years. At the end of the second quarter of 2014, we returned to selling all of our mortgage loan production priced for sale into the secondary market. Previously, we had been only selling 30 year mortgages. The rationale for these sales is to mitigate interest-rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio, generate fee revenue from sales and servicing and maintain the primary customer relationship. During the six months ended June 30, 2014, we sold 65 percent fewer mortgages with \$12.5 million in loan sales compared to \$35.6 million during the same period in 2013. We have experienced a decrease in the volume of loan sales from the prior year due to an increase in interest rates in mid-2013 which caused a significant decline in mortgage refinancings. As of June 30, 2014, we serviced \$318.9 million of secondary market mortgage loans sold to Fannie Mae.

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 subjective, as it requires

estimations of the occurrence of future events, as well as the timing of such events, and it 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) evaluation 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. 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. Individual project cash flows, as well as global cash

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flows, are generally the sources of repayment for these loans. Besides cash flow risks, CRE loans have collateral risk and risks based upon 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. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. Cash flow from the operations of the company is the primary source of repayment for these loans and the cash flow depends not only on the economy as a whole, but also on the health of the company's industry.

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. During the construction phase, a number of factors can result in delays and cost overruns. While the risk is generally confined to the construction and absorption periods, 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 the value of the property securing the loan may not have sufficient value in a liquidation to cover the outstanding principal. There are also various risks depending on the type of project and the experience and resources of the developer.

Consumer real estate loans are secured by 1-4 family residences, including purchase money mortgages, first and second lien home equity loans and home equity lines of credit. The primary source of repayment for these loans is the income and assets of the borrower. The unemployment rate, as well as the state of the local housing market, had a significant impact on the risk determination since 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, or may be unsecured. This class of loans includes auto loans, unsecured lines and credit cards. The primary source of repayment for these loans is the income and assets of the borrower so the local unemployment rate is an important indicator of risk. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

At June 30, 2014, approximately 83 percent of the ALL was related to our commercial loan portfolio, while commercial loans comprised 74 percent of our loan portfolio. We believe that the inherent losses in the commercial portfolio are higher than in the consumer portfolio. Our historical losses in the commercial loan portfolio were higher than in the consumer loan portfolio in the last economic downturn.

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

(dollars in thousands)	June 30, 2014					
	Allowance for Loan Losses			Portfolio Loans		
	Individually		Collectively	Individually		Collectively
	Evaluated for	Evaluated for	Total	Evaluated for	Evaluated for	Total
	Impairment	Impairment		Impairment	Impairment	
Commercial real estate	\$—	\$ 20,733	\$20,733	\$21,228	\$ 1,615,155	\$1,636,383
Commercial and industrial	—	13,004	13,004	9,545	912,646	922,191
Commercial construction	—	4,759	4,759	8,179	180,132	188,311
Consumer real estate	47	6,658	6,705	7,129	905,227	912,356
Other consumer	11	1,368	1,379	128	65,710	65,838
Total	\$58	\$ 46,522	\$46,580	\$46,209	\$ 3,678,870	\$3,725,079

(dollars in thousands)	December 31, 2013					
	Allowance for Loan Losses			Portfolio Loans		
	Individually		Collectively	Individually		Collectively
	Evaluated for	Evaluated for	Total	Evaluated for	Evaluated for	Total
	Impairment	Impairment		Impairment	Impairment	
Commercial real estate	\$—	\$ 18,921	\$18,921	\$26,968	\$ 1,580,788	\$1,607,756
Commercial and industrial	—	14,433	14,433	9,580	832,869	842,449
Commercial construction	25	5,349	5,374	8,072	135,603	143,675
Consumer real estate	53	6,309	6,362	8,079	896,357	904,436
Other consumer	19	1,146	1,165	157	67,726	67,883
Total	\$97	\$ 46,158	\$46,255	\$52,856	\$ 3,513,343	\$3,566,199

	June 30, 2014		December 31, 2013	
Ratio of net charge-offs to average loans outstanding	(0.03	)%*	0.25	%
Allowance for loan losses as a percentage of total loans	1.25	%	1.30	%
Allowance for loan losses to nonperforming loans	312	%	206	%

