S&T BANCORP INC
Form 10-K
February 23, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2015
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from to .
Commission file number 0-12508
S&T BANCORP, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania	25-1434426
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)
800 Philadelphia Street, Indiana, PA	15701
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

The aggregate estimated fair value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015:
Common Stock, $2.50 par value – $991,599,929
The number of shares outstanding of the issuer's classes of common stock as of February 21, 2016:
Common Stock, $2.50 par value –34,810,374

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of S&T Bancorp, Inc., to be filed pursuant to Regulation 14A for the 2015 annual meeting of shareholders to be held May 18, 2016 are incorporated by reference into Part III of this annual report on Form 10-K.

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PART I

Item 1. BUSINESS

General

S&T Bancorp, Inc., or S&T (also referred to below as “we”, “us” or “our”), including, on a consolidated basis with our subsidiaries where appropriate, was incorporated on March 17, 1983 under the laws of the Commonwealth of Pennsylvania as a bank holding company and has three wholly owned subsidiaries, S&T Bank, 9th Street Holdings, Inc. and STBA Capital Trust I. We also own a 50 percent 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, 2015, we had approximately $6.3 billion in assets, $5.1 billion in loans, $4.9 billion in deposits and $792.2 million in shareholders’ equity.

S&T Bank is a full service bank with its main office at 800 Philadelphia Street, Indiana, Pennsylvania, providing services to its customers through locations in Pennsylvania, Ohio and New York. On October 29, 2014 we entered into an agreement to acquire Integrity Bancshares, Inc., and the transaction was completed on March 4, 2015. The transaction was valued at
$172.0 million and added total assets of $980.8 million, including $788.7 million in loans, $115.9 million in goodwill, and $722.3 million in deposits. Integrity Bank was subsequently merged into S&T Bank on May 8, 2015. S&T Bank operates under the name "Integrity Bank - A division of S&T Bank" in south-central Pennsylvania. S&T Bank deposits are insured by the Federal Deposit Insurance Corporation, or FDIC, to the maximum extent provided by law. S&T Bank has three wholly owned operating subsidiaries: S&T Insurance Group, LLC, S&T Bancholdings, Inc. and Stewart Capital Advisors, LLC. S&T Insurance Group, LLC, through its subsidiaries, offers a variety of insurance products. S&T Bancholdings, Inc. is an investment company. Stewart Capital Advisors, LLC, is a registered investment advisor that manages private investment accounts for individuals and institutions and advises the Stewart Capital Mid Cap Fund.

We have three reportable operating segments including Community Banking, Wealth Management and Insurance. Our Community Banking segment offers services which include accepting time and demand deposits and originating commercial and consumer loans. The Wealth Management segment offers brokerage services, serves as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust services, as well as is a registered investment advisor that manages private investment accounts for individuals and institutions. Total Wealth Management assets under management and administration were $2.1 billion at December 31, 2015. 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, 2015, we had 1,067 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, 2015, or the Report, our prior annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and our annual proxy statements, as well as any amendments to those reports, are accessible at no cost on our website at www.stbancorp.com under Financial Information, SEC Filings. These filings are also accessible on the SEC’s website at www.sec.gov. You may read and copy any material we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The charters of the Audit Committee, the Compensation and Benefits Committee and the Nominating and Corporate Governance Committee, the Complaints Regarding Accounting, Internal Accounting Controls or Auditing Matters Policy, or the Whistleblower Policy, the Code of Conduct for the CEO and CFO, the General Code of Conduct, Corporate Governance Guidelines and the Shareholder

Communications Policy are also available at 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.

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Item 1. BUSINESS -- continued

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. (14.2 percent) pursuant to approval from the Federal Reserve Board.

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

We elected to become a financial holding company under the BHCA in 2001 and thereby engage in a broader range of financial activities than are permissible for traditional bank holding companies. In order to maintain our status as a financial holding company, we must remain “well-capitalized” and “well-managed” and the depository institutions controlled by us must remain “well-capitalized,” “well-managed” (as defined in federal law) and have at least a “satisfactory” Community Reinvestment Act, or CRA, rating. Refer to Part II, Item 8, Note 24 Regulatory Matters, of this Report for information concerning the current capital ratios of S&T and S&T Bank. No prior regulatory approval is required for a financial holding company with total consolidated assets less than $50 billion to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board, unless the total consolidated assets to be acquired exceed $10 billion. The BHCA identifies several activities as “financial in nature” including, among others, securities underwriting; dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and sales agency; investment advisory activities; merchant banking activities and activities that the Federal Reserve Board has determined to be closely related to banking. Banks may also engage in, subject to limitations on investment, activities that are financial in nature, other than insurance underwriting, insurance company portfolio investment, real estate development and real estate investment, through a financial subsidiary of the bank, if the bank is “well-capitalized,” “well-managed” and has at least a “satisfactory” CRA rating.

