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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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	25-1434426
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
800 Philadelphia Street, Indiana, PA	15701
(Address of principal executive offices)	(zip code)

800-325-2265
(Registrant’s telephone number, including area code)
Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically 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 x 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 x
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 x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practical date.
Common Stock, $2.50 Par Value - 29,716,749 shares as of April 30, 2014

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S&T BANCORP, INC. AND SUBSIDIARIES

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

(dollars in thousands, except share and per share data)	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
ASSETS		
Cash and due from banks, including interest-bearing deposits of $114,061 and $53,594 at March 31, 2014 and December 31, 2013	$185,303	$108,356
Securities available-for-sale, at fair value	551,896	509,425
Loans held for sale	1,133	2,136
Portfolio loans, net of unearned income	3,627,896	3,566,199
Allowance for loan losses	(46,616)	(46,255)
Portfolio loans, net	3,581,280	3,519,944
Bank owned life insurance	60,910	60,480
Premises and equipment, net	36,239	36,615
Federal Home Loan Bank and other restricted stock, at cost	11,963	13,629
Goodwill	175,820	175,820
Other intangible assets, net	3,443	3,759
Other assets	99,000	103,026
Total Assets	$4,706,987	$4,533,190
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$1,032,372	$992,779
Interest-bearing demand	312,477	312,790
Money market	360,414	281,403
Savings	1,034,388	994,805
Certificates of deposit	1,128,630	1,090,531
Total Deposits	3,868,281	3,672,308
Securities sold under repurchase agreements	38,434	33,847
Short-term borrowings	100,000	140,000
Long-term borrowings	21,226	21,810
Junior subordinated debt securities	45,619	45,619
Other liabilities	49,776	48,300
Total Liabilities	4,123,336	3,961,884
SHAREHOLDERS’ EQUITY		
Common stock ($2.50 par value)		
Authorized—50,000,000 shares		
Issued—31,197,365 shares at March 31, 2014 and December 31, 2013	77,993	77,993
Outstanding—29,718,126 shares at March 31, 2014 and 29,737,725 shares at December 31, 2013		
Additional paid-in capital	78,325	78,140
Retained earnings	477,790	468,158
Accumulated other comprehensive income (loss)	(9,648)	(12,694)
Treasury stock (1,479,239 shares at March 31, 2014 and 1,459,640 shares at December 31, 2013, at cost)	(40,809)	(40,291)
Total Shareholders’ Equity	583,651	571,306

Total Liabilities and Shareholders' Equity	$4,706,987	$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 March 31,	
(dollars in thousands, except per share data)	2014	2013
INTEREST INCOME		
Loans, including fees	$35,649	$35,045
Investment Securities:		
Taxable	1,983	1,863
Tax-exempt	929	833
Dividends	104	102
Total Interest Income	38,665	37,843
INTEREST EXPENSE		
Deposits	2,510	3,202
Borrowings and junior subordinated debt securities	564	972
Total Interest Expense	3,074	4,174
NET INTEREST INCOME	35,591	33,669
Provision for loan losses	289	2,307
Net Interest Income After Provision for Loan Losses	35,302	31,362
NONINTEREST INCOME		
Securities gains, net	1	2
Wealth management fees	2,955	2,576
Service charges on deposit accounts	2,509	2,448
Debit and credit card fees	2,502	2,451
Insurance fees	1,677	1,775
Mortgage banking	132	482
Gain on sale of merchant card servicing business	—	3,093
Other	1,640	1,979
Total Noninterest Income	11,416	14,806
NONINTEREST EXPENSE		
Salaries and employee benefits	15,376	16,067
Net occupancy	2,230	2,169
Data processing	2,095	2,664
Furniture and equipment	1,271	1,308
Professional services and legal	663	974
Other taxes	631	999
FDIC insurance	631	776
Marketing	618	689
Other	5,399	5,970
Total Noninterest Expense	28,914	31,616
Income Before Taxes	17,804	14,552
Provision for income taxes	3,771	2,222
Net Income	$14,033	$12,330
Earnings per share—basic	$0.47	$0.41
Earnings per share—diluted	0.47	0.41
Dividends declared per share	0.16	0.15
Comprehensive Income	$17,079	$11,569

See Notes to Consolidated Financial Statements

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

(dollars in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive 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 three months ended March 31, 2013	—	—	12,330	—	—	12,330
Other comprehensive income (loss), net of tax	—	—	—	(761)	—	(761)
Cash dividends declared ($0.15 per share)	—	—	(4,460)	—	—	(4,460)
Treasury stock issued for restricted awards (3,989 shares, net of 11,477 forfeitures)	—	—	206	—	(206)	—
Recognition of restricted stock compensation expense	—	118	—	—	—	118
Tax expense from stock-based compensation	—	(35)	—	—	—	(35)
Balance at March 31, 2013	$77,993	$77,541	$444,115	$ (14,343)	$(40,692)	$544,614
Balance at January 1, 2014	$77,993	$78,140	$468,158	$ (12,694)	$(40,291)	$571,306
Net income for three months ended March 31, 2014	—	—	14,033	—	—	14,033
Other comprehensive income (loss), net of tax	—	—	—	3,046	—	3,046
Cash dividends declared ($0.16 per share)	—	—	(4,758)	—	—	(4,758)
Treasury stock issued for restricted awards (0 shares, net of 19,599 forfeitures)	—	—	357	—	(518)	(161)
Recognition of restricted stock compensation expense	—	185	—	—	—	185
Tax expense from stock-based compensation	—	—	—	—	—	—
Balance at March 31, 2014	$77,993	$78,325	$477,790	$ (9,648)	$(40,809)	$583,651

See Notes to Consolidated Financial Statements

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

	Three Months Ended March 31,	
(dollars in thousands)	2014	2013
OPERATING ACTIVITIES		
Net income	$14,033	$12,330
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	289	2,307
Provision for unfunded loan commitments	(57)	753
Depreciation and amortization	1,115	1,590
Net amortization of discounts and premiums	966	861
Stock-based compensation expense	135	117
Securities gains, net	(1)	(2)
Net gain on sale of merchant card servicing business	—	(3,093)
Tax expense from stock-based compensation	—	35
Mortgage loans originated for sale	(4,897)	(17,742)
Proceeds from the sale of loans	5,922	37,661
Gain on the sale of loans, net	(22)	(329)
Net increase in interest receivable	(543)	(776)
Net decrease in interest payable	(284)	(1,094)
Net decrease in other assets	3,648	1,865
Net increase (decrease) in other liabilities	2,061	(20,029)
Net Cash Provided by Operating Activities	22,365	14,454
INVESTING ACTIVITIES		
Purchases of securities available-for-sale	(60,559)	(33,302)
Proceeds from maturities, prepayments and calls of securities available-for-sale	21,598	13,426
Proceeds from sales of securities available-for-sale	—	94
Net proceeds from the redemption of Federal Home Loan Bank stock	1,666	2,129
Net increase in loans	(62,749)	(39,284)
Purchases of premises and equipment	(457)	(652)
Proceeds from the sale of premises and equipment	64	142
Proceeds from the sale of merchant card servicing business	—	4,750
Net Cash Used in Investing Activities	(100,437)	(52,697)
FINANCING ACTIVITIES		
Net increase (decrease) in core deposits	157,874	(28,866)
Net increase in certificates of deposit	38,061	28,808
Net increase in securities sold under repurchase agreements	4,587	1,775
Net decrease in short-term borrowings	(40,000)	(25,000)
Repayments of long-term borrowings	(584)	(10,566)
Treasury shares (purchased) sold-net	(161)	—
Cash dividends paid to common shareholders	(4,758)	(4,460)
Tax expense from stock-based compensation	—	(35)
Net Cash Provided by (Used in) Financing Activities	155,019	(38,344)
Net increase (decrease) in cash and cash equivalents	76,947	(76,587)
Cash and cash equivalents at beginning of period	108,356	337,711
Cash and Cash Equivalents at End of Period	$185,303	$261,124

Supplemental Disclosures		
Interest paid	$3,358	$5,268
Income taxes paid, net of refunds	—	(45)
Transfers of loans to other real estate owned	186	126

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.
Recently Issued Accounting Standards Updates not yet Adopted
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

NOTE 1. BASIS OF PRESENTATION – continued

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.