* Annualized

The ALL was \$46.6 million, or 1.25 percent, of total portfolio loans at June 30, 2014 compared to \$46.3 million, or 1.30 percent, of total portfolio loans at December 31, 2013. Overall, the total ALL and the composition of the ALL remained relatively unchanged from December 31, 2013. Impaired loans decreased \$6.6 million from December 31, 2013, primarily as a result of loan pay downs. New impaired loan formation has been low during 2014 at only \$2.8 million. The reserve for loans collectively evaluated for impairment did not change significantly at June 30, 2014 compared to December 31, 2013.

Our asset quality continued to improve during the six months ended June 30, 2014 with net recoveries, decreases in nonperforming loans and decreases in special mention and substandard loans. We had gross loan charge-offs of \$4.7 million offset by loan recoveries of \$5.9 million resulting in net recoveries of \$1.2 million for the six months ended June 30, 2014. Included in the \$5.9 million of recoveries was a \$2.5 million recovery for one loan in our C&I loan portfolio. Nonperforming loans decreased \$7.5 million, or 33 percent, to \$14.9 million at June 30, 2014 compared to \$22.5 million at December 31, 2013. Commercial special mention and substandard loans decreased by \$19.9 million, or 12 percent, to \$143.1 million at June 30, 2014 from \$163.0 million at December 31, 2013.

During the three months ended June 30, 2014, we sold a \$3.5 million package of smaller commercial loans,

\$3.2 million of which were on nonaccrual status, resulting in a charge-off of \$1.3 million. We also sold two C&I loans totaling \$4.8 million which resulted in a charge-off of \$1.5 million. The \$4.8 million of C&I loans were moved to nonaccrual status during the three months ended June 30, 2014 as a result of the loan sale agreement. We received approximately \$2.0 million of the proceeds for the loans prior to June 30, 2014 and the remaining \$1.3 million was classified as held-for-sale at June 30, 2014. Subsequent to June 30, 2014, the remaining \$1.3 million was fully collected.

We determine loans 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

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primarily look to the value of the collateral, but may use discounted cash flows or other market data. We may consider the existence of guarantees and the financial strength of the guarantors involved. Guarantees may be considered as a source of repayment; however, absent a verifiable payment capacity, a guarantee alone would not be sufficient to avoid classifying the loan as impaired.

Troubled debt restructurings, or TDRs, whether on accrual or nonaccrual status, are also classified as impaired loans. TDRs are loans where we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we would not otherwise grant. These modified terms generally include extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics, reductions in contractual interest rates or principal deferment. While unusual there may be instances of principal forgiveness. Generally these concessions are for a period of at least six months. Additionally, we classify loans where the debt obligation has been discharged through a Chapter 7 Bankruptcy and not reaffirmed by the borrower as TDRs.

TDRs can be returned to accruing status if the following criteria are met: 1) the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and 2) there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring. All TDRs are considered to be impaired loans and will be reported as impaired loans for their remaining lives, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and we fully expected that the remaining principal and interest will be collected according to the restructured agreement. All impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements noted above to be returned to accruing status. As an example, consider a substandard commercial construction loan that is currently 90 days past due where the loan is restructured to extend the maturity date for a period longer than would be considered an insignificant period of time. The post-modification interest rate is not increased to correspond with the current credit risk of the borrower and all other terms remain the same according to the original loan agreement. This loan will be considered a TDR as the borrower is experiencing financial difficulty and a concession has been granted. The loan will be reported as nonaccrual and as an impaired loan and a TDR. In addition, the loan could be charged down to the fair value of the collateral if a confirmed loss exists. If the loan subsequently performs, by means of making on-time principal and interest payments according to the newly restructured terms for a period of six months, and it is expected that all remaining principal and interest will be collected according to the terms of the restructured agreement, the loan will be returned to accrual status and reported as an accruing TDR. The loan will remain an impaired loan for the remaining life of the loan since the interest rate was not adjusted to be equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk.

