

S&T BANCORP INC  
Form 10-K  
February 21, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**Form 10-K**

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended December 31, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-12508

**S&T BANCORP, INC.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of incorporation of organization)

**800 Philadelphia Street, Indiana, PA**  
(Address of principal executive offices)

**25-1434426**  
(I.R.S. Employer Identification No.)

**15701**  
(Zip Code)

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

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Securities registered pursuant to Section 12(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: **None**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

Accelerated filer   
Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The aggregate estimated fair value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2013:

**Common Stock, \$2.50 par value \$570,272,074**

The number of shares outstanding of the issuer's classes of common stock as of February 17, 2014:

**Common Stock, \$2.50 par value 29,737,725 shares**

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive Proxy Statement of S&T Bancorp, Inc., to be filed pursuant to Regulation 14A for the 2014 annual meeting of shareholders to be held May 19, 2014 are incorporated by reference into Part III of this annual report on Form 10-K.

**Table of Contents**

**Part I**

Item 1.	<u>Business</u>	3
Item 1A.	<u>Risk Factors</u>	14
Item 1B.	<u>Unresolved Staff Comments</u>	20
Item 2.	<u>Properties</u>	20
Item 3.	<u>Legal Proceedings</u>	21
Item 4.	<u>Mine Safety Disclosures</u>	21

**Part II**

Item 5.	<u>Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	22
Item 6.	<u>Selected Financial Data</u>	24
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	69
Item 8.	<u>Financial Statements and Supplementary Data</u>	71
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u>	141
Item 9A.	<u>Controls and Procedures</u>	141
Item 9B.	<u>Other Information</u>	141

**Part III**

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	142
Item 11.	<u>Executive Compensation</u>	142
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	142
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	142
Item 14.	<u>Principal Accountant Fees and Services</u>	142

**Part IV**

Item 15.	<u>Exhibits, Financial Statement Schedules</u>	143
	<u>Signatures</u>	146

---

**Table of Contents**

**PART I**

**Item 1. BUSINESS**

**General**

S&T Bancorp, Inc., or S&T (also referred to below as we, us or our), including, on a consolidated basis with our subsidiaries where appropriate, was incorporated on March 17, 1983 under the laws of the Commonwealth of Pennsylvania as a bank holding company and has three wholly owned subsidiaries, S&T Bank, 9th Street Holdings, Inc. and STBA Capital Trust I. We also own a one-half interest in Commonwealth Trust Credit Life Insurance Company, or CTCLIC. We are registered as a financial holding company with the Board of Governors of the Federal Reserve System, or the Federal Reserve Board, under the Bank Holding Company Act of 1956, as amended, or the BHCA. As of December 31, 2013, we had approximately \$4.5 billion in assets, \$3.6 billion in loans, \$3.7 billion in deposits and our shareholders' equity was \$571.3 million.

S&T Bank is a full service bank with its main office at 800 Philadelphia Street, Indiana, Pennsylvania, providing services to its customers through offices located in Allegheny, Armstrong, Blair, Butler, Cambria, Clarion, Clearfield, Indiana, Jefferson, Washington and Westmoreland counties of Pennsylvania. We also have two loan production offices, or LPOs, in Ohio, with our most recent LPO established in Central Ohio on January 21, 2014. S&T Bank deposits are insured by the Federal Deposit Insurance Corporation, or FDIC, to the maximum extent provided by law.

S&T Bank has three wholly owned operating subsidiaries: S&T Insurance Group, LLC, S&T Banc Holdings, Inc. and Stewart Capital Advisors, LLC. S&T Insurance Group, LLC, through its subsidiaries, offers a variety of insurance products. S&T Banc Holdings, Inc. is an investment company. Stewart Capital Advisors, LLC, is a registered investment advisor that manages private investment accounts for individuals and institutions and advises the Stewart Capital Mid Cap Fund.

We operate three reportable operating segments including Community Banking, Wealth Management and Insurance. Our Community Banking segment offers services which include accepting time and demand deposits, originating commercial and consumer loans, and providing letters of credit and credit card services. We believe that we have a relatively stable deposit base and no material amount of deposits is obtained from a single depositor or group of depositors.

The 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 services, as well as a registered investment advisor that manages private investment accounts for individuals and institutions. Total Wealth Management assets under management and administration were approximately \$1.9 billion at December 31, 2013.

The Insurance segment includes a full-service insurance agency offering commercial property and casualty insurance, group life and health coverage, employee benefit solutions and personal insurance lines.

Refer to the financial statements and Part II, Item 8, Note 25 of this Form 10-K for further details pertaining to our operating segments.

**Employees**

As of December 31, 2013, we had 948 full-time equivalent employees.

**Access to United States Securities and Exchange Commission Filings**

All of our reports filed electronically with the United States Securities and Exchange Commission, or the SEC, including this Annual Report on Form 10-K for the fiscal year ended December 31, 2013, or the Report, our prior annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and our annual proxy statements, as well as any amendments to those reports are accessible at no cost on our website at [www.stbancorp.com](http://www.stbancorp.com) under Financial Information,

## **Table of Contents**

### **Item 1. BUSINESS continued**

SEC Filings. These filings are also accessible on the SEC's website at [www.sec.gov](http://www.sec.gov). You may read and copy any material we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The charters of the Audit Committee, the Compensation and Benefits Committee and the Nominating and Corporate Governance Committee, the Complaints Regarding Accounting, Internal Accounting Controls or Auditing Matters Policy, or the Whistleblower Policy, the Code of Conduct for the CEO and CFO, the General Code of Conduct, and the Shareholder Communications Policy are also available at [www.stbancorp.com](http://www.stbancorp.com) under Corporate Governance.

### **Supervision and Regulation**

#### ***General***

S&T and S&T Bank are each extensively regulated under federal and state law. The following describes certain aspects of that regulation and does not purport to be a complete description of all regulations that affect S&T and S&T Bank or all aspects of any regulation discussed here.

To the extent statutory or regulatory provisions are described the description is qualified in its entirety by reference to the particular statutory or regulatory provisions. Proposals to change the laws and regulations governing the banking industry are frequently raised in Congress, in state legislatures and before the various bank regulatory agencies. The likelihood and timing of any changes and the impact such changes might have on S&T or S&T Bank is impossible to determine with any certainty.

Any change in applicable laws or regulations, or in the way such laws or regulations are interpreted by regulatory agencies or courts, may have a material impact on our business, operations and earnings.

#### ***S&T***

We are a bank holding company subject to regulation under the BHCA and the examination and reporting requirements of the Federal Reserve Board. Under the BHCA, a bank holding company may not directly or indirectly acquire ownership or control of more than five percent of the voting shares or substantially all of the assets of any additional bank, or merge or consolidate with another bank holding company, without the prior approval of the Federal Reserve Board. We have maintained a passive ownership position in Allegheny Valley Bancorp, Inc. (14.3 percent) pursuant to approval from the Federal Reserve Board.

As a bank holding company, we are expected under statutory and regulatory provisions to serve as a source of financial and managerial strength to our subsidiary bank. A bank holding company is also expected to commit resources, including capital and other funds, to support its subsidiary bank.