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:

	Three Months Ended March 31,	
(dollars in thousands, except shares and per share data)	2014	2013
Numerator for Earnings per Share—Basic:		
Net income	$14,033	$12,330
Less: Income allocated to participating shares	35	45
Net Income Allocated to Shareholders	$13,998	$12,285
Numerator for Earnings per Share—Diluted:		
Net income	14,033	12,330
Net Income Available to Shareholders	$14,033	$12,330
Denominators:		
Weighted Average Shares Outstanding—Basic	29,660,794	29,621,453
Add: Dilutive potential shares	37,253	52,953
Denominator for Treasury Stock Method—Diluted	29,698,047	29,674,406
Weighted Average Shares Outstanding—Basic	29,660,794	29,621,453
Add: Average participating shares outstanding	74,237	108,249
Denominator for Two-Class Method—Diluted	29,735,031	29,729,702
Earnings per share—basic	$0.47	$0.41
Earnings per share—diluted	$0.47	$0.41
Warrants considered anti-dilutive excluded from dilutive potential shares	517,012	517,012
Stock options considered anti-dilutive excluded from dilutive potential shares	428,863	655,573
Restricted stock considered anti-dilutive excluded from dilutive potential shares	36,984	55,296

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 evaluation sources for debt securities include observable inputs rather than significant unobservable inputs and are classified as Level 2. The service provider utilizes pricing models that vary by asset class and include available trade, bid and other market information. Generally, the methodologies include broker quotes, proprietary models and vast descriptive terms and conditions databases, as well as extensive quality control programs.

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

Other Assets

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

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

NOTE 3. FAIR VALUE MEASUREMENT – continued

Financial Instruments

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

Cash and Cash Equivalents 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.

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.

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

NOTE 3. FAIR VALUE MEASUREMENT – continued

Other
Estimates of fair value are not made for items that are not defined as financial instruments, including such items as our core deposit intangibles and the value of our trust operations.
The following tables present our assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at March 31, 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.

	March 31, 2014			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
ASSETS				
Securities available-for-sale:				
Obligations of U.S. government corporations and agencies	$—	$264,184	$—	$264,184
Collateralized mortgage obligations of U.S. government corporations and agencies	—	62,439	—	62,439
Residential mortgage-backed securities of U.S. government corporations and agencies	—	47,552	—	47,552
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	39,321	—	39,321
Obligations of states and political subdivisions	—	129,197	—	129,197
Marketable equity securities	190	9,013	—	9,203
Total securities available-for-sale	190	551,706	—	551,896
Trading securities held in a Rabbi Trust	2,931	—	—	2,931
Total securities	3,121	551,706	—	554,827
Derivative financial assets:				
Interest rate swaps	—	13,433	—	13,433
Interest rate lock commitments	—	93	—	93
Forward sale contracts	—	5	—	5
Total Assets	$3,121	$565,237	$—	$568,358
LIABILITIES				
Derivative financial liabilities:				
Interest rate swaps	$—	$13,390	$—	$13,390
Total Liabilities	$—	$13,390	$—	$13,390

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

NOTE 3. FAIR VALUE MEASUREMENT – continued

	December 31, 2013			
(dollars in thousands)	Level 1	Level 2	Level 3	Total
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:

	Three Months Ended March 31,	
(dollars in thousands)	2014	2013
Balance at beginning of period	$—	$300
Total gains included in other comprehensive income[1]	—	12
Net purchases, sales, issuances and settlements	—	—
Transfers out of Level 3	—	—
Balance at end of period	$—	$312

[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 March 31, 2014 and December 31, 2013. There were no liabilities measured at fair value on a nonrecurring basis during these periods. We had no loans held for sale that were recorded at fair value at March 31, 2014.

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

NOTE 3. FAIR VALUE MEASUREMENT – continued

	March 31, 2014				December 31, 2013			
(dollars in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
ASSETS								
Loans held for sale	$—	$—	$—	$—	$—	$—	$1,516	$1,516
Impaired loans	—	—	16,398	16,398	—	—	19,197	19,197
Other real estate owned	—	—	318	318	—	—	317	317
Mortgage servicing rights	—	—	1,343	1,343	—	—	1,025	1,025
Total Assets	$—	$—	$18,059	$18,059	$—	$—	$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 March 31, 2014 and December 31, 2013 are presented in the following tables:

	Carrying	Fair Value Measurements at March 31, 2014			
(dollars in thousands)	Value(1)	Total	Level 1	Level 2	Level 3
ASSETS					
Cash and due from banks, including interest-bearing deposits	$185,303	$185,303	$185,303	$—	$—
Securities available-for-sale	551,896	551,896	190	551,706	—
Loans held for sale	1,133	1,150	—	—	1,150
Portfolio loans, net of unearned income	3,627,896	3,599,775	—	—	3,599,775
Bank owned life insurance	60,910	60,910	—	60,910	—
FHLB and other restricted stock	11,963	11,963	—	—	11,963
Trading securities held in a Rabbi Trust	2,931	2,931	2,931	—	—
Mortgage servicing rights	2,846	3,030	—	—	3,030
Interest rate swaps	13,433	13,433	—	13,433	—
Interest rate lock commitments	93	93	—	93	—
Forward sale contracts	5	5	—	5	—
LIABILITIES					
Deposits	$3,868,281	$3,871,384	$—	$—	$3,871,384
Securities sold under repurchase agreements	38,434	38,434	—	—	38,434
Short-term borrowings	100,000	100,000	—	—	100,000
Long-term borrowings	21,226	22,337	—	—	22,337
Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	13,390	13,390	—	13,390	—

(1) As reported in the Consolidated Balance Sheets

	Carrying	Fair Value Measurements at December 31, 2013			
(dollars in thousands)	Value(1)	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

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:

	March 31, 2014				December 31, 2013			
(dollars in thousands)	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	$264,291	$ 2,109	$ (2,216)	$264,184	$235,181	$ 2,151	$ (2,581)	$234,751
Collateralized mortgage obligations of U.S. government corporations and agencies	62,114	693	(368)	62,439	63,776	601	(603)	63,774
Residential mortgage-backed securities of U.S. government corporations and agencies	46,519	1,424	(391)	47,552	47,934	1,420	(685)	48,669
Commercial mortgage-backed securities of U.S. government corporations and agencies	40,227	13	(919)	39,321	40,357	—	(1,305)	39,052
Obligations of states and political subdivisions	127,665	2,481	(949)	129,197	115,572	1,294	(2,602)	114,264
Debt Securities	540,816	6,720	(4,843)	542,693	502,820	5,466	(7,776)	500,510
Marketable equity securities	7,579	1,624	—	9,203	7,579	1,336	—	8,915
Total	$548,395	$ 8,344	$ (4,843)	$551,896	$510,399	$ 6,802	$ (7,776)	$509,425

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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:

	March 31, 2014								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Fair Value	Number of Securities	Unrealized Losses
Obligations of U.S. government corporations and agencies	19	$171,730	$(2,216)	—	$—	$—	$171,730	19	$(2,216)
Collateralized mortgage obligations of U.S. government corporations and agencies	3	39,265	(368)	—	—	—	39,265	3	(368)
Residential mortgage-backed securities of U.S. government corporations and agencies	3	23,002	(391)	—	—	—	23,002	3	(391)
Commercial mortgage-backed securities of U.S. government corporations and agencies	3	30,436	(919)	—	—	—	30,436	3	(919)
Obligations of states and political subdivisions	11	29,662	(401)	2	10,370	(548)	40,032	13	(949)
Debt Securities	39	294,095	(4,295)	2	10,370	(548)	304,465	41	(4,843)
Marketable equity securities	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Securities	39	$294,095	$(4,295)	2	$10,370	$(548)	$304,465	41	$(4,843)

	December 31, 2013								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	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 March 31, 2014 represents an other than temporary impairment, or OTTI. As of March 31, 2014, the unrealized losses on 41 debt securities were attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. There were no unrealized losses on marketable equity securities as of March 31, 2014. We do not intend to sell and it is not more likely that 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.