As of June 30, 2014, we had \$42.4 million in total TDRs, including \$37.1 million that were accruing and \$5.3 million that were in nonaccrual. For the six months ended June 30, 2014, we had \$2.0 million of new TDRs, the most significant of which was a Commercial Construction TDR for \$1.0 million which had a maturity date extension and 17 loans totaling \$0.9 million related to bankruptcy filings that were not reaffirmed resulting in discharged debt. During the six months ended June 30, 2014, we returned five TDRs to accrual status for \$1.5 million, including one loan for \$1.3 million upon a detailed credit evaluation supporting that we fully expect collection of the contractual amounts due and that the borrower had six months of satisfactory payment performance.

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 balance in the allowance for lending-related commitments was relatively unchanged at approximately \$3.1 million at June 30, 2014 as compared to \$2.9 million at December 31, 2013. The allowance for lending-related commitments is included in other liabilities in the Consolidated Balance Sheets.

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

(dollars in thousands)	June 30, 2014	December 31, 2013	\$ Change
Nonaccrual Loans			
Commercial real estate	\$4,227	\$6,852	\$(2,625)
Commercial and industrial	2,667	1,412	1,255
Commercial construction	—	34	(34)
Residential mortgage	1,473	1,982	(509)
Home equity	1,306	2,073	(767)
Installment and other consumer	25	34	(9)
Consumer construction	—	—	—
Total Nonaccrual Loans	9,698	12,387	(2,689)
Nonaccrual Troubled Debt Restructurings			
Commercial real estate	1,431	3,898	(2,467)
Commercial and industrial	1,170	1,884	(714)
Commercial construction	1,869	2,708	(839)
Residential mortgage	645	1,356	(711)
Home equity	125	218	(93)
Installment and other consumer	1	3	(2)
Total Nonaccrual Troubled Debt Restructurings	5,241	10,067	(4,826)
Total Nonaccrual Loans	14,939	22,454	(7,515)
OREO	431	410	21
Total Nonperforming Assets	\$15,370	\$22,864	\$(7,494)

Asset Quality Ratios:

Nonperforming loans as a percent of total loans	0.40	%0.63	%
Nonperforming assets as a percent of total loans plus OREO	0.41	%0.64	%

Our policy is to place loans in all categories in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. There were no loans 90 days or more past due and still accruing at June 30, 2014 or December 31, 2013.

Nonperforming assets decreased \$7.5 million, or 33 percent to \$15.4 million at June 30, 2014 compared to \$22.9 million at December 31, 2013. The decline in nonperforming assets is primarily the result of the sale of \$3.2 million of nonaccrual loans, \$4.8 million in nonperforming loan pay downs, \$1.2 million of loan charge-offs and \$2.9 million of loans returning to accrual status. New nonperforming loan formation was \$4.8 million for the six months ended June 30, 2014. The new formation primarily consists of smaller loans of less than \$0.5 million.

Deposits

(dollars in thousands)	June 30, 2014	December 31, 2013	\$ Change
Noninterest-bearing demand	\$1,089,999	\$992,779	\$97,220
Interest-bearing demand	307,897	312,790	(4,893)
Money market	301,719	281,403	20,316
Savings	1,024,050	994,805	29,245
Certificates of deposit	890,794	922,753	(31,959)
CDARs OWB and brokered CDs	250,787	167,778	83,009
Total Deposits	\$3,865,246	\$3,672,308	\$192,938

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 a funding dependency on other more volatile sources. Total deposits increased \$192.9 million at June 30, 2014 compared to December 31, 2013.

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Overall, our customer deposits increased by \$109.9 million and our CDARS OWB and brokered CDs increased by \$83.0 million from December 31, 2013. The CDARS OWB and brokered CDs increased as a result of utilizing this type of funding source to support the strong asset growth during the first half of 2014.

CDs of \$100,000 and over, not including CDARs, decreased to 8.6 percent of total deposits at June 30, 2014 compared to 9.3 percent of total deposits at December 31, 2013. The percent decrease is a result of total deposit growth with no material change in total CDs of \$100,000 and over. CDs of \$100,000 and over primarily represent deposit relationships with local customers in our market area.