If S&T or S&T Bank ceases to be “well-capitalized” or “well-managed,” we will not be in compliance with the requirements of the BHCA regarding financial holding companies or requirements regarding the operation of financial subsidiaries by insured banks.

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

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

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

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

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S&T Bank

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

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

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

Insurance of Accounts; Depositor Preference

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

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

In February 2011, the FDIC Board of Directors adopted a final rule, Deposit Insurance Assessment Base, Assessment Rate Adjustments, Dividends, Assessment Rates and Large Bank Pricing Methodology. This final rule redefined the deposit insurance assessment base to equal average consolidated total assets minus average tangible equity as required by the Dodd-Frank Act, altered assessment rates, implemented the Dodd-Frank Act's DIF dividend provisions and revised the risk-based assessment system for all large insured depository institutions (those with at least $10.0 billion in total assets). Many of the changes were made as a result of provisions of the Dodd-Frank Act that were intended to shift more of the cost of raising the reserve ratio from institutions with less than $10.0 billion in assets (such as S&T Bank) to the larger banks. Except for the future assessment rate schedules, all changes went into effect April 1, 2011 and has resulted in lower FDIC expense. In addition to DIF assessments, the FDIC makes a special assessment to fund the repayment of debt obligations of the Financing Corporation, or FICO. FICO is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation in the 1990s. The FICO assessment rate for the first quarter of 2016 is 0.580 basis points on an annualized basis.

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

Capital

The Federal Reserve Board and FDIC have issued substantially similar risk-based and leverage capital rules applicable to banking organizations they supervise. At December 31, 2015, both S&T and S&T Bank met the applicable regulatory capital requirements. S&T’s leverage ratio was 8.96 percent, common equity Tier 1 risk-based capital was 9.77 percent, Tier 1 risk-based capital ratio was 10.15 percent and total risk-based capital ratio was 11.60 percent. S&T Bank’s leverage ratio was 8.43 percent, common equity Tier 1 risk-based capital was 9.55 percent, Tier 1 risk-based capital was 9.55 percent and total risk-based capital was 11.00 percent.

In July 2013 the federal banking agencies issued a final rule to implement Basel III (which were agreements reached in July 2010 by the international oversight body of the Basel Committee on Banking Supervision to require more and higher-quality capital) as well as the minimum leverage and risk-based capital requirements of the Dodd-Frank Act. The final rule establishes a comprehensive capital framework, and went into effect on January 1, 2015, for smaller banking organizations such as S&T and S&T Bank. It introduces a common equity Tier 1 risk-based capital ratio requirement of 4.50 percent, increases the minimum Tier 1 risk-based capital ratio to 6.00 percent, and requires a leverage ratio of 4.00 percent for all banks. Common equity Tier 1 capital consists of common stock instruments that meet the eligibility criteria in the rule, retained earnings, accumulated other comprehensive income and common equity Tier 1 minority interest. The rule also requires a banking organization to maintain a capital conservation buffer composed of common equity Tier 1 capital in an amount greater than 2.50 percent of total risk-weighted assets beginning in 2019. The capital conservation buffer will be phased in beginning in 2016, at 25 percent, increasing to 50 percent in 2017, 75 percent in 2018 and 100 percent in 2019 and beyond. As a result, starting in 2019, a banking organization must maintain a common equity Tier 1 risk-based capital ratio greater than 7.00 percent, a Tier 1 risk-based capital ratio greater than 8.50 percent and a Total risk-based capital ratio greater than 10.50 percent; otherwise, it will be subject to restrictions on capital distributions and discretionary bonus payments. By 2019, when the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the regulatory capital ratios required for an insured depository institution to be well-capitalized under prompt corrective action law, described below.

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

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

Payment of Dividends

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

Other Safety and Soundness Regulations

There are a number of obligations and restrictions imposed on bank holding companies such as us and our depository institution subsidiary by federal law and regulatory policy. These obligations and restrictions are designed to reduce potential loss exposure to the FDIC’s deposit insurance fund in the event an insured depository institution becomes in danger of default or is in default. Under current federal law, for example, the federal banking agencies possess broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is “well-capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized,” as defined by the law. As of December 31, 2015, S&T Bank was classified as “well-capitalized.” New definitions of these categories, as set forth in the federal banking agencies’ final rule to implement Basel III and the minimum leverage and risk-based capital requirements of the Dodd-Frank Act, became effective as of January 1, 2015. To be well-capitalized, an insured depository institution must have a common equity Tier 1 risk-based capital ratio of at least 6.50 percent, a Tier 1 risk-based capital ratio of at least 8.00 percent, a total risk-based capital ratio of at least 10.00 percent and a leverage ratio of at least 5.00 percent. To be adequately capitalized, an insured depository institution must have a common equity Tier 1 risk-based capital ratio of at least 4.50 percent, a Tier 1 risk-based capital ratio of at least 6.00 percent, a total risk-based capital ratio of at least 8.00 percent and a leverage ratio of at least 4.00 percent. The classification of depository institutions is primarily for the purpose of applying the federal banking agencies’ prompt corrective action provisions and is not intended to be and should not be interpreted as a representation of overall financial condition or prospects of any financial institution.