Net unrealized gains of $2.3 million and a net unrealized loss of $0.6 million were included in accumulated other comprehensive loss, net of tax, at March 31, 2014 and December 31, 2013. Unrealized gains of $5.4 million and $4.4 million, net of tax, were netted against unrealized losses of $3.1 million and $5.0 million, at these same dates. During the periods ended March 31, 2014 and 2013, reclassifications out of accumulated other comprehensive income were insignificant.

The amortized cost and fair value of securities available-for-sale at March 31, 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.

	March 31, 2014	
(dollars in thousands)	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	$14,180	$14,306
Due after one year through five years	183,013	183,694
Due after five years through ten years	103,528	103,277
Due after ten years	91,235	92,104
	391,956	393,381
Collateralized mortgage obligations of U.S. government corporations and agencies	62,114	62,439
Residential mortgage-backed securities of U.S. government corporations and agencies	46,519	47,552
Commercial Mortgage-backed securities of U.S. government corporations and agencies	40,227	39,321
Debt Securities	540,816	542,693
Marketable equity securities	7,579	9,203
Total	$548,395	$551,896

At March 31, 2014 and December 31, 2013, securities with carrying values of $345.9 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 $1.2 million and $1.3 million at March 31, 2014 and December 31, 2013. The following table indicates the composition of the loans as of the dates presented:

(dollars in thousands)	March 31, 2014	December 31, 2013
Commercial		
Commercial real estate	$1,607,958	$1,607,756
Commercial and industrial	884,870	842,449
Commercial construction	167,432	143,675
Total Commercial Loans	2,660,260	2,593,880
Consumer		
Residential mortgage	490,120	487,092
Home equity	410,695	414,195
Installment and other consumer	64,561	67,883
Consumer construction	2,260	3,149
Total Consumer Loans	967,636	972,319
Total Portfolio Loans	3,627,896	3,566,199
Loans held for sale	1,133	2,136
Total Loans	$3,629,029	$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 73 percent of total portfolio loans at March 31, 2014 and December 31, 2013. Within our commercial portfolio, the commercial real estate, or CRE, and commercial construction portfolios combined comprised 67 percent of total commercial loans and 49 percent of total portfolio loans at March 31, 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 March 31, 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 24 percent of the combined portfolio and 12 percent of total loans being out-of-state loans at March 31, 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 7.3 percent of the combined portfolio and 3.6 percent of total loans at March 31, 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 to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal and interest will be collected according to the restructured agreement. Further, all impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to

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

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

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

(dollars in thousands)	March 31, 2014			December 31, 2013		
	Accruing TDRs	Nonaccruing TDRs	Total TDRs	Accruing TDRs	Nonaccruing TDRs	Total TDRs
Commercial real estate	$15,538	$3,529	$19,067	$19,711	$3,898	$23,609
Commercial and industrial	7,453	2,138	9,591	7,521	1,884	9,405
Commercial construction	6,352	1,969	8,321	5,338	2,708	8,046
Residential mortgage	2,692	1,394	4,086	2,581	1,356	3,937
Home equity	3,878	237	4,115	3,924	218	4,142
Installment and other consumer	146	2	148	154	3	157
Total	$36,059	$9,269	$45,328	$39,229	$10,067	$49,296

We did not return any TDRs to accruing status during the three months ended March 31, 2014. One TDR for $0.2 million was returned to accruing status during the three months ended March 31, 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 month periods ended March 31, 2014 and March 31, 2013:

	Three Months Ended March 31, 2014			
(dollars in thousands)	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	—	$ —	$ —	$ —
Chapter 7 bankruptcy[2]	—	—	—	—
Commercial and industrial				
Principal deferral	—	—	—	—
Chapter 7 bankruptcy[2]	1	287	286	(1)
Commercial Construction				
Principal deferral	1	1,019	1,019	—
Residential mortgage				
Principal deferral	—	—	—	—
Chapter 7 bankruptcy[2]	4	277	276	(1)
Home equity				
Principal deferral	—	—	—	—
Chapter 7 bankruptcy[2]	6	225	210	(15)
Installment and other consumer				
Chapter 7 bankruptcy[2]	—	—	—	—
Total by Concession Type				
Principal deferral	1	1,019	1,019	—
Chapter 7 bankruptcy[2]	11	789	772	(17)
Total	12	$ 1,808	$ 1,791	$ (17)

(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.

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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)	Three Months Ended March 31, 2013 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	3	$ 1,541	$ 1,288	$ (253)
Chapter 7 bankruptcy[2]	3	205	204	(1)
Commercial and industrial				
Principal deferral	1	392	387	(5)
Chapter 7 bankruptcy[2]	1	3	3	—
Commercial Construction				
Principal deferral	—	—	—	—
Residential mortgage				
Principal deferral	2	153	153	—
Chapter 7 bankruptcy[2]	6	269	269	—
Home equity				
Principal deferral	1	174	45	(129)
Chapter 7 bankruptcy[2]	6	162	162	—
Installment and other consumer				
Chapter 7 bankruptcy[2]	6	73	73	—
Total by Concession Type				
Principal deferral	7	2,260	1,873	(387)
Chapter 7 bankruptcy[2]	22	712	711	(1)
Total	29	$ 2,972	$ 2,584	$ (388)

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

For the three months ended March 31, 2014, we modified a $0.4 million commercial and industrial, or C&I, loan that was not considered to be a TDR because we were adequately compensated for the modification through additional collateral and a higher interest rate. As of March 31, 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 table is a summary of TDRs which defaulted during the three months ended March 31, 2014 and 2013 that had been restructured within the last twelve months prior to defaulting:

	Defaulted TDRs			
	For the period ended March 31, 2014		For the period ended March 31, 2013	
(dollars in thousands)	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate	—	$ —	$—	$ —
Commercial and Industrial	—	—	—	—

Commercial construction	—	—	—	—
Residential real estate	1	72	1	18
Home equity	—	—	2	118
Total	1	$ 72	$3	$ 136

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

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

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

(dollars in thousands)	March 31, 2014	December 31, 2013
Nonperforming Assets		
Nonaccrual loans	$11,753	$12,387
Nonaccrual TDRs	9,269	10,067
Total nonaccrual loans	21,022	22,454
OREO	343	410
Total Nonperforming Assets	$21,365	$22,864

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

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

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

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 three months ended March 31, 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.

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

	March 31, 2014					
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	$1,596,756	$937	$—	$10,265	$11,202	$1,607,958
Commercial and industrial	880,554	850	285	3,181	4,316	884,870
Commercial construction	162,142	3,314	—	1,976	5,290	167,432
Residential mortgage	485,205	1,757	210	2,948	4,915	490,120
Home equity	406,413	1,409	243	2,630	4,282	410,695
Installment and other consumer	64,240	254	45	22	321	64,561
Consumer construction	2,260	—	—	—	—	2,260
Totals	$3,597,570	$8,521	$783	$21,022	$30,326	$3,627,896

	December 31, 2013					
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans
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
Totals	$3,531,605	$8,535	$3,605	$22,454	$34,594	$3,566,199

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
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NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

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

(dollars in thousands)	March 31, 2014 Commercial Real Estate	% of Total		Commercial and Industrial	% of Total		Commercial Construction	% of Total		Total	% of Total	
Pass	$1,520,208	94.6	%	$828,092	93.6	%	$143,899	85.9	%	$2,492,199	93.7	%
Special mention	56,618	3.5	%	41,572	4.7	%	15,430	9.2	%	113,620	4.2	%
Substandard	31,132	1.9	%	15,206	1.7	%	8,103	4.9	%	54,441	2.1	%
Total	$1,607,958	100	%	$884,870	100.0	%	$167,432	100.0	%	$2,660,260	100.0	%

(dollars in thousands)	December 31, 2013 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:

(dollars in thousands)	March 31, 2014 Residential Mortgage	% of Total		Home Equity	% of Total		Installment and other consumer	% of Total		Consumer Construction	% of Total		Total	% of Total	
Performing	$487,172	99.4	%	$408,065	99.4	%	$64,539	99.9	%	$2,260	100.0	%	$962,036	99.4	%
Nonperforming	2,948	0.6	%	2,630	0.6	%	22	0.1	%	—	—	%	5,600	0.6	%
Total	$490,120	100.0	%	$410,695	100.0	%	$64,561	100.0	%	$2,260	100.0	%	$967,636	100.0	%

(dollars in thousands)	December 31, 2013 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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NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

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

	March 31, 2014			December 31, 2013		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Without a related allowance recorded:						
Commercial real estate	$22,219	$30,211	$—	$26,968	$35,474	$—
Commercial and industrial	9,766	9,893	—	9,580	9,703	—
Commercial construction	8,321	12,008	—	7,391	12,353	—
Consumer real estate	8,150	9,257	—	8,026	9,464	—
Other consumer	118	120	—	124	128	—
Total without a Related Allowance Recorded	48,574	61,489	—	52,089	67,122	—
With a related allowance recorded:						
Commercial real estate	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Commercial construction	—	—	—	681	1,383	25
Consumer real estate	50	50	50	53	53	53
Other consumer	30	30	15	33	33	19
Total with a Related Allowance Recorded	80	80	65	767	1,469	97
Total:						
Commercial real estate	22,219	30,211	—	26,968	35,474	—
Commercial and industrial	9,766	9,893	—	9,580	9,703	—
Commercial construction	8,321	12,008	—	8,072	13,736	25
Consumer real estate	8,200	9,307	50	8,079	9,517	53
Other consumer	148	150	15	157	161	19
Total	$48,654	$61,569	$65	$52,856	$68,591	$97

As of March 31, 2014, CRE loans of $22.2 million comprised 45.7 percent of the total impaired loans of $48.7 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 $8.8 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 March 31, 2014, an estimated fair value less cost to sell of approximately $37.9 million existed for CRE impaired loans. We have current appraisals on all but $0.7 million of the $22.2 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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NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

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

	For the Three Months Ended			
	March 31, 2014		March 31, 2013	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	$23,539	$167	$31,406	$241
Commercial and industrial	9,826	55	12,446	69
Commercial construction	8,324	57	17,332	134
Consumer real estate	8,258	103	9,680	59
Other consumer	121	1	98	—
Total without a Related Allowance Recorded	50,068	383	70,962	503
With a related allowance recorded:				
Commercial real estate	—	—	4,480	—
Commercial and industrial	—	—	—	—
Commercial construction	—	—	—	—
Consumer real estate	51	1	—	—
Other consumer	32	1	—	—
Total with a Related Allowance Recorded	83	2	4,480	—
Total:				
Commercial real estate	23,539	167	35,886	241
Commercial and industrial	9,826	55	12,446	69
Commercial construction	8,324	57	17,332	134
Consumer real estate	8,309	104	9,680	59
Other consumer	153	2	98	—
Total	$50,151	$385	$75,442	$503

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S&T BANCORP, INC. AND SUBSIDIARIES
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NOTE 6. ALLOWANCE FOR LOAN LOSSES – continued

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

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

(dollars in thousands)	Three Months Ended March 31, 2013					
	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$25,246	$ 7,759	$7,500	$5,058	$921	$46,484
Charge-offs	(1,639)	(1,360)	(389)	(494)	(252)	(4,134)
Recoveries	749	100	53	283	94	1,279
Net (Charge-offs)/ Recoveries	(890)	(1,260)	(336)	(211)	(158)	(2,855)
Provision for loan losses	86	2,177	(561)	412	193	2,307
Balance at End of Period	$24,442	$ 8,676	$6,603	$5,259	$956	$45,936

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

(dollars in thousands)	March 31, 2014					
	Allowance for Loan Losses			Portfolio Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$—	$ 19,880	$19,880	$22,219	$ 1,585,739	$1,607,958
Commercial and industrial	—	13,979	13,979	9,766	875,104	884,870
Commercial construction	—	5,183	5,183	8,321	159,111	167,432
Consumer real estate	50	6,358	6,408	8,200	894,875	903,075
Other consumer	15	1,151	1,166	148	64,413	64,561
Total	$65	$46,551	$46,616	$48,654	$3,579,242	$3,627,896

(dollars in thousands)	December 31, 2013					
	Allowance for Loan Losses			Portfolio Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
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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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, i.e., 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
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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:

	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
(dollars in thousands)	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Derivatives not Designated as Hedging Instruments				
Interest Rate Swap Contracts—Commercial Loans				
Fair value	$13,433	$13,698	$13,390	$13,647
Notional amount	264,128	261,754	264,128	261,754
Collateral posted	—	—	11,157	12,611
Interest Rate Lock Commitments—Mortgage Loans				
Fair value	93	85	—	—
Notional amount	3,666	3,989	—	—
Forward Sale Contracts—Mortgage Loans				
Fair value	5	34	—	—
Notional amount	3,850	5,250	—	—

Presenting offsetting derivatives that are subject to legally enforceable netting arrangements with the same party is permitted. For example, we may have a derivative asset as well as a derivative liability with the same counterparty to a swap transaction and are permitted to offset the asset position and the liability position resulting in a net presentation.
The following table indicates the gross amounts of commercial loan swap derivative assets and derivative liabilities, the amounts offset and the carrying values in the Consolidated Balance Sheets as of the dates presented:

	Derivatives (included in Other Assets)		Derivatives (included in Other Liabilities)	
(dollars in thousands)	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Derivatives not Designated as Hedging Instruments				
Gross amounts recognized	$13,716	$14,012	$13,673	$13,961
Gross amounts offset	(283)	(314)	(283)	(314)
Net amounts presented in the Consolidated Balance Sheets	13,433	13,698	13,390	13,647
Gross amounts not offset[(1)]	—	—	(11,157)	(12,611)
Net Amount	$13,433	$13,698	$2,233	$1,036

[(1)] Amounts represent posted collateral.

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

	Three Months Ended March 31,	
(dollars in thousands)	2014	2013

Derivatives not Designated as Hedging Instruments		
Interest rate swap contracts—commercial loans	$(8)	$(129)
Interest rate lock commitments—mortgage loans	8	(226)
Forward sale contracts—mortgage loans	(29)	24
Total Derivatives Loss	$(29)	$(331)

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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 $17.9 million at a fixed rate and $48.7 million at a variable rate at March 31, 2014, excluding our capital lease of $0.2 million.

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

	March 31, 2014			December 31, 2013		
(dollars in thousands)	Balance	Weighted Average Rate		Balance	Weighted Average Rate	
Short-term borrowings						
Securities sold under repurchase agreements	$38,434	0.01	%	$33,847	0.01	%
Short-term borrowings	100,000	0.31	%	140,000	0.30	%
Total short-term borrowings	138,434	0.22	%	173,847	0.24	%
Long-term borrowings						
Other long-term borrowings	21,226	2.99	%	21,810	3.01	%
Junior subordinated debt securities	45,619	2.69	%	45,619	2.70	%
Total long-term borrowings	66,845	2.79	%	67,429	2.80	%
Total Borrowings	$205,279	1.06	%	$241,276	0.96	%

We had total borrowings at March 31, 2014 and December 31, 2013 at the FHLB of Pittsburgh of $121.0 million and $161.6 million. This consisted of $100.0 million in short-term borrowings and $21.0 million in long-term borrowings at March 31, 2014. Our maximum borrowing capacity with the FHLB of Pittsburgh was $1.6 billion at March 31, 2014, with a remaining borrowing availability of $1.5 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 $3.0 million at March 31, 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)	March 31, 2014	December 31, 2013
Commitments to extend credit	$1,020,891	$1,038,529
Standby letters of credit	78,750	78,639
Total	$1,099,641	$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.

NOTE 10. OTHER COMPREHENSIVE INCOME

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

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in unrealized gains/losses on securities available-for-sale	$4,475	$(1,566)	$2,909	$(1,768)	$619	$(1,149)
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income[1]	(1)	—	(1)	(2)	1	(1)
Adjustment to funded status of employee benefit plans	212	(74)	138	598	(209)	389
Other Comprehensive Income (Loss)	$4,686	$(1,640)	$3,046	$(1,172)	$411	$(761)

[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.