Borrowings

(dollars in thousands)	June 30, 2014	December 31, 2013	\$ Change
Securities sold under repurchase agreements, retail	\$25,269	\$33,847	\$(8,578)
Short-term borrowings	185,000	140,000	45,000
Long-term borrowings	20,636	21,810	(1,174)
Junior subordinated debt securities	45,619	45,619	—
Total Borrowings	\$276,524	\$241,276	\$35,248

Borrowings are an additional source of funding for us. Total borrowings increased by \$35.2 million from December 31, 2013. The short-term borrowing increase of \$45.0 million was utilized as a source of funds to support our asset growth activity during the first half of 2014.

Information pertaining to short-term borrowings is summarized in the tables below for the six and twelve month periods ended June 30, 2014 and December 31, 2013.

(dollars in thousands)	Securities Sold Under Repurchase Agreements			
	June 30, 2014		December 31, 2013	
Balance at the period end	\$25,269		\$33,847	
Average balance during the period	33,641		54,057	
Average interest rate during the period	0.01	%	0.12	%
Maximum month-end balance during the period	\$40,983		\$83,766	
Average interest rate at the period end	0.01	%	0.01	%

(dollars in thousands)	Short-Term Borrowings			
	June 30, 2014		December 31, 2013	
Balance at the period end	\$185,000		\$140,000	
Average balance during the period	118,156		101,973	
Average interest rate during the period	0.30	%	0.27	%
Maximum month-end balance during the period	\$185,000		\$175,000	
Average interest rate at the period end	0.28	%	0.30	%

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Information pertaining to long-term borrowings is summarized in the tables below for the six and twelve month periods ended June 30, 2014 and December 31, 2013.

(dollars in thousands)	Long-Term Borrowings			
	June 30, 2014		December 31, 2013	
Balance at the period end	\$20,636		\$21,810	
Average balance during the period	21,168		24,312	
Average interest rate during the period	3.04	%	3.07	%
Maximum month-end balance during the period	\$21,616		\$28,913	
Average interest rate at the period end	2.98	%	3.01	%

(dollars in thousands)	Junior Subordinated Debt Securities			
	June 30, 2014		December 31, 2013	
Balance at the period end	\$45,619		\$45,619	
Average balance during the period	45,619		65,989	
Average interest rate during the period	2.68	%	3.14	%
Maximum month-end balance during the period	\$45,619		\$90,619	
Average interest rate at the period end	2.69	%	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 and S&T Bank. ALCO's goal is to maintain adequate levels of liquidity at a reasonable cost to meet funding needs in both a normal operating environment and for potential liquidity stress events. ALCO monitors and manages liquidity through various ratios, reviewing cash flow projections, performing stress tests and by having a detailed contingency funding plan. ALCO policy guidelines are in place that define graduated risk tolerances. If our liquidity position moves to a level that has been defined as high risk, specific actions are required, such as increased monitoring or the development of an action plan to reduce the risk position.

Our primary funding and liquidity source is a stable customer deposit base. We believe S&T Bank has the ability to retain existing and attract new deposits, mitigating any funding dependency on other more volatile sources. Refer to the Deposits Section of this Part I, 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. These funding sources include borrowing availability at the FHLB, Federal Funds lines with other financial institutions and access to the brokered certificates of deposit market including CDARS.

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 June 30, 2014 we had \$358.1 million in highly liquid assets, which consisted of \$54.6 million in interest-bearing deposits with banks, \$300.4 million in unpledged securities and \$3.1 million in loans held for sale. The highly liquid assets to total assets resulted in an asset liquidity ratio of 7.5 percent at June 30, 2014. Also, at June 30, 2014, we had a remaining borrowing availability of \$1.4 billion with the FHLB of Pittsburgh. In addition, we have access to \$60.0 million in Federal Funds lines with other financial institutions. Refer to Part I, Note 8 Borrowings and Part I, Item 2, MD&A, for more details on FHLB borrowings. S&T Bank is considered to be a well capitalized bank according to regulatory guidance, therefore access to brokered CDs is not restricted.