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

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

Regulatory Enforcement Authority

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

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

Interstate Banking and Branching

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

Community Reinvestment, Fair Lending and Consumer Protection Laws

In connection with its lending activities, S&T Bank is subject to a number of state and federal laws designed to protect borrowers and promote lending to various sectors of the economy and population. The federal laws include, among others, 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, or CFPB, 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” i its most recent CRA evaluation.

Fair lending laws prohibit discrimination in the provision of banking services, and the enforcement of these laws has been a focus for bank regulators. Fair lending laws included the Equal Credit Opportunity Act and the Fair Housing Act, which outlaw discrimination in credit transactions and residential real estate on the basis of prohibited factors including, among others, race, color, national origin, sex and religion. A lender may be liable for policies that result in a disparate treatment of or have a disparate impact on a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the U.S. Department of Justice, or DOJ, for investigation. In December of 2012, the DOJ and CFPB entered into a Memorandum of Understanding under which the agencies have agreed to share information, coordinate investigations and have generally committed to strengthen their coordination efforts. S&T Bank is required to have a fair lending program that is of sufficient scope to monitor the inherent fair lending risk of the institution and that appropriately remediates issues which are identified.

Anti-Money Laundering Rules

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

Government Actions and Legislation

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

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations and to prepare numerous studies and reports for Congress. The federal agencies are given significant discretion in drafting the implementing rules and regulations, and consequently, many of the details and much of the impact of the Act depend on the actions of regulatory agencies. The Dodd-Frank Act also contains provisions that expand the insurance assessment base and increase the scope of deposit insurance coverage.

Among other provisions, the SEC has enacted rules, required by the Dodd-Frank Act, giving stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments and allowing certain stockholders to nominate their own candidates for election as directors using a company’s proxy materials. The legislation also directs the federal financial institution regulatory agencies to promulgate rules prohibiting excessive compensation being paid to financial institution executives. In addition, in December of 2013, federal regulators adopted final regulations regarding the so-called Volcker Rule established in the Dodd-Frank Act. The Volcker Rule generally prohibits banks and their affiliates from engaging in proprietary trading and investing in and sponsoring certain unregistered investment companies (generally covering hedge funds and private equity funds, subject to certain exemptions). The rules are complex and the conformance date for most of the prohibitions was July 21, 2015. 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 CFPB, that took over rulemaking responsibility on July 21, 2011 for the principal federal consumer financial protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, or RESPA, and the Truth in Savings Act, among others. Institutions that have assets of $10.0 billion or less, such as S&T Bank, will continue to be supervised in this area by their state and primary federal regulators (in the case of S&T Bank, the FDIC). The Act also gives the CFPB expanded data collection powers for fair lending purposes for both small business and mortgage loans, as well as expanded authority to prevent unfair, deceptive and abusive practices. The consumer complaint function also has been consolidated into the CFPB with respect to the institutions it supervises. The CFPB established an Office of Community Banks and Credit Unions, with a mission to ensure that the CFPB incorporates the perspectives of small depository institutions into the policy-making process, communicates relevant policy initiatives to community banks and credit unions, and works with community banks and credit unions to identify potential areas for regulatory simplification. In addition, the Dodd-Frank Act required the Federal Reserve Board to adopt a rule addressing interchange fees applicable to debit card transactions. This rule, Regulation II, effective October 1, 2011, does not apply to a bank that, together with its affiliates, has less than $10.0 billion in assets.

In January 2013, the CFPB issued a series of final rules related to mortgage loan origination and mortgage loan servicing. In particular, on January 10, 2013, the CFPB issued a final rule implementing the ability-to-repay and qualified mortgage (QM) provisions of the Truth in Lending Act, as amended by the Dodd-Frank Act (the “QM Rule”). The ability-to-repay provision requires creditors to make reasonable, good-faith determinations that borrowers are able to repay their mortgage loans before extending the credit based on a number of factors and consideration of financial information about the borrower from reasonably reliable third-party documents. Under the Dodd-Frank Act and the QM Rule, loans meeting the definition of “qualified mortgage” are entitled to a presumption that the lender satisfied the ability-to-repay requirements. The presumption is a conclusive presumption/safe harbor for prime loans meeting the QM requirements, and a rebuttable presumption for higher-priced/subprime loans meeting the QM requirements. The definition of a “qualified mortgage” incorporates the statutory requirements, such as not allowing negative amortization or terms longer than 30 years. The QM Rule also adds an explicit maximum 43 percent debt-to-income ratio for borrowers if the loan is to meet the QM definition, though some mortgages that meet government-sponsored enterprise, or GSE, Federal Housing Administration, or FHA, and Veterans Affairs, or VA, underwriting guidelines may, for a period not to exceed seven years, meet the QM definition without being subject to the 43 percent debt-to-income limits. The QM Rule became effective on January 10, 2014. These rules did not have a material impact on our mortgage business.