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 March 31, 2014, there have been no changes to the Plan.

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

NOTE 11. EMPLOYEE BENEFITS – continued

The following table summarizes the components of net periodic pension cost and other changes in plan assets and benefit obligation recognized in other comprehensive income (loss) for the periods presented:

	Three Months Ended March 31,	
(dollars in thousands)	2014	2013
Components of Net Periodic Pension Cost		
Service cost—benefits earned during the period	$631	$708
Interest cost on projected benefit obligation	1,106	996
Expected return on plan assets	(1,735)	(1,565)
Amortization of prior service cost (credit)	(35)	(34)
Recognized net actuarial loss	209	588
Net Periodic Pension Expense	$176	$693

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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)	March 31, 2014	December 31, 2013
Community Banking	$4,697,957	$4,524,939
Insurance	7,146	6,926
Wealth Management	1,884	1,325
Total Assets	$4,706,987	$4,533,190

The following tables provide financial information for our three segments for the three month periods ended March 31, 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.

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

NOTE 12. SEGMENTS – continued

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

	Three Months Ended March 31, 2013				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$37,690	$—	$138	$15	$37,843
Interest expense	4,790	—	—	(616)	4,174
Net interest income	32,900	—	138	631	33,669
Provision for loan losses	2,307	—	—	—	2,307
Noninterest income	10,356	1,598	2,574	278	14,806
Noninterest expense	24,634	1,447	2,489	1,678	30,248
Depreciation expense	919	10	8	—	937
Amortization of intangible assets	405	13	13	—	431
Provision (benefit) for income taxes	2,854	45	92	(769)	2,222
Net Income	$12,137	$83	$110	$—	$12,330

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

Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, represents an overview of our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations at and for the three month periods ended March 31, 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 may 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 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.

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

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

Critical Accounting Policies and Estimates

Our critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of March 31, 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 $4.7 billion at March 31, 2014. We provide a full range of financial services through offices in 12 Pennsylvania counties with retail and commercial banking products, cash management services, 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 first quarter of 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. Then on March 3, 2014, we announced the hiring of two experienced community bankers to expand our presence into State College, Pennsylvania. During the first quarter of 2014, we grew our business organically with portfolio loans increasing $61.7 million, or 1.7 percent, compared to December 31, 2013. This growth was primarily in our commercial and industrial, or C&I, and commercial construction loan portfolios.

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 first quarter of 2014 was $14.0 million resulting in diluted earnings per common share of $0.47 compared to net income available to common shareholders of $12.3 million or $0.41 diluted earnings per common share in the first quarter of 2013. The increase in net income was driven by an increase in net interest income of $1.9 million, a decrease in the provision for loan losses of $2.0 million and a decrease in noninterest expense of $2.7 million offset by a decrease in noninterest income of $3.4 million.

Net interest income increased $1.9 million, or 5.7 percent, compared to the same period in 2013. The increase in net interest income is mainly due to interest earning asset growth. Total average interest earning assets increased $207.7 million, or 5.1 percent, compared to the same period in the prior year. 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 $2.0 million to $0.3 million compared to $2.3 million for the first quarter of 2013. The decrease in the provision for loan losses is a result of the improving economic conditions which have positively impacted our asset quality metrics in all categories, including decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio.

Our total noninterest income decreased $3.4 million to $11.4 million compared to $14.8 million in the first quarter of 2013. The primary driver of the decrease was a gain on the sale of our merchant card servicing business, with additional decreases in mortgage banking 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 a net gain of $3.1 million. Our mortgage banking business has declined significantly due to the increase in interest rates that occurred mid 2013 resulting in a reduction in mortgage refinancings. Our wealth management business continues to perform well with an increase of $0.4 million in fees which is a direct result of new business development efforts and certain fee increases. Our expenses remain well controlled, and we are benefiting from the expense control initiatives put into place in early 2013. Total noninterest expense decreased $2.7 million to

$28.9 million from $31.6 million during the first quarter of 2013. The decrease in expenses relates to a decline in merger related expenses, salaries and employee benefits, other noninterest expense, professional services and legal and other taxes.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with GAAP, management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent, or FTE, basis and operating revenue. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying business, operational performance and performance trends as they facilitate comparisons with the performance of others in the financial services industry. Although management believes that these non-GAAP financial measures enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP or considered to be more important than financial results determined in accordance with GAAP, nor are they necessarily comparable with non-GAAP measures which may be presented by other companies.

We believe the presentation of net interest income on a FTE basis ensures the comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Consolidated Statements of Comprehensive Income is reconciled to net interest income adjusted to a FTE basis in the next section for the three months ended March 31, 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 Months Ended March 31, 2014 Compared to
Three Months Ended March 31, 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 month period ended March 31, 2014 and 74 percent of operating revenue for the three month period ended March 31, 2013. 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:

	Three Months Ended March 31,			
(dollars in thousands)	2014		2013	
Total interest income	$38,665		$37,843	
Total interest expense	3,074		4,174	
Net interest income per consolidated statements of comprehensive income	35,591		33,669	
Adjustment to FTE basis	1,323		1,172	
Net Interest Income (FTE) (non-GAAP)	$36,914		$34,841	
Net interest margin	3.38	%	3.37	%
Adjustment to FTE basis	0.13	%	0.12	%
Net Interest Margin (FTE) (non-GAAP)	3.51	%	3.49	%

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:

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
(dollars in thousands)	Average Balance	Interest	Rate	Average Balance	Interest	Rate
ASSETS						
Loans [1] [2]	$3,576,484	$36,433	4.13 %	$3,358,099	$35,730	4.32 %
Interest-bearing deposits with banks	147,890	85	0.23 %	210,628	120	0.23 %
Taxable investment securities [3]	395,470	1,950	1.97 %	353,390	1,865	2.11 %
Tax-exempt investment securities [2]	121,464	1,429	4.71 %	110,438	1,281	4.64 %
Federal Home Loan Bank and other restricted stock	13,391	91	2.70 %	14,420	19	0.52 %
Total Interest-earning Assets	4,254,699	39,988	3.81 %	4,046,975	39,015	3.91 %
Noninterest-earning assets:						
Cash and due from banks	48,076			52,011		
Premises and equipment, net	35,635			37,756		
Other assets	341,176			359,625		
Less allowance for loan losses	(47,425)			(47,996)		
Total Assets	$4,632,161			$4,448,371		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing demand	$313,420	$15	0.02 %	$310,161	$18	0.02 %
Money market	350,314	129	0.15 %	338,246	125	0.15 %
Savings	1,014,205	388	0.16 %	973,822	494	0.21 %
Certificates of deposit	910,716	1,822	0.81 %	1,011,930	2,548	1.02 %
CDARS and brokered deposits	190,598	156	0.33 %	31,217	17	0.23 %
Total Interest-bearing deposits	2,779,253	2,510	0.37 %	2,665,376	3,202	0.49 %
Securities sold under repurchase agreements	36,596	1	0.01 %	63,338	26	0.17 %
Short-term borrowings	127,778	98	0.31 %	61,111	33	0.22 %
Long-term borrowings	21,466	162	3.06 %	29,485	231	3.18 %
Junior subordinated debt securities	45,619	303	2.69 %	90,619	682	3.05 %
Total Interest-bearing Liabilities	3,010,712	3,074	0.41 %	2,909,929	4,174	0.58 %
Noninterest-bearing liabilities:						
Noninterest-bearing demand	989,799			925,301		
Other liabilities	52,851			72,715		
Shareholders' equity	578,799			540,426		
Total Liabilities and Shareholders' Equity	$4,632,161			$4,448,371		
Net Interest Income [2][3]		$36,914			$34,841	
Net Interest Margin [2] [3]			3.51 %			3.49 %

[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 $2.1 million, to $36.9 million for the three months ended March 31, 2014 compared to $34.8 million in 2013. The net interest margin on a FTE basis increased 2 basis points for the three months ended March 31, 2014 compared to the same period in 2013. The increase in net interest income is mainly due to interest earning asset growth.