We elected to become a financial holding company under the BHCA in 2001 and thereby engage in a broader range of financial and other activities than are permissible for traditional bank holding companies. In order to maintain our status as a financial holding company, we must remain well-capitalized and well-managed and the depository institutions controlled by us must remain well-capitalized, well-managed (as defined in federal law) and have at least a satisfactory Community Reinvestment Act, or CRA rating. Refer to Part II, Item 8, Note 23 Regulatory Matters, of this Report for information concerning the current capital ratios of S&T and S&T Bank. No prior regulatory approval is

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required for a financial holding company with total consolidated assets less than \$50 billion to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board, unless the total consolidated assets to be acquired exceed \$10 billion. The BHCA identifies several activities as financial in nature including, among others, securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance



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**Table of Contents**

**Item 1. BUSINESS continued**

underwriting and sales agency; investment advisory activities; merchant banking activities; and activities that the Federal Reserve Board has determined to be closely related to banking. Banks may also engage in, subject to limitations on investment, activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is well-capitalized, well-managed and has at least a satisfactory CRA rating.

If S&T or S&T Bank ceases to be well-capitalized or well-managed, we will not be in compliance with the requirements of the BHCA regarding financial holding companies. If a financial holding company is notified by the Federal Reserve Board of such a change in the ratings of any of its subsidiary banks, it must take certain corrective actions within specified time frames. Furthermore, if S&T Bank was to receive a CRA rating of less than satisfactory, then we would be prohibited from engaging in new activities or acquiring companies engaged in certain financial activities until the rating is raised to satisfactory or better.

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

9th Street Holdings, Inc. was formed in June 1988 to hold and manage a group of investments previously owned by S&T Bank and to give us additional latitude to purchase other investments.

S&T Banc Holdings, Inc. was formed in August 2002 to hold and manage a group of investments previously owned by S&T Bank and to give us additional latitude to purchase other investments.

CTCLIC is a joint venture with another financial institution, acting as a reinsurer of credit life, accident and health insurance policies sold by S&T Bank and the other institution. S&T Bank and the other institution each have ownership interests of 50 percent in CTCLIC.

S&T Insurance Group, LLC distributes life insurance and long-term disability income insurance products. During 2001, S&T Insurance Group, LLC and Attorneys Abstract Company, Inc. entered into an agreement to form S&T Settlement Services, LLC, or STSS, with respective ownership interests of 55 percent and 45 percent. STSS is a title insurance agency servicing commercial customers. During 2002, S&T Insurance Group, LLC expanded into the property and casualty insurance business with the acquisition of S&T-Evergreen Insurance LLC.

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

***S&T Bank***

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

In addition, S&T Bank is subject to affiliate transaction rules in Sections 23A and 23B of the Federal Reserve Act that limit the amount of transactions between itself and S&T or S&T's nonbank subsidiaries. Under these provisions, transactions between a bank and its parent company or any single nonbank affiliate generally are limited to 10 percent of the bank subsidiary's capital and surplus, and with respect to all transactions with affiliates, are limited to 20 percent of the bank subsidiary's capital and surplus. Loans and extensions of credit from a bank to an affiliate generally are required to be secured by eligible collateral in specified amounts. The Dodd-Frank Act Wall Street Reform and Consumer Protection Act, or Dodd-Frank Act, expands the affiliate transaction rules to

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**Table of Contents**

**Item 1. BUSINESS continued**

broaden the definition of affiliate and to apply to securities borrowing or lending, repurchase or reverse repurchase agreements and derivatives activities that we may have with an affiliate, as well as to strengthen collateral requirements and limit Federal Reserve exemptive authority. Also, the definition of extension of credit for transactions with executive officers, directors and principal shareholders was expanded to include credit exposure arising from a derivative transaction, a repurchase or reverse repurchase agreement and a securities lending or borrowing transaction. These expansions became effective July 21, 2012. These provisions have not had a material effect on S&T or S&T Bank.

**Insurance of Accounts; Depositor Preference**

The deposits of S&T Bank are insured up to applicable limits per insured depositor by the FDIC. The Dodd-Frank Act codified FDIC deposit insurance coverage per separately insured depositor for all account types at \$250,000. The Dodd-Frank Act also maintained federal deposit insurance coverage for noninterest-bearing transaction accounts at an unlimited amount from December 31, 2010 until this part of the Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits the owner may hold in the same ownership category, and the combined total is insured up to at least \$250,000.

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

In February 2011, the FDIC Board of Directors adopted a final rule, Deposit Insurance Assessment Base, Assessment Rate Adjustments, Dividends, Assessment Rates and Large Bank Pricing Methodology. This final rule redefined the deposit insurance assessment base to equal average consolidated total assets minus average tangible equity as required by the Dodd-Frank Act, altered assessment rates, implemented the Dodd-Frank Act's DIF dividend provisions and revised the risk-based assessment system for all large insured depository institutions (those with at least \$10.0 billion in total assets). Many of the changes were made as a result of provisions of the Dodd-Frank Act that were intended to shift more of the cost of raising the reserve ratio from institutions with less than \$10.0 billion in assets (such as S&T Bank) to the larger banks. Except for the future assessment rate schedules, all changes went into effect April 1, 2011 which lowered our FDIC expense in 2013 and 2012 compared to 2011. In addition to DIF assessments, the FDIC assesses all insured deposits a special assessment to fund the repayment of debt obligations of the Financing Corporation, or FICO. FICO is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation in the 1990s.

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

**Capital**

The Federal Reserve Board and FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to banking organizations they supervise. Under current capital



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**Table of Contents**

**Item 1. BUSINESS continued**

guidelines, (which will be replaced by a new regulatory capital rule effective January 1, 2015, for smaller banking organizations such as S&T and S&T Bank, as discussed below), S&T and S&T Bank are required to maintain certain capital standards based on ratios of capital to average assets and capital to risk weighted assets. The guidelines define a bank's total qualifying capital as having two components. Tier 1 capital, which must be at least 50 percent of total qualifying capital, is mainly comprised of common equity, retained earnings and qualifying preferred stock, less certain intangibles. Tier 2 capital may include the allowance for loan losses, or ALL, up to a maximum of 1.25 percent of risk weighted assets, qualifying subordinated debt, qualifying preferred stock, hybrid capital instruments and up to 45 percent of net unrealized gains on available-for-sale equity securities. The guidelines also define the weights assigned to assets and off-balance sheet items to determine the risk weighted asset component of the risk-based capital ratios.

The Federal Reserve Board and FDIC have established minimum and well-capitalized standards for banks and bank holding companies. The minimum capital standards are defined as a Tier 1 ratio of at least 4.00 percent, a total capital ratio of at least 8.00 percent and a leverage ratio of at least 3.00 percent. The leverage ratio of 3.00 percent is for those bank and bank holding companies that meet certain specified criteria, including having received the highest regulatory rating and are not experiencing significant growth or expansion. All other banks and bank holding companies generally are required to maintain a leverage ratio of at least 4.00 percent. S&T and S&T Bank maintain capital levels to meet the well-capitalized regulatory standards, which are defined as a Tier 1 ratio of at least 6.00 percent and a total capital ratio of at least 10.00 percent. S&T Bank must also maintain a leverage ratio of at least 5.00 percent to meet the well-capitalized regulatory standards. At December 31, 2013 S&T's Tier 1 capital was 12.37 percent, total capital was 14.36 percent and leverage ratio was 9.75 percent. S&T Bank's Tier 1, total capital and leverage ratios were 11.36 percent, 13.35 percent, and 8.95 percent.