In November 2013, the CFPB issued a final rule implementing the Dodd-Frank Act requirement to establish integrated disclosures in connection with mortgage origination, which incorporates disclosure requirements under RESPA and TILA. The requirements of the final rule apply to all covered mortgage transactions for which S&T Bank receives a consumer application on or after October 3, 2015. CFPB issued a final rule regarding the integrated disclosures in December 2013, and the disclosure requirement became effective in October 2015. These rules did not have a material impact on our mortgage business.

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

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

Competition

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

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

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

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

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Item 1A. RISK FACTORS

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

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

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

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

Risks Related to Credit

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

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

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

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

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

Like other lenders, we face the risk that our customers will not repay their loans. We reserve for losses in our loan portfolio based on our assessment of inherent credit losses. This process, which is critical to our financial results and condition, requires complex judgment including our assessment of economic conditions, which are difficult to predict. Through a periodic review of the loan portfolio, management determines the amount of the allowance for loan loss, or ALL, by considering historical losses combined with qualitative factors including changes in lending policies and practices, economic conditions, changes in the loan portfolio, changes in lending management, results of internal loan reviews, asset quality trends, collateral values,

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concentrations of credit risk and other external factors. 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 within our market area, and our lack of geographic diversification increases our risk profile.

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

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

The majority of our loans are to commercial borrowers. The commercial real estate, or CRE, segment of our loan portfolio 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. In December 2015 the FDIC and the other federal financial institution regulatory agencies released a new statement on prudent risk management for commercial real estate lending. In it, the agencies express concerns about easing commercial real estate underwriting standards, direct financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and indicate that they will continue to pay special attention to commercial real estate lending activities and concentrations going forward.

Risks Related to Our Operations

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

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

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

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

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

Risks Related to Interest Rates and Investments

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

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

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

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

Risks Related to Our Business Strategy

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

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

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

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

The financial services industry is highly competitive, and we encounter strong competition for deposits, loans and other financial services in our market area, including online providers of these projects and services. 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

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of regulation that we are and have advantages over us in providing certain services. Additionally, many of our competitors are significantly larger than we are and have greater access to capital and other resources. Failure to compete effectively for deposit, loan and other financial services customers in our markets could cause us to lose market share, slow our growth rate and have an adverse effect on our financial condition and results of operations.

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

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

Risks Related to Regulatory Compliance and Legal Matters

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

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

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.

Risks Related to Liquidity

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

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

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

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

Risks Related to Owning Our Stock

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

The ownership interest of the existing holders of our common stock may be diluted to the extent our outstanding warrant is exercised. The warrant will remain outstanding until 2019. There are 517,012 shares of common stock underlying the warrant, representing approximately 1.46 percent of the shares of our common stock outstanding as of December 31, 2015 (including the shares issuable upon exercise of the warrant in total shares outstanding). The warrant holder has the right to vote any of the shares of common stock it receives upon exercise of the warrant.

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved SEC staff comments.

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Item 2. PROPERTIES

We own a building in Indiana, Pennsylvania, located at 800 Philadelphia Street, which serves as our headquarters and executive and administrative offices. Our Community Banking and Wealth Management segments are also located at our headquarters. In addition, we own a building in Indiana, Pennsylvania that serves as additional administrative offices. We lease two buildings in Indiana, Pennsylvania; one that houses both our data processing and technology center as well as one of our branches and one that houses our training center. Community Banking has 69 locations, including 65 branches located in sixteen counties in Pennsylvania, of which 36 are owned and 29 are leased, including the aforementioned building that shares space with our data center. The other four Community Banking locations include one leased loan production office in Ohio, a leased branch located in Ohio, a loan production office in western New York and our training center in Indiana County. We lease an office to our Insurance segment in Cambria County, Pennsylvania. The Insurance segment leases one additional office, and has staff located within the Community Banking offices in Indiana, Jefferson, Washington and Westmoreland Counties. Wealth Management leases two offices, one in Allegheny County, Pennsylvania and one in Westmoreland County, Pennsylvania. Wealth Management also has several staff located within the Community Banking offices to provide their services to our retail customers. Our operating leases and the one capital lease for Community Banking, Wealth Management and Insurance expire at various dates through the year 2054 and generally include options to renew. For additional information regarding the lease commitments, refer to Part II, Item 8, Note 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.