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Interest income on a FTE basis increased $1.0 million to $40.0 million for the three months ended March 31, 2014 compared to $39.0 million for the same period in 2013. The increase in interest income was driven by the $207.7 million increase in interest-earning assets mitigated by an interest-earning asset rate decrease of ten basis points for the three months ended March 31, 2014 compared to the same period in 2013. The interest-earning asset balance increase and rate decrease is mainly attributable to loans. Average loan balances increased by $218.4 million as a result of organic growth, primarily in our commercial loan portfolio. Due to the continued low interest rate environment our loan rate decreased 19 basis points for the three months ended March 31, 2014 when compared to the three months ended March 31, 2013. Average interest-bearing balance with banks, which is primarily cash at the Federal Reserve, decreased $62.7 million for the three months ended March 31, 2014 when compared to the same time period in 2013. Average investment securities, including Federal Home Loan Bank, or FHLB, and other restricted stock, increased $52.1 million for the three months ended March 31, 2014 compared to the same period 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 10 basis points to 3.81 percent for the three months ended March 31, 2014 as compared to 3.91 percent for the same period in 2013.

Interest expense decreased $1.1 million to $3.1 million for the three months ended March 31, 2014 compared to $4.2 million for the three months ended March 31, 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 CD’s, long-term borrowings and subordinated debt to lower cost deposits and borrowings. Total interest-bearing deposits increased $113.9 million for the three months ended March 31, 2014 compared to the same period in 2013. Higher interest-bearing deposits are due to an increase of $159.4 million in brokered deposits and an increase of $55.7 million in interest-bearing demand, money market and savings balances offset by a decrease in CDs of $101.2 million. The cost of total interest-bearing deposits was 0.37 percent for the three month period ended March 31, 2014, compared to 0.49 percent for the three month period ended March 31, 2013. The 12 basis point decrease in the cost of interest bearing deposits is mainly due to the maturity of higher rate CDs being replaced by lower rate deposits. Interest expense on average borrowings decreased $0.4 million over the three month period ended March 31, 2014 compared to the same period in 2013. The decrease is mainly a result of lower cost borrowings utilized to replace $10 million of long-term borrowings that matured in the first quarter of 2013 and the redemption of $45.0 million of subordinated debt during the second quarter of 2013. Overall, the cost of interest-bearing liabilities decreased 17 basis points to 0.41 percent for the three month period ended March 31, 2014 compared to 0.58 percent for the three month period ended March 31, 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:

	Three Months Ended March 31, 2014 Compared to March 31, 2013		
(dollars in thousands)	Volume [4]	Rate [4]	Net
Interest earned on:			
Loans [1] [2]	$2,323	$(1,620)	$703
Interest-bearing deposits with banks	(36)	1	(35)
Taxable investment securities [3]	222	(137)	85
Tax-exempt investment securities [2]	128	20	148
Federal Home Loan Bank and other restricted stock	(1)	73	72
Total Interest-earning Assets	2,636	(1,663)	973
Interest paid on:			
Interest-bearing demand	—	(3)	(3)
Money market	4	(1)	3
Savings	20	(125)	(105)
Certificates of deposit	(255)	(471)	(726)
CDARS and brokered deposits	90	49	139
Securities sold under repurchase agreements	(11)	(14)	(25)
Short-term borrowings	37	28	65
Long-term borrowings	(63)	(6)	(69)
Junior subordinated debt securities	(339)	(40)	(379)
Total Interest-bearing Liabilities	(517)	(583)	(1,100)
Net Change in Net Interest Income	$3,153	$(1,080)	$2,073

(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 amount added to the allowance for loan losses, or ALL, after adjusting for charge-offs and recoveries to bring the ALL to a level considered appropriate to absorb probable losses inherent in the loan portfolio. The provision for loan losses decreased $2.0 million to $0.3 million compared to $2.3 million the first quarter of 2013. The decrease in the provision for loan losses for the first quarter of 2014 reflects the improving economic conditions over the past year 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. We had a net recovery of $0.1 million for the first quarter of 2014 compared to $2.9 million of net charge-offs for the first quarter of 2013. Nonperforming loans decreased 55 percent to $21.0 million at March 31, 2014 compared to $46.3 million at March 31, 2013. Total special mention and substandard commercial loans have decreased $93.2 million, or 36 percent, over the last twelve months to $168.1 million at March 31, 2014. 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

	Three Months Ended March 31,			
(dollars in thousands)	2014	2013	$ Change	% Change
Securities gains, net	$1	$2	$(1)	(50.0)%
Wealth management fees	2,955	2,576	379	14.7
Service charges on deposit accounts	2,509	2,448	61	2.5
Debit and credit card fees	2,502	2,451	51	2.1
Insurance fees	1,677	1,775	(98)	(5.5)
Mortgage banking	132	482	(350)	(72.6)
Gain on sale of merchant card servicing business	—	3,093	(3,093)	(100.0)
Other	1,640	1,979	(339)	(17.1)
Total Noninterest Income	$11,416	$14,806	$(3,390)	(22.9)%

Noninterest income decreased $3.4 million, or 22.9 percent, to $11.4 million for the first quarter of 2014 compared to the first quarter of 2013. The primary reason for the decrease was a gain on the sale of our merchant card servicing business, during the first quarter of 2013, with additional decreases in mortgage banking 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. Mortgage banking income decreased $0.4 million for the three month period ended March 31, 2014 compared to the same period in 2013. Due to the increase in mortgage interest rates, there has been a decrease in the volume of loans originated for sale in the secondary market and less favorable pricing on loan sales. During the first quarter of 2014, we sold 68 percent fewer mortgages with $5.5 million in loan sales compared to $17.5 million during the same period in 2013. The decrease in other noninterest income of $0.3 million was primarily attributed to a decrease in interest rate swap fees from our commercial customers. Wealth management fees increased $0.4 million due to higher assets under management, new business development efforts and fee increases.

Noninterest Expense

	Three Months Ended March 31,			
(dollars in thousands)	2014	2013	$ Change	% Change
Salaries and employee benefits[1]	$15,376	$16,012	$(636)	(4.0)%
Net occupancy[1]	2,230	2,164	66	3.0
Data processing [1]	2,095	1,933	162	8.4
Furniture and equipment	1,271	1,308	(37)	(2.8)
Professional services and legal[1]	663	972	(309)	(31.8)
Other Taxes	631	999	(368)	(36.8)
Merger related expense	—	810	(810)	(100.0)
FDIC insurance	631	776	(145)	(18.7)
Marketing	618	689	(71)	(10.3)
Other noninterest expense[1]	5,399	5,953	(554)	(9.3)
Total Noninterest Expense	$28,914	$31,616	$(2,702)	(8.5)%

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

Noninterest expense decreased $2.7 million, or 8.5 percent, in the first quarter of 2014 compared to the first quarter of 2013 primarily due to a decline in merger related expenses, salaries and employee benefits, other noninterest expense, professional services and legal and other taxes.

The $0.8 million of merger related expense recognized in the first quarter of 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.

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

Salaries and employee benefits decreased $0.6 million primarily due to a decrease of $0.7 million in salary expense and $0.5 million in pension expense. The decrease in salaries is due to a reduction in the overall number of employees, which is a direct result of the various expense control initiatives implemented in early 2013. The reduction in our pension expense is due to a decrease in our pension liability resulting from a change in actuarial assumptions. Offsetting these decreases in salaries and employee benefits was an increase in incentives of $0.5 million related to the reintroduction of our management incentive plan and higher expenses related to our employee incentive plan. Other noninterest expense decreased $0.6 million due to a decrease in the provision for losses on unfunded loan commitments. Professional services and legal expense decreased $0.3 million primarily due to additional external accounting and consulting charges that were incurred in the first quarter of 2013. The decrease of $0.3 million in other taxes primarily relates to legislative changes that have resulted in a reduction in Pennsylvania shares tax expense.