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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 Bancorp, Inc. and S&T Bank for the dates presented:

(dollars in thousands)	Adequately Well-		June 30, 2014		December 31, 2013			
	Capitalized	Capitalized ⁽¹⁾	Amount	Ratio	Amount	Ratio		
S&T Bancorp, Inc.								
Tier 1 leverage	4.00	% 5.00	% \$445,813	9.91	% \$426,234	9.75		%
Tier 1 capital to risk-weighted assets	4.00	% 6.00	% 445,813	12.30	% 426,234	12.37		%
Total capital to risk-weighted assets	8.00	% 10.00	% 516,821	14.26	% 494,986	14.36		%
S&T Bank								
Tier 1 leverage	4.00	% 5.00	% \$407,243	9.09	% \$389,584	8.95		%
Tier 1 capital to risk-weighted assets	4.00	% 6.00	% 407,243	11.29	% 389,584	11.36		%
Total capital to risk-weighted assets	8.00	% 10.00	% 477,399	13.24	% 457,540	13.35		%

⁽¹⁾ For an institution to qualify as "adequately capitalized" under regulatory guidelines, Tier 1 leverage, Tier 1 risk-based capital and total risk-based capital ratios must be at least 4 percent, 4 percent and 8 percent. At June 30, 2014, we exceeded those requirements.

⁽²⁾ For an institution to qualify as "well capitalized" under regulatory guidelines, Tier 1 leverage, Tier 1 risk-based capital and total risk-based capital ratios must be at least 5 percent, 6 percent and 10 percent. At June 30, 2014, we exceeded those requirements.

In October 2012, we filed a shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the SEC for the issuance of up to \$300 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 June 30, 2014 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.

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

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S&T BANCORP, INC. AND SUBSIDIARIES

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

of minimal, moderate and high. We have also temporarily suspended the EVE -200 and -300 basis point scenarios due to the low interest rate environment.

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

Change in Interest Rate (basis points)	June 30, 2014		December 31, 2013	
	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
+300	6.8	(2.0)	)7.6	(6.1)
+200	4.1	(1.0)	)5.3	(2.1)
+100	1.8	1.9	2.3	—
-100	(3.4	)11.7	(3.4	)10.8

The results from the rate shock analyses are consistent with having an asset sensitive balance sheet. Having an asset sensitive balance sheet means more assets than liabilities will reprice during the measured time frames. The implications of an asset sensitive balance sheet will differ depending upon the change in market interest rates. For example, with an asset sensitive balance sheet in a declining interest rate environment, more assets than liabilities will decrease in rate. This situation could result in a decrease in net interest income and operating income. Conversely, with an asset sensitive balance sheet in a rising interest rate environment, more assets than liabilities will increase in rate. This situation could result in an increase in net interest income and operating income. As measured by rate shock analyses, an increase in interest rates would have a positive impact on pretax net interest income. However, there was a slight decline in the percent change in pretax net interest income for our rates up shock scenarios when comparing June 30, 2014 and December 31, 2013. The decline is a result of utilizing short term funding to support the asset growth during the first half of 2014.

When comparing the EVE results for June 30, 2014 and December 31, 2013 the percent change to EVE has improved in the rates up shock scenarios and decreased in the rate down shock scenario. The changes in EVE are due to the flattening of the yield curve between December 31, 2013 and June 30, 2014. The decrease in long term rates resulted in a lower June 30, 2014 base case EVE mainly as a result of lower non-maturity deposit values.

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

Item 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 June 30, 2014. 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.

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Changes in Internal Control over Financial Reporting

During the quarter ended June 30, 2014, 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, 2013, as filed with the SEC on February 21, 2014.

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 June 30, 2014 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheet at June 30, 2014 and Audited Consolidated Balance Sheet at December 31, 2013, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three Months and Six Months ended June 30, 2014 and 2013, (iii) Unaudited Consolidated Statements of Changes in Shareholders' Equity for the Six Months ended June 30, 2014 and 2013, (iv) Unaudited Consolidated Statements of Cash Flows for the Six Months ended June 30, 2014 and 2013 and (v) Notes to Unaudited Consolidated Financial Statements.

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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: August 6, 2014

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