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PART II

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

Stock Prices and Dividend Information

Our common stock is listed on the NASDAQ Global Select Market System or NASDAQ, under the symbol STBA. The range of sale prices for the years 2015 and 2014 is detailed in the table below and is based upon information obtained from NASDAQ. As of the close of business on January 31, 2016, we had 3,007 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
2015	Low	High	Declared
Fourth quarter	$29.67	$34.00	$0.19
Third quarter	26.57	33.14	0.18
Second quarter	25.68	30.13	0.18
First quarter	27.00	30.20	0.18
2014			
Fourth quarter	$23.07	$29.28	$0.18
Third quarter	23.26	25.86	0.17
Second quarter	22.21	25.20	0.17
First quarter	21.17	25.43	0.16

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

Five-Year Cumulative Total Return

The following chart compares the cumulative total shareholder return on our common stock with the cumulative total shareholder return of the NASDAQ Composite Index[1] and NASDAQ Bank Index[2] assuming a $100 investment in each on December 31, 2010.

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Index	Period Ending 12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
S&T Bancorp, Inc.	100.00	89.21	85.23	122.86	148.69	157.55
NASDAQ Composite	100.00	99.20	116.79	163.69	187.91	201.27
NASDAQ Bank	100.00	89.50	106.21	150.49	157.88	171.84

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

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

Item 6. SELECTED FINANCIAL DATA

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

CONSOLIDATED BALANCE SHEETS

	December 31,				
(dollars in thousands)	2015	2014	2013	2012	2011
Total assets	$6,318,354	$4,964,686	$4,533,190	$4,526,702	$4,119,994
Securities available-for-sale, at fair value	660,963	640,273	509,425	452,266	356,371
Loans held for sale	35,321	2,970	2,136	22,499	2,850
Portfolio loans, net of unearned income	5,027,612	3,868,746	3,566,199	3,346,622	3,129,759
Goodwill	291,764	175,820	175,820	175,733	165,273
Total deposits	4,876,611	3,908,842	3,672,308	3,638,428	3,335,859
Securities sold under repurchase agreements	62,086	30,605	33,847	62,582	30,370
Short-term borrowings	356,000	290,000	140,000	75,000	75,000
Long-term borrowings	117,043	19,442	21,810	34,101	31,874
Junior subordinated debt securities	45,619	45,619	45,619	90,619	90,619
Total shareholders' equity	792,237	608,389	571,306	537,422	490,526

CONSOLIDATED STATEMENTS OF NET INCOME

	Years Ended December 31,				
(dollars in thousands)	2015	2014	2013	2012	2011
Interest income	$203,548	$160,523	$153,756	$156,251	$165,079
Interest expense	15,997	12,481	14,563	21,024	27,733
Provision for loan losses	10,388	1,715	8,311	22,815	15,609
Net Interest Income After Provision for Loan Losses	177,163	146,327	130,882	112,412	121,737
Noninterest income	51,033	46,338	51,527	51,912	44,057
Noninterest expense	136,717	117,240	117,392	122,863	103,908
Net Income Before Taxes	91,479	75,425	65,017	41,461	61,886
Provision for income taxes	24,398	17,515	14,478	7,261	14,622
Net Income	$67,081	$57,910	$50,539	$34,200	$47,264
Preferred stock dividends and discount amortization	—	—	—	—	7,611
	$67,081	$57,910	$50,539	$34,200	$39,653

Net Income Available to Common
Shareholders

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Item 6. SELECTED FINANCIAL DATA -- continued