Provision for Income Taxes

The provision for income taxes increased $1.6 million to $3.8 million for the three month period ended March 31, 2014 compared to $2.2 million for the same period in the prior year. The increase to the provision for income taxes for the three months ended March 31, 2014 was primarily due to a $3.3 million increase in pre-tax income and an increase in the expected full year tax rate. The effective tax rate for the three months ended March 31, 2014 increased to 21.2 percent compared to 15.3 percent for the same period in 2013. The increase in our effective tax rate was primarily due to increases in pre-tax income and a nonrecurring tax benefit in the first quarter of 2013.

Financial Condition

March 31, 2014

Total assets increased by 3.8 percent to $4.7 billion at March 31, 2014 compared to $4.5 billion at December 31, 2013. Loan production was strong, resulting in an increase to total portfolio loans of $61.7 million, or 1.7 percent. Our commercial loan portfolio grew by $66.4 million, or 2.6 percent, to $2.7 billion while our consumer loan portfolio remained relatively unchanged at $1.0 billion. Securities increased $42.5 million, or 8.3 percent, compared to December 31, 2013. Our deposit base increased $196.0 million, or 5.3 percent, with total deposits of $3.9 billion at March 31, 2014 compared to $3.7 billion at December 31, 2013. Money market deposits increased $79.0 million, savings deposits increased $39.6 million, noninterest bearing demand deposits increased $39.6 million and CDs increased $38.1 million. The $79.0 million increase in money market deposits was primarily attributable to an increase in trust fund deposits in our Wealth Management division. Savings deposits increased $39.6 million as higher rate CD maturities shifted to this product. Overall, CDs increased $38.1 million due to additional Certificate of Deposit Account Registry Services, or CDARS, deposits of $51.0 million during the three months ended March 31, 2014. Borrowings decreased by $36.0 million to $205.3 million at March 31, 2014 compared to $241.3 million at December 31, 2013 because of the increases in deposits during the first quarter of 2014. Total shareholder’s equity increased by $12.3 million, or 2.2 percent, during the first quarter of 2014 compared to December 31, 2013. The increase was primarily due to net income of $14.0 million offset by $4.8 million in dividends and an increase to other comprehensive income of $3.0 million resulting from higher market values of our available-for-sale securities for the period.

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Securities Activity

(dollars in thousands)	March 31, 2014	December 31, 2013	$ Change
Obligations of U.S. government corporations and agencies	$264,184	$234,751	$29,433
Collateralized mortgage obligations of U.S. government corporations and agencies	62,439	63,774	(1,335)
Residential mortgage-backed securities of U.S. government corporations and agencies	47,552	48,669	(1,117)
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,321	39,052	269
Obligations of states and political subdivisions	129,197	114,264	14,933
Debt Securities Available-for-Sale	542,693	500,510	42,183
Marketable equity securities	9,203	8,915	288
Total Securities Available-for-Sale	$551,896	$509,425	$42,471

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 $42.5 million, or 8.3 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 $1.9 million at March 31, 2014 compared to a net unrealized loss of $2.3 million at December 31, 2013. Net unrealized gains for the first quarter of 2014 included $6.7 million of unrealized gains offset by $4.8 million of unrealized losses. Net unrealized losses for the year ended 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 three months ended March 31, 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 March 31, 2014. During the three months ended March 31, 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.

Loan Composition

	March 31, 2014		December 31, 2013	
(dollars in thousands)	Amount	% of Loans	Amount	% of Loans
Commercial				
Commercial real estate	$1,607,958	44.3%	$1,607,756	45.1%
Commercial and industrial	884,870	24.4%	842,449	23.6%
Construction	167,432	4.6%	143,675	4.0%
Total Commercial Loans	2,660,260	73.3%	2,593,880	72.7%
Consumer				
Residential mortgage	490,120	13.5%	487,092	13.7%
Home equity	410,695	11.3%	414,195	11.6%
Installment and other consumer	64,561	1.8%	67,883	1.9%
Construction	2,260	0.1%	3,149	0.1%
Total Consumer Loans	967,636	26.7%	972,319	27.3%
Total Portfolio Loans	3,627,896	100.0%	3,566,199	100.0%

Loans Held for Sale	1,133	2,136
Total Loans	$3,629,029	$3,568,335

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

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. Other conditions such as the overall economic climate can significantly impact a borrower's ability to pay. Total portfolio loans increased $61.7 million, or 1.7 percent, since December 31, 2013 to $3.6 billion at March 31, 2014 due to organic loan growth in our C&I and commercial construction 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 the addition of new LPOs in the Ohio market. During August of 2012, we opened a new LPO in the Northeast Ohio region and just recently in January of 2014 we announced the opening of an LPO in Central Ohio. In March of 2014, we also announced the hiring of two experienced community bankers to expand our presence into State College, Pennsylvania.

Total commercial loans have increased $66.4 million, or 2.6 percent, from December 31, 2013. C&I loans increased $42.4 million, or 5.0 percent, due to new loan originations and increased utilization of lines of credit. Commercial construction loans have increased $23.8 million, or 16.5 percent, due to an increase in line utilizations of approximately $20.0 million and new loan originations.

Residential mortgages increased $3.0 million, or 0.6 percent, from December 31, 2013. 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. Currently, we are selling 30 year mortgages into the secondary market, primarily to Fannie Mae. 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 three months ended March 31, 2014 and 2013, we sold $5.5 million and $21.3 million of 1-4 family mortgages and service $324.3 million of secondary market mortgage loans sold to Fannie Mae at March 31, 2014. 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.

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 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.

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

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 March 31, 2014, approximately 84 percent of the ALL was related to our commercial loan portfolio, while commercial loans comprised 73 percent of our loan portfolio. Commercial loans have been more impacted by the economic slowdown in our markets. The ability of customers to repay commercial loans is more dependent upon the success of their business, continuing income and general economic conditions. Accordingly, the risk of loss is higher on such loans compared to consumer loans, which have incurred lower losses in our market.

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

	March 31, 2014					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$—	$ 19,880	$19,880	$22,219	$ 1,585,739	$1,607,958
Commercial and industrial	—	13,979	13,979	9,766	875,104	884,870
Commercial construction	—	5,183	5,183	8,321	159,111	167,432
Consumer real estate	50	6,358	6,408	8,200	894,875	903,075
Other consumer	15	1,151	1,166	148	64,413	64,561
Total	$65	$ 46,551	$46,616	$48,654	$ 3,579,242	$3,627,896

	December 31, 2013					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$—	$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

	March 31, 2014		December 31, 2013	
Ratio of net charge-offs to average loans outstanding	(0.01	)%*	0.25	%
Allowance for loan losses as a percentage of total loans	1.28	%	1.30	%
Allowance for loan losses to nonperforming loans	222	%	206	%

* Annualized

The balance in the ALL increased $0.3 million to $46.6 million, or 1.28 percent, of total portfolio loans at March 31, 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 $4.2 million from December 31, 2013, primarily as a result of loan pay downs. Further, new impaired loan formation has been low during 2014 with only $1.8 million of new impaired loans. The reserve for loans collectively evaluated for impairment did not change significantly at March 31, 2014 compared to December 31, 2013.

Overall our asset quality was excellent in the first quarter of 2014 with a net recovery and decreases in nonperforming loans. Commercial special mention and substandard loans increased slightly by $5.1 million to $168.1 million at March 31, 2014 from $163.0 million at December 31, 2013.

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 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 March 31, 2014, we had $45.3 million in total TDRs, including $36.0 million that were accruing and $9.3 million that were in nonaccrual. In the first quarter of 2014, we had $1.8 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 11 loans totaling $0.8 million related to bankruptcy filings that were not reaffirmed resulting in discharged debt. During the first quarter of 2014 we had no TDRs that met the above requirements for being returned to accrual status.