Both the Federal Reserve Board and the FDIC's risk-based capital standards explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution's ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution's overall capital adequacy. The capital guidelines also provide that an institution's exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a bank's capital adequacy. The Dodd-Frank Act contains a number of provisions intended to strengthen capital, including requiring minimum leverage and risk-based capital that are at least as stringent as those currently in effect.

In addition to the Dodd-Frank Act, the international oversight body of the Basel Committee on Banking Supervision reached agreements to require more and higher-quality capital, known as Basel III, in July 2010. The federal banking agencies issued a final rule to implement Basel III as well as the minimum leverage and risk-based capital requirements of the Dodd-Frank Act in July 2013. The final rule establishes a comprehensive capital framework that will revise and replace the current capital guidelines. The rule will go into effect on January 1, 2015, for smaller banking organizations such as S&T and S&T Bank. It introduces a common equity Tier 1 capital ratio requirement of 4.50 percent, increases the minimum Tier 1 capital ratio to 6.00 percent, and requires a leverage ratio of 4.00 percent for all banks. Common equity Tier 1 capital consists of common stock instruments that meet the eligibility criteria in the final rules, retained earnings, accumulated other comprehensive income and common equity Tier 1 minority interest. The rule also requires a banking organization to maintain a capital conservation buffer composed of common equity Tier 1 capital in an amount greater than 2.50 percent of total risk-weighted assets. The capital conservation buffer will be phased in beginning in 2016, at 25%, increasing to 50% in 2017, 75% in 2018 and 100% in 2019 and beyond. As a result, a banking organization must maintain a common equity Tier 1 capital ratio greater than 7.00 percent, a Tier 1 capital ratio greater than 8.50 percent and a Total risk-based capital ratio greater than 10.50 percent, otherwise, it will be subject to restrictions on capital distributions and

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## **Table of Contents**

### **Item 1. BUSINESS continued**

discretionary bonus payments. By 2019, when the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the well-capitalized regulatory requirements. To be well-capitalized, a banking organization must have a common equity Tier 1 capital ratio of at least 6.50 percent, a Tier 1 capital ratio of at least 8.00 percent and a total capital ratio of at least 10.00 percent. The rule also disqualifies certain financial instruments from inclusion in regulatory capital and requires more deductions from capital.

The new regulatory capital rule also revises the calculation of risk-weighted assets. It includes a new framework under which the risk weight will increase for most credit exposures that are 90 days or more past due or on nonaccrual, high-volatility commercial real estate loans, certain equity exposures and changes to the credit conversion factors of off balance sheet items, such as the unused portion of a loan commitment.

Federal regulators periodically propose amendments to the risk-based capital guidelines and the related regulatory framework and consider changes to the capital standards that could significantly increase the amount of capital needed to meet applicable standards. The timing of adoption, ultimate form and effect of any such proposed amendments cannot be predicted.

#### **Capital Purchase Program**

On December 7, 2011, we redeemed all of the preferred stock that we sold to the federal government as part of the Capital Purchase Program, or CPP. As a participant in the CPP, we completed the \$108.7 million capital raise on January 16, 2009.

In connection with the issuance of the preferred stock to the U.S. Treasury in 2009, we also issued the U.S. Treasury a warrant to purchase 517,012 shares of our common stock at an initial per share exercise price of \$31.53, with an estimated fair value of \$4.0 million on the date of issuance. We did not repurchase the warrant concurrently with the redemption of the preferred stock. The warrant remains outstanding as of the date of the filing of this Annual Report on Form 10-K. The warrant provides for the adjustment of the exercise price and the number of shares of our common stock issuable upon exercise pursuant to customary anti-dilution provisions. The U.S. Treasury agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the warrant, but sold the warrant in 2013, and the buyer is not under any restrictions with regard to voting power of the stock if the warrant is exercised. The warrant will remain outstanding until January 2019 or until it is exercised by the owner at the exercise price of \$31.53 per share.

#### **Payment of Dividends**

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



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**Table of Contents**

**Item 1. BUSINESS continued**

**Other Safety and Soundness Regulations**

There are a number of obligations and restrictions imposed on bank holding companies such as us and our depository institution subsidiary by federal law and regulatory policy. These obligations and restrictions are designed to reduce potential loss exposure to the FDIC's deposit insurance fund in the event an insured depository institution becomes in danger of default or is in default. Under current federal law for example, the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized or critically undercapitalized, as defined by the law. Under regulations established by the federal banking agencies, a well-capitalized institution must have a Tier 1 capital ratio of at least 6.00 percent, a Total capital ratio of at least 10.00 percent and a leverage ratio of at least 5.00 percent and must not be subject to a capital directive or order. An adequately capitalized institution must have a Tier 1 capital ratio of at least 4.00 percent, a Total capital ratio of at least 8.00 percent and a leverage ratio of at least 4.00 percent. The most highly-rated financial institutions minimum requirement for the leverage ratio is 3.00 percent. In the federal banking agencies' final rule to implement Basel III and the minimum leverage and risk-based capital requirements of the Dodd-Frank Act, the federal banking agencies have also changed the definitions of these categories, including the introduction of a common equity Tier 1 capital ratio in each definition, which are to become effective as of January 1, 2015. As of December 31, 2013, S&T and S&T Bank were classified as well-capitalized. The classification of depository institutions is primarily for the purpose of applying the federal banking agencies' prompt corrective action provisions and is not intended to be and should not be interpreted as a representation of overall financial condition or prospects of any financial institution.

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

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

## **Table of Contents**

### **Item 1. BUSINESS continued**

#### **Regulatory Enforcement Authority**

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

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

#### **Interstate Banking and Branching**

The BHCA currently permits bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including certain nationwide and state-imposed deposit concentration limits. In addition, because of changes to law made by the Dodd-Frank Act, S&T Bank may now establish de novo interstate branches in any state to the same extent that a bank chartered in that state could establish a branch.

#### **Community Reinvestment and Consumer Protection Laws**

In connection with its lending activities, S&T Bank is subject to a number of federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. These include, among other laws, the Equal Credit Opportunity Act, the Truth-in-Lending Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act and the CRA. In addition, rules of the Consumer Financial Protection Bureau pursuant to federal law require disclosure of privacy policies to consumers and in some circumstances, allow consumers to prevent the disclosure of certain personal information to nonaffiliated third parties.