SELECTED PER SHARE DATA AND RATIOS

Refer to page 48 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, 2015	2014	2013	2012	2011
Per Share Data					
Earnings per common share—basic	$1.98	$1.95	$1.70	$1.18	$1.41
Earnings per common share—diluted	1.98	1.95	1.70	1.18	1.41
Dividends declared per common share	0.73	0.68	0.61	0.60	0.60
Dividend payout ratio	36.47 %	34.89 %	35.89 %	50.75 %	42.44 %
Common book value	$22.76	$20.42	$19.21	$18.08	$17.44
Common tangible book value (non-GAAP)	14.26	14.46	13.22	12.32	11.46
Profitability Ratios					
Common return on average assets	1.13 %	1.22 %	1.12 %	0.79 %	0.97 %
Common return on average tangible assets (non-GAAP)	1.20 %	1.28 %	1.19 %	0.85 %	1.04 %
Common return on average equity	8.94 %	9.71 %	9.21 %	6.62 %	6.78 %
Common return on average tangible common equity (non-GAAP)	14.39 %	14.02 %	13.94 %	10.35 %	12.89 %
Capital Ratios					
Common equity/assets	12.54 %	12.25 %	12.60 %	11.87 %	11.91 %
Tangible common equity / tangible assets (non-GAAP)	8.24 %	9.00 %	9.03 %	8.24 %	8.14 %
Tier 1 leverage ratio	8.96 %	9.80 %	9.75 %	9.31 %	9.17 %
Common equity tier 1	9.77 %	11.81 %	11.79 %	11.37 %	10.98 %
Risk-based capital—tier 1	10.15 %	12.34 %	12.37 %	11.98 %	11.63 %
Risk-based capital—total	11.60 %	14.27 %	14.36 %	15.39 %	15.20 %
Asset Quality Ratios					
Nonaccrual loans/loans	0.70 %	0.32 %	0.63 %	1.63 %	1.79 %
Nonperforming assets/loans plus OREO	0.71 %	0.33 %	0.64 %	1.66 %	1.92 %
Allowance for loan losses/total portfolio loans	0.96 %	1.24 %	1.30 %	1.38 %	1.56 %
Allowance for loan losses/nonperforming loans	136 %	385 %	206 %	85 %	87 %
Net loan charge-offs/average loans	0.22 %	0.00 %	0.25 %	0.78 %	0.56 %

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Item 6. SELECTED FINANCIAL DATA -- continued

RECONCILIATIONS OF GAAP TO NON-GAAP RATIOS

	December 31				
(dollars in thousands)	2015	2014	2013	2012	2011
Common tangible book value (non-GAAP)					
Total shareholders' equity	$792,237	$608,389	$571,306	537,422	$490,526
Less: goodwill and other intangible assets, net of deferred tax liability	(296,005)	(177,530)	(178,264)	(179,210)	(168,996)
Tangible common equity (non-GAAP)	496,232	430,859	393,042	358,212	321,530
Common shares outstanding	34,810	29,796	29,734	29,084	28,059
Common tangible book value (non-GAAP)	$14.26	$14.46	$13.22	$12.32	$11.46
Common return on average tangible assets (non-GAAP)					
Net income	$67,081	$57,910	$50,539	$34,200	$39,653
Plus: amortization of intangibles net of tax	1,182	734	1,034	1,111	1,129
Net income before amortization of intangibles	68,263	58,644	51,573	35,311	40,782
Total average assets (GAAP Basis)	5,942,098	4,762,363	4,505,792	4,312,538	4,072,608
Less: average goodwill and average other intangible assets, net of deferred tax liability	(275,847)	(177,881)	(178,757)	(175,501)	(169,541)
Tangible average assets (non-GAAP)	$5,666,251	$4,584,482	$4,327,035	$4,137,037	$3,903,067
Common return on average tangible assets (non-GAAP)	1.20%	1.28%	1.19%	0.85%	1.04%
Common return on average tangible common equity (non-GAAP)					
Net income	$67,081	$57,910	$50,539	$34,200	$39,653
Plus: amortization of intangibles net of tax	1,182	734	1,034	1,111	1,129
Net income before amortization of intangibles	68,263	58,644	51,573	35,311	40,782
Total average shareholders' equity (GAAP Basis)	750,069	596,155	548,771	516,812	585,186
Less: average goodwill, average other intangible assets and average preferred equity, net of deferred tax liability	(275,847)	(177,881)	(178,757)	(175,501)	(268,755)
Tangible average common equity (non-GAAP)	$474,222	$418,274	$370,014	$341,311	$316,431

Common return on average tangible common equity (non-GAAP)	14.39	%	14.02	%	13.94	%	10.35	%	12.89	%
Tangible common equity/tangible assets (non-GAAP)										
Total shareholders' equity (GAAP basis)	$792,237		$608,389		$571,306		$537,422		$490,526	
Less: goodwill and other intangible assets and preferred equity, net of deferred tax liability	(296,005	)	(177,530	)	(178,264	)	(179,211	)	(168,996	)
Tangible common equity (non-GAAP)	496,232		430,859		393,042		358,211		321,530	
Total assets (GAAP basis)	6,318,354		4,964,686		4,533,190		4,526,702		4,119,994	
Less: goodwill and other intangible assets and preferred equity, net of deferred tax liability	(296,005	)	(177,530	)	(178,264	)	(179,211	)	(168,996	)
Tangible assets (non-GAAP)	$6,022,349		$4,787,156		$4,354,926		$4,347,491		$3,950,998	
Tangible common equity/tangible assets (non-GAAP)	8.24	%	9.00	%	9.03	%	8.24	%	8.14	%

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

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

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

Important Note Regarding Forward-Looking Statements

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

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

Future Factors include:

- credit losses;
- cyber-security concerns, including an interruption or breach in the security of our information systems;
- rapid technological developments and changes;
- sensitivity to the interest rate environment including a prolonged period of low interest rates, a rapid increase in interest rates or a change in the shape of the yield curve;
- a change in spreads on interest-earning assets and interest-bearing liabilities;
- regulatory supervision and oversight, including Basel III required capital levels, and public policy changes, including environmental regulations;
- legislation affecting the financial services industry as a whole, and S&T, in particular, including the effects of the Dodd-Frank Act;
- the outcome of pending and future litigation and governmental proceedings;
- increasing price and product/service competition, including new entrants;
- the ability to continue to introduce competitive new products and services on a timely, cost-effective basis;
- managing our internal growth and acquisitions, particularly our recent acquisition of Integrity Bancshares, Inc., or Integrity;
- the possibility that the anticipated benefits from the recent Integrity acquisition and any other future acquisitions cannot be fully realized in a timely manner or at all, or that integrating the operations of Integrity or future acquired operations will be more difficult, disruptive or costly than anticipated;
- containing costs and expenses;
- reliance on significant customer relationships;
- general economic or business conditions, either nationally or regionally in our market areas, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other services;
- deterioration of the housing market and reduced demand for mortgages;
- a deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income;

- a re-emergence of turbulence in significant portions of the global financial and real estate markets that could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities, and indirectly, by affecting the economy generally; and
- access to capital in the amounts, at the times and on the terms required to support our future businesses.

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

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles, or GAAP. Application of these principles requires management to make estimates, assumptions and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying Notes. These estimates, assumptions and judgments are based on information available as of the date of the Consolidated Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates, assumptions and judgments. Certain policies 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 2015, 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 critical accounting estimates and related disclosures with the Audit Committee.

Allowance for Loan Losses

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

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

The ALL methodology for groups of homogeneous loans, or the 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, using a migration analysis where losses in each pool are aggregated over the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from when an event happens that causes the borrower to be unable to pay on a loan until the loss is confirmed through a loan charge-off.

In conjunction with our annual review of the ALL assumptions, we have updated our analysis of LEPs for our Commercial and Consumer loan portfolio segments using our loan charge-off history. The analysis showed that the LEP for our Commercial and Industrial, or C&I, has shortened and our Commercial Real Estate, or CRE, and Commercial Construction portfolio segments have not changed. We estimate the LEP to be 2 years for C&I, compared to 2.5 years in the prior year, and 3.5 years for both CRE and Commercial Construction. Our analysis showed an LEP for Consumer Real Estate of 3.5 years and Other Consumer of 1.25 years. This compares to 2 years for both Consumer Real Estate and Other Consumer in the prior year when peer data was being utilized to estimate the LEP. We believe that our actual experience captured through our internal analysis better reflects the inherent risk in these portfolios compared to the peer data used in prior years.

Another key assumption is the look-back period, or LBP, which represents the historical data period utilized to calculate loss rates. We lengthened the LBP for all Commercial and Consumer portfolio segments in order to capture relevant historical

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data believed to be reflective of losses inherent in the portfolios. We use 6.5 years for our LBP for all portfolio segments which encompasses our loss experience during the Great Recession and our more recent improved loss experience.

After consideration of the historic loss calculations, management applies additional qualitative adjustments so that the ALL is reflective of the inherent losses that exist in the loan portfolio at the balance sheet date. Qualitative adjustments are made based upon changes in lending policies and practices, economic conditions, changes in the loan portfolio, changes in lending management, results of internal loan reviews, asset quality trends, collateral values, concentrations of credit risk and other external factors. The evaluation of the various components of the ALL requires considerable judgment in order to estimate inherent loss exposures.

The changes made to the ALL assumptions were applied prospectively and did not result in a material change to the total ALL. Lengthening the LBP 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.

Acquired loans are recorded at fair value on the date of acquisition with no carryover of the related ALL. Determining the fair value of the acquired loans involves estimating the principal and interest cash flows expected to be collected on the loans and discounting those cash flows at a market rate of interest. In estimating the fair value of our acquired loans, we considered a number of factors including the loan term, internal risk rating, delinquency status, prepayment rates, recovery periods, estimated value of the underlying collateral and the current interest rate environment.

Loans acquired with evidence of credit deterioration were evaluated and not considered to be significant. The premium or discount estimated through the loan fair value calculation is recognized into interest income on a level yield or straight-line basis over the remaining contractual life of the loans. Additional credit deterioration on acquired loans, in excess of the original credit discount embedded in the fair value determination on the date of acquisition, will be recognized in the ALL through the provision for loan losses.