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 $3.0 million at March 31, 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)	March 31, 2014	December 31, 2013	$ Change
Nonaccrual Loans			
Commercial real estate	$6,736	$6,852	$(116)
Commercial and industrial	1,043	1,412	(369)
Commercial construction	7	34	(27)
Residential mortgage	1,554	1,982	(428)
Home equity	2,393	2,073	320
Installment and other consumer	20	34	(14)
Consumer construction	—	—	—
Total Nonaccrual Loans	11,753	12,387	(634)
Nonaccrual Troubled Debt Restructurings			
Commercial real estate	3,529	3,898	(369)
Commercial and industrial	2,138	1,884	254
Commercial construction	1,969	2,708	(739)
Residential mortgage	1,394	1,356	38
Home equity	237	218	19
Installment and other consumer	2	3	(1)
Total Nonaccrual Troubled Debt Restructurings	9,269	10,067	(798)
Total Nonaccrual Loans	21,022	22,454	(1,432)
OREO	343	410	(67)
Total Nonperforming Assets	$21,365	$22,864	$(1,499)
Asset Quality Ratios:			
Nonperforming loans as a percent of total loans	0.58%	0.63%	
Nonperforming assets as a percent of total loans plus OREO	0.59%	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 March 31, 2014 or December 31, 2013.

Nonperforming assets decreased $1.5 million to $21.4 million at March 31, 2014 compared to $22.9 million at December 31, 2013. The decline in nonperforming assets is primarily the result of $2.2 million in nonperforming loan pay downs, $0.6 million of loan charge-offs and $0.3 million of loans returning to accrual status. New nonperforming loan formation was $1.8 million for the first quarter of 2014. The new formation primarily consists of smaller loans of less than $0.5 million.

Deposits

(dollars in thousands)	March 31, 2014	December 31, 2013	$ Change
Noninterest-bearing demand	$1,032,372	$992,779	$39,593
Interest-bearing demand	312,477	312,790	(313)
Money market	360,414	281,403	79,011
Savings	1,034,388	994,805	39,583
Certificates of deposit	909,909	922,780	(12,871)
CDARs OWB and brokered CDs	218,721	167,751	50,970
Total Deposits	$3,868,281	$3,672,308	$195,973

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 $196.0 million at March 31, 2014 compared to December 31, 2013.

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

Money market deposits increased $79.0 million at March 31, 2014 compared to December 31, 2013 mainly due to the increase in trust fund deposits in our Wealth Management division. Noninterest-bearing demand deposits increased $39.6 million at March 31, 2014 compared to December 31, 2013. Savings deposits increased $39.6 million as higher rate CD maturities shifted to this product. The shift of the higher rate CD maturities to savings deposits was offset by additional CDARS deposits of $51.0 million resulting in an overall increase in CDs of $38.1 million for the three months ended March 31, 2014. CDs of $100,000 and over increased to 12.5 percent of total deposits at March 31, 2014 compared to 12.0 percent of total deposits at December 31, 2013.

Borrowings

(dollars in thousands)	March 31, 2014	December 31, 2013	$ Change
Securities sold under repurchase agreements, retail	$38,434	$33,847	$4,587
Short-term borrowings	100,000	140,000	(40,000)
Long-term borrowings	21,226	21,810	(584)
Junior subordinated debt securities	45,619	45,619	—
Total Borrowings	$205,279	$241,276	$(35,997)

Borrowings are an additional source of funding for us. Total borrowings decreased by $36.0 million from December 31, 2013. The decline in borrowings is primarily due to increases in our deposits during the three months ended March 31, 2014.

Information pertaining to short-term borrowings is summarized in the tables below for the dates presented and for the three and twelve month periods ended March 31, 2014 and December 31, 2013.

	Securities Sold Under Repurchase Agreements	
(dollars in thousands)	March 31, 2014	December 31, 2013
Balance at the period end	$ 38,434	$ 33,847
Average balance during the period	36,596	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 %

	Short-Term Borrowings	
(dollars in thousands)	March 31, 2014	December 31, 2013
Balance at the period end	$ 100,000	$ 140,000
Average balance during the period	127,778	101,973
Average interest rate during the period	0.31 %	0.27 %
Maximum month-end balance during the period	$ 150,000	$ 175,000
Average interest rate at the period end	0.31 %	0.30 %

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

Information pertaining to long-term borrowings is summarized in the tables below for the dates presented and for the three and twelve month periods ended March 31, 2014 and December 31, 2013.

	Long-Term Borrowings	
(dollars in thousands)	March 31, 2014	December 31, 2013
Balance at the period end	$21,226	$21,810
Average balance during the period	21,466	24,312
Average interest rate during the period	3.06%	3.07%
Maximum month-end balance during the period	$21,616	$28,913
Average interest rate at the period end	2.99%	3.01%

	Junior Subordinated Debt Securities	
(dollars in thousands)	March 31, 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	2.69%	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 short-term and long-term 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 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 if needed, to meet financial obligations. ALCO policy guidelines define a ratio of highly liquid assets to total assets by graduated risk tolerance levels of minimal, moderate and high. At March 31, 2014 we had $309.1 million in highly liquid assets, which consisted of $113.7 million in interest-bearing deposits with banks, $194.3 million in unpledged securities and $1.1 million in loans held for sale. The highly liquid assets to total assets resulted in an asset liquidity ratio of 6.6 percent at March 31, 2014. Also, at March 31, 2014, we had a remaining borrowing availability of $1.5 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 risk-based capital amounts and ratios for S&T Bancorp, Inc. and S&T Bank for the dates presented:

(dollars in thousands)	Adequately Capitalized [1]	Well-Capitalized [2]	March 31, 2014 Amount	Ratio	December 31, 2013 Amount	Ratio
S&T Bancorp, Inc.						
Tier 1 leverage	4.00 %	5.00 %	$435,719	9.79 %	$426,234	9.75 %
Tier 1 capital to risk-weighted assets	4.00 %	6.00 %	435,719	12.43 %	426,234	12.37 %
Total capital to risk-weighted assets	8.00 %	10.00 %	505,343	14.41 %	494,986	14.36 %
S&T Bank						
Tier 1 leverage	4.00 %	5.00 %	$398,131	8.98 %	$389,584	8.95 %
Tier 1 capital to risk-weighted assets	4.00 %	6.00 %	398,131	11.42 %	389,584	11.36 %
Total capital to risk-weighted assets	8.00 %	10.00 %	466,822	13.38 %	457,540	13.35 %

(1) For an institution to qualify as "adequately capitalized" under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 8 percent, 4 percent and 4 percent. At March 31, 2014, we exceeded those requirements.
(2) For an institution to qualify as "well capitalized" under regulatory guidelines, total risk-based capital, Tier I risk-based capital and Tier I capital to average asset ratios must be at least 10 percent, 6 percent and 5 percent. At March 31, 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 March 31, 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 simulations 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 level 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 core deposit behavior and value. S&T policy guidelines limit the change in EVE given changes in rates of +/- 300 basis points. Policy guidelines define the percent change in EVE by graduated risk tolerance levels of minimal, moderate and high. We have also temporarily suspended the EVE -200 and -300 basis point scenarios due to the low interest rate environment.

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

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

	March 31, 2014		December 31, 2013	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
+300	7.6	(3.8)	7.6	(6.1)
+200	4.6	(0.3)	5.3	(2.1)
+100	2.1	1.2	2.3	—
-100	(3.4)	(11.5)	(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, there was not a material change in our asset sensitive balance sheet position when comparing March 31, 2014 and December 31, 2013

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

In addition to rate shocks and EVE, simulations are performed periodically to assess the sensitivity of scenario assumptions on pretax net interest income. Simulation analyses most often test for sensitivity to yield curve shape and slope changes, severe rate shocks, changes in prepayment assumptions and significant balance mix changes. 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 March 31, 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.

Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 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

3.1	Amended and Restated By-Laws of S&T Bancorp, Inc. Filed as Exhibit 3.1 to S&T Bancorp, Inc. Current Report on Form 8-K filed on March 27, 2014 and incorporated herein by reference.
31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32	Rule 13a-14(b) Certification of the Chief Executive Officer and Chief Financial Officer.
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheet at March 31, 2014 and Audited Consolidated Balance Sheet at December 31, 2013, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three Months ended March 31, 2014 and 2013, (iii) Unaudited Consolidated Statements of Changes in Shareholders’ Equity for the Three Months ended March 31, 2014 and 2013, (iv) Unaudited Consolidated Statements of Cash Flows for the Three Months ended March 31, 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: May 7, 2014	/s/ Mark Kochvar Mark Kochvar Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer and Duly Authorized Signatory)