The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting the credit needs of the communities served by the bank, including low and moderate-income neighborhoods. Furthermore, such assessment is required of any bank that has applied, among other things, to merge or consolidate with or acquire the assets or assume the liabilities of an insured depository institution, or to open or relocate a branch office. In the case of a bank holding company (including a financial holding company) applying for approval to acquire a bank or bank holding company, the Federal Reserve Board will assess the record of each subsidiary bank of the applicant bank holding company in considering the application. Under the CRA, institutions are assigned a rating of outstanding, satisfactory, needs to improve or unsatisfactory. S&T Bank was rated satisfactory in its most recent CRA evaluation.

#### **Anti-Money Laundering Rules**



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

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**Table of Contents**

**Item 1. BUSINESS continued**

**Government Actions and Legislation**

The Dodd-Frank Act is significantly changing the current bank regulatory structure and affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies, including S&T and S&T Bank. The Dodd-Frank Act contains a number of provisions intended to strengthen capital. Refer to Capital within Part I, Item 1 for additional information.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Act may not be known for many years. The Dodd-Frank Act also contains provisions that expand the insurance assessment base and increase the scope of deposit insurance coverage.

Among other provisions, the SEC has enacted rules, required by the Dodd-Frank Act, giving stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments and allowing certain stockholders to nominate their own candidates for election as directors using a company's proxy materials. The legislation also directs the federal financial institution regulatory agencies to promulgate rules prohibiting excessive compensation being paid to financial institution executives. In addition, in December of 2013, federal regulators adopted final regulations regarding the so-called Volcker Rule established in the Dodd-Frank Act. The Volcker Rule generally prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (defined as hedge funds and private equity funds, subject to certain exemptions). The new rules are complex and it is not clear how they will be implemented over time. However, S&T does not currently anticipate that they will have a material effect on S&T Bank or its affiliates, because we do not engage in the prohibited activities.

The Dodd-Frank Act also created the Consumer Financial Protection Bureau, or CFPB, that took over rulemaking responsibility on July 21, 2011 for the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others. Institutions that have assets of \$10.0 billion or less, such as S&T Bank, will continue to be supervised in this area by their state and primary federal regulators (in the case of S&T Bank, the FDIC). The Act also gives the CFPB expanded data collection powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices. The consumer complaint function also has been consolidated into the CFPB with respect to the institutions it supervises. The CFPB established an Office of Community Banks and Credit Unions, with a mission to ensure that the CFPB incorporates the perspectives of small depository institutions into the policy-making process, communicates relevant policy initiatives to community banks and credit unions, and works with community banks and credit unions to identify potential areas for regulatory simplification. In addition, the Dodd-Frank Act required the Federal Reserve Board to adopt a rule addressing interchange fees applicable to debit card transactions. This rule, Regulation II, effective October 1, 2011, does not apply to banks with less than \$10.0 billion in assets.

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

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## **Table of Contents**

### **Item 1. BUSINESS continued**

presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a qualified mortgage incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43% debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet government-sponsored enterprise, or GSE, Federal Housing Administration, or FHA, and Veterans Affairs, or VA, underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43% debt-to-income limits. The QM Rule became effective on January 10, 2014. We do not believe these rules will have a material impact on our mortgage business.

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

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

Federal and state regulatory agencies consistently propose and adopt changes to their regulations or change the manner in which existing regulations are applied. We cannot predict the substance or impact of pending or future legislation or regulation, or the application thereof, although enactment of the proposed legislation could affect how S&T and S&T Bank operate and could significantly increase costs, impede the efficiency of internal business processes, or limit our ability to pursue business opportunities in an efficient manner, any of which could materially and adversely affect our business, financial condition and results of operations.

### **Competition**

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

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

We face significant competition in both originating loans and attracting deposits. The Western Pennsylvania area has a high density of financial institutions, some of which are significantly larger institutions with greater financial resources than us, and many of which are our competitors to varying degrees. Our competition for loans comes principally from commercial banks, savings associations, mortgage banking companies, credit unions and other financial service companies. Our most direct competition for deposits has historically come from commercial banks, savings banks and credit unions. We face additional competition for deposits from non-depository competitors such as the mutual fund industry, securities and brokerage firms and insurance companies. Because larger

**Table of Contents**

**Item 1. BUSINESS continued**

competitors have advantages in attracting business from larger corporations, we do not generally attempt to compete for that business. Instead, we concentrate our efforts on attracting the business of individuals, and small and medium-size businesses. We consider our competitive advantages to be customer service and responsiveness to customer needs, the convenience of banking offices and hours, and the availability and pricing of our products and services. We emphasize personalized banking and the advantage of local decision-making in our banking business.

The financial service industry is likely to become more competitive as further technological advances enable more companies to provide financial services on a more efficient and convenient basis. Technological innovations have lowered traditional barriers to entry and enabled many companies to compete in financial services markets. Many customers now expect a choice of banking options for the delivery of services, including traditional banking offices, telephone, mail, internet, mobile, ATMs, self-service branches, and/or in-store branches. These delivery channels are offered by traditional banks and savings associations, as well as credit unions, brokerage firms, asset management groups, finance and insurance companies, internet-based companies, and mortgage banking firms. We believe that our current market area, consisting primarily of Western Pennsylvania and Northeast Ohio, provides long-term opportunity for growth in deposits and loans. Commercial and residential real estate values in our market have improved during 2013. Nevertheless, certain other regional and local economies remain more fragile, and uncertainty in those economies could affect, to some extent, consumer and corporate spending in our area.

## **Table of Contents**

### **Item 1A. RISK FACTORS**

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

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

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

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

#### ***Risks Related to Credit***

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

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

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

Decreases in real estate values, particularly with respect to our commercial lending and mortgage activities, could adversely affect the value of property used as collateral for our loans and our customers' ability to repay these loans, which in turn could impact our profitability. Repayment of our commercial loans is often dependent on the cash flow of the borrower, which may become

## **Table of Contents**

### **Item 1A. RISK FACTORS continued**

unpredictable. If the value of the assets, such as real estate, serving as collateral for the loan portfolio were to decline materially, a significant part of the loan portfolio could become under-collateralized. If the loans that are secured by real estate become troubled when real estate market conditions are declining or have declined, in the event of foreclosure, we may not be able to realize the amount of collateral that was anticipated at the time of originating the loan. This could result in higher charge-offs which could have a material adverse effect on our operating results and financial condition.

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

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

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

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

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

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





**Table of Contents**

**Item 1A. RISK FACTORS** continued

*Risks Related to Our Operations*

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

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

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

We are dependent for the majority of our technology, including our core operating system, on third party providers. If these companies were to discontinue providing services to us, we may experience significant disruption to our business. If any of our third party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services. Certain of our products, our commercial banking products, for example, may be used as a method of payment at third-party retailers. We are dependent on these third-party retailers securing their information systems, over which we have no control, and a breach of their information systems could result in the disclosure of sensitive, personal customer information, which could have a material adverse impact on our business through damage to our reputation, loss of customer business, remedial costs, additional regulatory scrutiny or exposure to civil litigation and possible financial liability. Assurance cannot be provided that we could negotiate terms with alternative service sources that are as favorable or could obtain services with similar functionality as found in existing systems without the need to expend substantial resources, if at all, thereby resulting in a material adverse impact on our business and results of operations.

*Risks Related to Interest Rates and Investments*

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

Our results of operations are largely dependent on net interest income, which is the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. There may be mismatches between the maturity and repricing of our assets and liabilities that could cause the net interest rate spread to compress, depending on the level and type of changes in the interest rate

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environment. Interest rates could remain at historical low levels causing rate spread compression over an extended period of time. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions and the policies of various governmental agencies. In addition, some of our customers often have the ability to prepay

**Table of Contents**

**Item 1A. RISK FACTORS** continued

loans or redeem deposits with either no penalties, or penalties that are insufficient to compensate us for the lost income. A significant reduction in our net interest income will adversely affect our business and results of operations. If we are unable to manage interest rate risk effectively, our business, financial condition and results of operations could be materially harmed.

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

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

***Risks Related to Regulatory Compliance and Legal Matters***

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

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

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

The FDIC insures deposits at FDIC-insured financial institutions, including S&T Bank. The FDIC charges insured financial institutions premiums to maintain the Depositors Insurance Fund, or DIF, at a specific level. The Bank's FDIC insurance premiums recently decreased after substantial increases beginning in 2009, but we may pay significantly higher premiums in the future. Recent economic conditions increased bank failures, which decreased the DIF. The Dodd-Frank Act increased the minimum target DIF ratio from 1.15 percent of estimated insured deposits

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to 1.35 percent of estimated insured deposits. The FDIC must seek to achieve the 1.35 percent ratio by September 30, 2020. Insured institutions with assets of \$10 billion or more are supposed to fund the increase.

The FDIC has issued regulations to implement these provisions of the Dodd-Frank Act. It has, in addition, established a higher reserve ratio of 2 percent as a long-term goal beyond what is required by statute. There is no implementation deadline for the 2 percent ratio. The FDIC may increase the

**Table of Contents**

**Item 1A. RISK FACTORS continued**

assessment rates or impose additional special assessments in the future to keep the DIF at or above the statutory minimum target. Any increase in our FDIC premiums could have an adverse effect on the Bank's profits and financial condition. Refer to Supervision and Regulation within Part I, Item 1 of this Report for additional information.

**Future governmental regulation and legislation could limit our growth.**

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

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

Reputational risk, or the risk to our business, earnings, liquidity and capital from negative public opinion, could result from our actual or alleged conduct in a variety of areas, including legal and regulatory compliance, lending practices, corporate governance, litigation, ethical issues or inadequate protection of customer information. We are dependent on third-party providers for a number of services that are important to our business. Refer to the risk factor titled, "We rely on third-party providers and other suppliers for a number of services that are important to our business." An interruption or cessation of an important service by any third party could have a material adverse effect on our business for additional information. A failure by any of these third-party service providers could cause a disruption in our operations, which could result in negative public opinion about us or damage to our reputation. We expend significant resources to comply with regulatory requirements, and the failure to comply with such regulations could result in reputational harm or significant legal or remedial costs. Damage to our reputation could adversely affect our ability to retain and attract new customers and adversely impact our earnings and liquidity.

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

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



**Table of Contents**

**Item 1A. RISK FACTORS** continued

*Risks Related to Our Business Strategy*

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

We intend to continue pursuing a growth strategy, which may include organic growth, expansion or acquisitions. We cannot give assurance that we will be able to expand our existing market presence, or successfully enter new markets or that any such expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations and could adversely affect our ability to successfully implement our business strategy.

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

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

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

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

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

*Risks Related to Liquidity*

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

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



**Table of Contents**

**Item 1A. RISK FACTORS** continued

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

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

*Risks Related to Our Owning Our Stock*

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

The ownership interest of the existing holders of our common stock may be diluted to the extent our outstanding warrant is exercised. The warrant will remain outstanding until 2019. The shares of common stock underlying the warrant represent approximately 1.71 percent of the shares of our common stock outstanding as of January 31, 2014 (including the shares issuable upon exercise of the warrant in total shares outstanding). The warrant holder has the right to vote any of the shares of common stock it receives upon exercise of the warrant.

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

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

**Item 1B. UNRESOLVED STAFF COMMENTS**

There are no unresolved SEC staff comments.

**Item 2. PROPERTIES**

We own a four-story building in Indiana, Pennsylvania, located at 800 Philadelphia Street, which serves as our headquarters and executive and administrative offices. Our Community Banking, Insurance and Wealth Management segments are also located at our headquarters. In addition, we own a two-story building in Indiana, Pennsylvania that serves as additional administrative offices. We lease a building in Indiana, Pennsylvania that houses both our data processing and technology center as well as one of our branches. Community Banking has 58 locations, including 55 branches located in eleven counties in Pennsylvania, of which 40 are owned and 15 are leased, including the aforementioned building that shares space with our data center. The other three Community Banking locations include two separate drive up facilities and one leased loan production office in Akron, Ohio. In January 2014, we signed a lease for a loan production office in Columbus, Ohio. We lease two offices to our Insurance segment, one in Indiana County, Pennsylvania and one in Cambria County, Pennsylvania. The Insurance segment leases one additional office, and has staff located

**Table of Contents**

**Item 2. PROPERTIES continued**

within the Community Banking offices in Jefferson, Blair and Washington counties. Wealth Management leases two offices, one in Allegheny County, Pennsylvania and one in Westmoreland County, Pennsylvania. Wealth Management also has several staff located within the Community Banking offices to provide their services to our retail customers. Our operating leases and the one capital lease for Community Banking, Wealth Management and Insurance expire at various dates through the year 2054 and generally include options to renew. For additional information regarding the lease commitments, refer to Part II, Item 8, Note 10 Premises and Equipment in the Notes to Consolidated Financial Statements.

**Item 3. LEGAL PROCEEDINGS**

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

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Table of Contents****PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Stock Prices and Dividend Information**

Our common stock is listed on the NASDAQ Global Select Market System or NASDAQ under the symbol STBA. The range of sale prices for the years 2013 and 2012 is detailed in the table below and is based upon information obtained from NASDAQ. As of the close of business on January 31, 2014, we had 3,095 shareholders of record. Dividends paid by S&T are primarily provided from S&T Bank's dividends to S&T. The payment of dividends by S&T Bank to S&T is subject to the restrictions described in Part II, Item 8, Note 6 Dividend and Loan Restrictions of this Report. The cash dividends declared per share are shown below.

	Price Range of Common Stock		Cash Dividends
	Low	High	Declared
<b>2013</b>			
Fourth quarter	\$ 23.18	\$ 26.41	\$ 0.16
Third quarter	19.74	24.98	0.15
Second quarter	17.14	19.98	0.15
First quarter	17.24	18.98	0.15
<b>2012</b>			
Fourth quarter	\$ 16.32	\$ 18.50	\$ 0.15
Third quarter	15.68	19.40	0.15
Second quarter	16.41	21.98	0.15
First quarter	19.65	23.34	0.15

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

**Table of Contents****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES continued****Five-Year Cumulative Total Return**

The following chart compares the cumulative total shareholder return on our common stock with the cumulative total shareholder return of the NASDAQ Composite Index<sup>(1)</sup> and NASDAQ Bank Index<sup>(2)</sup> assuming a \$100 investment in each on December 31, 2008.

<i>Index</i>	<i>Period Ending</i>					
	<b>12/31/08</b>	<b>12/31/09</b>	<b>12/31/10</b>	<b>12/31/11</b>	<b>12/31/12</b>	<b>12/31/13</b>
S&T Bancorp, Inc.	\$ 100.00	\$ 49.75	\$ 68.04	\$ 60.69	\$ 57.94	\$ 83.50
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
NASDAQ Bank	100.00	83.70	95.55	85.52	101.50	143.84

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

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

**Table of Contents****Item 6. SELECTED FINANCIAL DATA**

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

**CONSOLIDATED BALANCE SHEETS**

<i>(dollars in thousands)</i>	2013	2012	December 31, 2011	2010	2009
Total assets	\$ 4,533,190	\$ 4,526,702	\$ 4,119,994	\$ 4,114,339	\$ 4,170,475
Securities available-for-sale, at fair value	509,425	452,266	356,371	286,887	353,722
Loans held for sale	2,136	22,499	2,850	8,337	6,073
Portfolio loans, net of unearned income	3,566,199	3,346,622	3,129,759	3,355,590	3,398,334
Goodwill	175,820	175,733	165,273	165,273	165,167
Total deposits	3,672,308	3,638,428	3,335,859	3,317,524	3,304,541
Securities sold under repurchase agreements	33,847	62,582	30,370	40,653	44,935
Short-term borrowings	140,000	75,000	75,000		51,300
Long-term borrowings	21,810	34,101	31,874	29,365	85,894
Junior subordinated debt securities	45,619	90,619	90,619	90,619	90,619
Preferred stock, series A				106,137	105,370
Total shareholders' equity	571,306	537,422	490,526	578,665	553,318

**CONSOLIDATED STATEMENTS OF NET INCOME**

<i>(dollars in thousands, except per share data)</i>	2013	2012	2011	2010	2009
Interest income	\$ 153,756	\$ 156,251	\$ 165,079	\$ 180,419	\$ 195,087
Interest expense	14,563	21,024	27,733	34,573	49,105
Provision for loan losses	8,311	22,815	15,609	29,511	72,354
<b>Net Interest Income After Provision for Loan Losses</b>	<b>130,882</b>	<b>112,412</b>	<b>121,737</b>	<b>116,335</b>	<b>73,628</b>
Noninterest income	51,527	51,912	44,057	47,210	38,580
Noninterest expense	117,392	122,863	103,908	105,633	108,126
<b>Net Income Before Taxes</b>	<b>65,017</b>	<b>41,461</b>	<b>61,886</b>	<b>57,912</b>	<b>4,082</b>
Provision (benefit) for income taxes	14,478	7,261	14,622	14,432	(3,869)
<b>Net Income</b>	<b>50,539</b>	<b>34,200</b>	<b>47,264</b>	<b>43,480</b>	<b>7,951</b>
Preferred stock dividends and discount amortization			7,611	6,201	5,913
<b>Net Income Available to Common Shareholders</b>	<b>\$ 50,539</b>	<b>\$ 34,200</b>	<b>\$ 39,653</b>	<b>\$ 37,279</b>	<b>\$ 2,038</b>

**Table of Contents****Item 6. SELECTED FINANCIAL DATA continued****SELECTED PER SHARE DATA AND RATIOS**

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

	December 31,				
	2013	2012	2011	2010	2009
<b>Per Share Data</b>					
Earnings per common share basic	\$ 1.70	\$ 1.18	\$ 1.41	\$ 1.34	\$ 0.07
Earnings per common share diluted	1.70	1.18	1.41	1.34	0.07
Dividends declared per common share	0.61	0.60	0.60	0.60	0.61
Dividend payout ratio	35.89%	50.75%	42.44%	44.75%	
Common book value	19.21	18.08	17.44	16.91	16.14
<b>Profitability Ratios</b>					
Common return on average assets	1.12%	0.79%	0.97%	0.90%	0.05%
Common return on average tangible assets	1.17%	0.83%	1.02%	0.94%	0.05%
Common return on average equity	9.21%	6.62%	6.78%	6.58%	0.37%
Common return on average tangible common equity	13.72%	10.07%	12.62%	12.98%	0.76%
<b>Capital Ratios</b>					
Common equity/assets	12.60%	11.87%	11.91%	11.48%	10.74%
Tangible common equity / tangible assets	9.00%	8.20%	8.09%	7.61%	6.84%
Tier 1 leverage ratio	9.75%	9.31%	9.17%	11.07%	10.26%
Risk-based capital Tier 1	12.37%	11.98%	11.63%	13.28%	12.10%
Risk-based capital total	14.36%	15.39%	15.20%	16.68%	15.43%
<b>Asset Quality Ratios</b>					
Nonaccrual loans/loans	0.63%	1.63%	1.79%	1.90%	2.67%
Nonperforming assets/loans plus OREO	0.64%	1.66%	1.92%	2.07%	2.80%
Allowance for loan losses/loans	1.30%	1.38%	1.56%	1.53%	1.75%
Allowance for loan losses/nonperforming loans	206%	85%	87%	80%	66%
Net loan charge-offs/average loans	0.25%	0.78%	0.56%	1.11%	1.60%

**Table of Contents****Item 6. SELECTED FINANCIAL DATA continued****RECONCILIATIONS OF GAAP TO NON-GAAP RATIOS**

December 31 <i>(dollars in thousands)</i>	2013	2012	2011	2010	2009
<b>Common return on average tangible assets (non-GAAP)</b>					
Net income	\$ 50,539	\$ 34,200	\$ 39,653	\$ 37,279	\$ 2,038
Total average assets (GAAP Basis)	4,505,792	4,312,538	4,072,608	4,123,455	4,259,288
Less: average goodwill and average other intangible assets	(180,338)	(177,511)	(171,839)	(173,656)	(174,832)
<b>Tangible average assets (non-GAAP)</b>	<b>\$ 4,325,454</b>	<b>\$ 4,135,027</b>	<b>\$ 3,900,769</b>	<b>\$ 3,949,799</b>	<b>\$ 4,084,456</b>
<b>Common return on average tangible assets (non-GAAP)</b>	<b>1.17%</b>	<b>0.83%</b>	<b>1.02%</b>	<b>0.94%</b>	<b>0.05%</b>
<b>Common return on average tangible common equity (non-GAAP)</b>					
Net income	\$ 50,539	\$ 34,200	\$ 39,653	\$ 37,279	\$ 2,038
Total average shareholders' equity (GAAP Basis)	548,771	516,812	585,186	566,670	544,535
Less: average goodwill, average other intangible assets, and average preferred equity	(180,338)	(177,511)	(271,053)	(279,410)	(275,561)
<b>Tangible average common equity (non-GAAP)</b>	<b>\$ 368,433</b>	<b>\$ 339,301</b>	<b>\$ 314,133</b>	<b>\$ 287,260</b>	<b>\$ 268,974</b>
<b>Common return on average tangible common equity (non-GAAP)</b>	<b>13.72%</b>	<b>10.07%</b>	<b>12.62%</b>	<b>12.98%</b>	<b>0.76%</b>
<b>Tangible common equity/tangible assets (non-GAAP)</b>					
Total shareholders' equity (GAAP basis)	\$ 571,306	\$ 537,422	\$ 490,526	\$ 578,665	\$ 553,318
Less: goodwill and other intangible assets and preferred equity	(179,579)	(181,083)	(171,001)	(278,874)	(279,945)
<b>Tangible common equity (non-GAAP)</b>	<b>\$ 391,727</b>	<b>\$ 356,339</b>	<b>\$ 319,525</b>	<b>\$ 299,791</b>	<b>\$ 273,373</b>
Total assets (GAAP basis)	4,533,190	4,526,702	4,119,994	4,114,339	4,170,475
Less: goodwill and other intangible assets and preferred equity	(179,579)	(181,083)	(171,001)	(172,738)	(174,575)
<b>Tangible assets (non-GAAP)</b>	<b>\$ 4,353,611</b>	<b>\$ 4,345,619</b>	<b>\$ 3,948,993</b>	<b>\$ 3,941,601</b>	<b>\$ 3,995,900</b>



<b>Tangible common equity/tangible assets (non-GAAP)</b>	<b>9.00%</b>	<b>8.20%</b>	<b>8.09%</b>	<b>7.61%</b>	<b>6.84%</b>
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**Table of Contents**

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

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

**Important Note Regarding Forward-Looking Statements**

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

These forward-looking statements are based on current expectations, estimates and projections about our business and beliefs and assumptions made by management. These Future Factors, as defined below, 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;
- changes in interest rates, spreads on interest-earning assets and interest-bearing liabilities, the shape of the yield curve and interest rate sensitivity;
- a prolonged period of low interest rates;
- a rapid increase in interest rates;
- 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;



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**Table of Contents**

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

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; and

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 businesses.

**Critical Accounting Policies and Estimates**

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

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

We view critical accounting policies to be those which are highly dependent on subjective or complex estimates, assumptions and judgments and where changes in those estimates and assumptions could have a significant impact on the Consolidated Financial Statements. We currently view the determination of the allowance for loan losses, or ALL, income taxes, securities valuation and goodwill and other intangible assets to be critical accounting policies. During 2013, we did not significantly change the manner in which we applied our critical accounting policies or developed related assumptions or estimates. We have reviewed these related critical accounting estimates and related disclosures with the Audit Committee.

***Allowance for Loan Losses***

Our loan portfolio is our largest category of assets on our Consolidated Balance Sheets. We have designed a systematic ALL methodology which is used to determine our provision for loan losses and ALL on a quarterly basis. The ALL represents management's estimate of probable losses inherent in the loan portfolio at the balance sheet date and is presented as a reserve against loans in the Consolidated Balance Sheets. The ALL is increased by a provision charged to expense and reduced by charge-offs, net of recoveries. Determination of an adequate ALL is inherently subjective, as it requires estimations of the occurrence of future events. The ALL may be subject to significant changes from period to period.



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**Table of Contents**

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

The methodology for determining the ALL has two main components: evaluation and impairment tests of individual loans and evaluation and impairment tests of certain groups of homogeneous loans with similar risk characteristics.

We individually evaluate all substandard and nonaccrual commercial loans greater than \$0.5 million for impairment. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. For all troubled debt restructurings, or TDRs, regardless of size, as well as all other impaired loans, we conduct further analysis to determine the probable loss and assign a specific reserve to the loan if deemed appropriate. Specific reserves are established based upon the following three impairment methods: 1) the present value of expected future cash flows discounted at the loan's effective interest rate, 2) the loan's observable market price or 3) the estimated fair value of the collateral if the loan is collateral dependent. These analyses involve a high degree of judgment in estimating the amount of loss associated with specific impaired loans, including estimating the amount and timing of future cash flows, the current estimated fair value of the loan and collateral values. Our impairment evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. We obtain appraisals on impaired loans greater than \$0.5 million annually.

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

Due to the recent improvement in economic conditions, we completed an internal study utilizing our loan charge-off history to recalibrate the LEPs of the commercial portfolio segments. Consistent with the improved economic conditions, the LEPs have lengthened, and as a result, we lengthened our LEP assumption for each of the commercial portfolio segments. We estimate the LEP to be three and a half years for commercial real estate, or CRE, two and a half years for commercial and industrial, or C&I, and two years for commercial construction. This is an increase from the prior LEPs of two years for CRE and one year for C&I and commercial construction. We believe that the LEPs for the consumer portfolio segments have also lengthened as they are influenced by the same improvement in economic conditions that impacted the commercial portfolio segments. We therefore also lengthened the LEP assumption for the consumer portfolio to one and a half years. This is an increase from prior LEPs of one year for the consumer portfolio segment. The look-back period represents the historical data period utilized in the ALL to calculate the estimated loss rates. We use a two to five year look-back period to calculate the historic loss rates depending on the portfolio segment. After consideration of the loss calculations, management applies additional qualitative adjustments so that the ALL is reflective of the inherent losses that exist in the loan portfolio at the balance sheet date. Qualitative adjustments are made based upon changes in economic conditions, loan portfolio and asset quality data and credit process changes, such as credit policies or underwriting standards. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

The LEP changes made to the ALL assumptions were applied prospectively and did not result in a material change to the total ALL. Lengthening the LEP does increase the historical loss rates and therefore the quantitative component of the ALL. We believe this makes the quantitative component of the ALL more reflective of inherent losses that exist within the loan portfolio, which resulted in a decrease in the qualitative component of the ALL. The changes to the LEPs also improved our insight into the inherent risk of the individual commercial portfolio segments. As the economic conditions

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**Table of Contents**

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

have improved, our data indicates that the CRE segment has less inherent loss and that the C&I segment contains greater inherent loss. The ALL at December 31, 2013 reflects these changes within the CRE and C&I portfolio segments.

At December 31, 2013, approximately 84 percent of the ALL related to the commercial loan portfolio. Commercial loans represent 73 percent of total portfolio loans. Commercial loans have been more impacted by the economic slowdown in our markets. The ability of customers to repay commercial loans is more dependent upon the success of their businesses, continuing income and general economic conditions. The risk of loss is higher on such loans compared to consumer loans, which have incurred lower losses in our market.

Our ALL Committee meets quarterly to verify the overall adequacy of the ALL. Additionally, on an annual basis, the ALL Committee meets to validate certain aspects of our ALL model. This validation includes reviewing the pools of loans to ensure the segmentation results in relevant homogeneous pools of loans. The ALL Committee reviews the LEP and look-back periods used to calculate the loss rates. Further, the ALL Committee reviews the qualitative factors for reasonableness. As a result of this ongoing monitoring process, we may make changes to our ALL methodology to be responsive to the economic environment.

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

***Income Taxes***

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

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

Accrued taxes represent the net estimated amount due to taxing jurisdictions and are reported in other assets or other liabilities, as appropriate, in the Consolidated Balance Sheets. We evaluate and assess the relative risks and appropriate tax treatment of transactions and filing positions after considering statutes, regulations, judicial precedent and other information and maintain tax accruals consistent with the evaluation of these relative risks and merits. Changes to the estimate of accrued taxes occur periodically due to changes in tax rates, interpretations of tax laws, the status of examinations being conducted by taxing authorities and changes to statutory, judicial and regulatory guidance. These changes, when they occur, can affect deferred taxes and accrued taxes, as well as the current period's income tax expense and can be significant to our operating results.

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





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**Table of Contents**

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

***Securities Valuation***

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

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

***Goodwill and Other Intangible Assets***

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

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

We have three reporting units: Community Banking, Insurance and Wealth Management. The carrying value of goodwill is tested annually for impairment each October 1 or more frequently if it is determined that a triggering event has occurred. We first assess qualitatively whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Our qualitative assessment considers such factors as macroeconomic conditions, market conditions specifically related to the banking industry, our overall financial performance and various other factors. If we determine that it is more likely than not that the fair value is less than the carrying amount, we proceed to test for impairment. The evaluation for impairment involves comparing the current estimated fair value of each reporting unit to its carrying value, including goodwill. If the current estimated fair value of a reporting unit exceeds its carrying value, no additional testing is required and an impairment loss is not recorded. If the estimated fair value of a reporting unit is less than the



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**Table of Contents**

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

carrying value, further valuation procedures are performed that could result in impairment of goodwill being recorded. Further valuation procedures would include allocating the estimated fair value to all assets and liabilities of the reporting unit to determine an implied goodwill value. If the implied value of goodwill of a reporting unit is less than the carrying amount of that goodwill, an impairment loss is recognized in an amount equal to that excess. We completed the annual goodwill impairment assessment as required in 2013, 2012 and 2011; the results indicated that the fair value of each reporting unit exceeded the carrying value.

Based upon our qualitative assessment performed for our annual impairment analysis, we concluded that it is more likely than not that the fair value of the reporting units exceeds the carrying value. Both the national economy and the local Western Pennsylvania economy where our business is concentrated improved over the past year. General economic activity and key indicators such as housing and unemployment also showed improvement. While still challenging, the banking environment also improved with fewer bank failures, better asset quality, improved earnings and generally better stock prices. Activity in mergers and acquisitions demonstrated that there is premium value of banking franchises and a number of banks of our size have been able to access the capital markets over the past year. Our stock price has increased, and our stock has generally traded above book value throughout 2013. Additionally, our overall performance has improved, and we have not identified any other facts or circumstances that would cause us to conclude that it is more likely than not that the fair value of each of the reporting units would be less than the carrying value of the reporting unit.

We determine the amount of identifiable intangible assets based upon independent core deposit and insurance contract valuations at the time of acquisition. Intangible assets with finite useful lives, consisting primarily of core deposit and customer list intangibles, are amortized using straight-line or accelerated methods over their estimated weighted average useful lives, ranging from 10 to 16 years. Intangible assets with finite useful lives are evaluated for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. No such events or changes in circumstances occurred during the years ended December 31, 2013, 2012 and 2011.

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

**Recent Accounting Pronouncements and Developments**

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

**Executive Overview**

We are a bank holding company headquartered in Indiana, Pennsylvania with assets of \$4.5 billion at December 31, 2013. We provide a full range of financial services through offices in 11 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 Ohio, with our most recent LPO established in Central Ohio on January 21, 2014. Our common stock trades on the NASDAQ Global Select Market under the symbol STBA.



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**Table of Contents**

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

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 organic growth, expansion and acquisition. 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.

Our financial performance improved significantly in 2013 compared to the prior year. Full year 2013 earnings increased \$16.3 million, or 48 percent, to \$50.5 million compared to \$34.2 million for 2012. This marked increase in earnings is a result of our ability to execute on our key strategic initiatives of loan growth, improving asset quality and expense control and improved economic conditions in our markets.

Loan growth was strong throughout 2013 with portfolio loans increasing \$219.6 million, or 6.6 percent, compared to December 31, 2012. This growth was primarily in our CRE, C&I, and residential mortgage loan portfolios. Our Northeast Ohio LPO has performed well since its opening, adding approximately \$95.0 million of commercial loans in 2013. Further driving loan growth was the expansion of our sales team with the addition of commercial lenders in various markets throughout 2013.

Asset quality improved significantly throughout 2013 resulting in a \$14.5 million, or 64 percent, decline in the provision for loan losses from the prior year. Net charge-offs decreased \$16.6 million, or 66 percent, from the prior year. Total nonperforming loans decreased 59 percent to \$22.5 million, or 0.63 percent of total loans at December 31, 2013, from \$55.0 million, or 1.63 percent of total loans at December 31, 2012. Special mention and substandard commercial loans also decreased \$146.0 million, or 47 percent, to \$163.0 million from \$309 million at December 31, 2012. This significant improvement in asset quality was due to the continued improvement of the economic conditions in our markets and a strategic focus on actively managing and bringing to resolution our problem loans.

We benefited from various expense control initiatives and operational efficiencies implemented throughout 2013, including our branch consolidation efforts with the closure of two branches and two drive-up facilities, our branch capture initiative which improved operating efficiencies around check processing and the sale of our merchant card servicing business which allowed us to maintain referral revenue while eliminating much of the associated cost with running this business.

We sold our merchant card servicing business during the first quarter of 2013 resulting in a \$3.1 million gain. While this was a successful business, we determined that it would be difficult to compete in this business in the future due to intense competition and technological advances. We entered into a marketing and sales alliance agreement with the purchaser for an initial term of ten years. Future revenue is dependent on the number of referrals, number of new merchant accounts and volume of activity. We are now able to offer a more robust suite of merchant related services through our partner while maintaining relationships with our customers.

Our Total risk-based capital ratio decreased by 103 basis points to 14.36 percent at December 31, 2013 from 15.39 percent at December 31, 2012, due primarily to the repayment of subordinated debt. During 2013, we repaid \$45.0 million of subordinated debt due to its diminishing regulatory capital benefit and the future positive impact on net interest income. Our other capital ratios improved and all remain significantly above the well capitalized thresholds of federal bank regulatory agencies, with a leverage ratio of 9.75 percent and a Tier 1 risk-based capital ratio of 12.37 percent at December 31, 2013.

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**Table of Contents**

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

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.

**Results of Operations**

**Year Ended December 31, 2013**

*Earnings Summary*

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

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

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

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

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

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



**Table of Contents****Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
**continued*****Net Interest Income***

Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 74 percent of operating revenue (net interest income plus noninterest income, excluding security gains/losses and non-recurring income and expenses) in 2013 and 73 percent of operating revenue in 2012. Refer to page 65 Explanation of Use of Non-GAAP Financial Measures for a discussion of operating revenue as a non-GAAP financial measure. The level and mix of interest-earning assets and interest-bearing liabilities are managed by our 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.

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

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

<i>(dollars in thousands)</i>	Years Ended December 31,		
	2013	2012	2011
Total interest income	\$ 153,756	\$ 156,251	\$ 165,079
Total interest expense	14,563	21,024	27,733
Net interest income per consolidated statements of net income	139,193		