Our ALL Committee meets quarterly to verify the overall adequacy of the ALL. Additionally, on an annual basis, the ALL Committee meets to validate our ALL methodology. This validation includes reviewing the loan segmentation, LEP, LBP and the qualitative framework. As a result of this ongoing monitoring process, we may make changes to our ALL 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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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. We obtain fair values for debt securities from a third-party pricing service which utilizes several sources for valuing fixed-income securities. We validate prices received from our pricing service through comparison to a secondary pricing service and broker quotes. We review the methodologies of the pricing service which provides us with a sufficient understanding of the valuation models, assumptions, inputs and pricing to reasonably measure the fair value of our debt securities. 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 likelihood of the security's ability to recover any decline in its estimated fair value and whether we intend to sell the investment security or if it is more likely than not that we will be required to sell the security prior to the security's recovery. If the impairment is considered other-than-temporary based on management's review, the impairment must be separated into credit and non-credit portions. The credit component is recognized in the Consolidated Statements of Net Income and the non-credit component is recognized in other comprehensive income (loss), net of applicable taxes. If the financial markets experience deterioration, charges to income could occur in future periods.

Goodwill and Other Intangible Assets

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

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

We have three reporting units: Community Banking, Insurance and Wealth Management. The carrying value of goodwill is tested annually for impairment each October 1st or more frequently if it is determined that a triggering event has occurred. We first assess qualitatively whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Our qualitative assessment considers such factors as macroeconomic conditions, market conditions specifically related to the banking industry, our overall financial performance and various other factors. If we determine that it is more likely than not that the fair value is less than the carrying amount, we proceed to test for impairment. The evaluation for impairment involves comparing the current estimated fair value of each reporting unit to its carrying value, including goodwill. If the current estimated fair value of a reporting unit exceeds its carrying value, no additional testing is required and an impairment loss is not recorded. If the estimated fair value of a reporting unit is less than the carrying value, further valuation procedures are performed that could result in impairment of goodwill being recorded. Further valuation procedures would include allocating the estimated fair value to all assets and liabilities of the reporting unit to determine an implied goodwill value. If the implied value of goodwill of a reporting unit is less than the carrying amount of that goodwill, an impairment loss is recognized in an amount equal to that excess. We completed the annual goodwill impairment assessment as required in 2015, 2014 and 2013; the results indicated that the fair value of each reporting unit exceeded the carrying value.

Based upon our qualitative assessment performed for our annual impairment analysis, we concluded that it is more likely than not that the fair value of the reporting units exceeds the carrying value. Both the national economy and the local economies in our markets have shown improvement over the past couple of years. General economic activity and key indicators such as housing and unemployment continue to show improvement. While still challenging, the banking environment continues to improve with better asset quality, improved earnings and generally better stock prices. Activity in mergers and acquisitions demonstrated that there is premium value on banking franchises and a number of banks of our size have been able to access the capital markets over the past year. Our stock traded significantly above book value throughout 2015. Although our stock price has declined in 2016, the decline has been consistent with the overall decline in bank stocks and our stock price continues to trade in excess of our book value per share. Additionally, our overall performance remains strong, 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 20 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, 2015, 2014 and 2013.

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 $6.3 billion at December 31, 2015. We operate locations in Pennsylvania, Ohio and New York. We provide a full range of financial services with retail and commercial banking products, cash management services, insurance and trust and brokerage services. Our common stock trades on the NASDAQ Global Select Market under the symbol “STBA.”

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

Our mission is to become the financial services provider of choice within the markets that we serve. We strive to do this by delivering exceptional service and value, one customer at a time. Our strategic plan focuses on organic growth, which includes growth within our current footprint and growth through market expansion. We also actively evaluate acquisition opportunities as another source of growth. Our strategic plan includes a collaborative model that combines expertise from all of our business segments and focuses on satisfying each customer’s individual financial objectives.

Our major accomplishments during 2015 included:

- Our 2015 net income increased $9.2 million, or 15.8 percent, to a record $67.1 million, or $1.98 per diluted share, compared to $57.9 million, or $1.95 per diluted share for 2014. Return on average assets was 1.13 percent and return on average equity was 8.94 percent for 2015.
- On March 4, 2015, we completed a merger with Integrity, or the Merger, which expanded our geographic footprint into south-central Pennsylvania with eight branches in Cumberland, Dauphin, Lancaster and York Counties. The transaction was valued at $172.0 million and added total assets of $980.8 million, including $788.7 million in loans, $115.9 million in goodwill, and $722.3 million in deposits. Integrity Bank became a separate subsidiary of S&T upon completion of the Merger and was subsequently merged into S&T Bank on May 8, 2015.
- During 2015, we successfully executed on our organic growth strategy in our current footprint and by expanding into new markets. On March 23, 2015, we expanded our commercial banking operations by opening a loan production office, or LPO, in western New York. We had organic loan growth of $370.2 million during 2015.
- We opened two new branch innovation centers in 2015. On March 9, 2015, we opened the Indian Springs branch and on August 17, 2015 we opened the McCandless Crossings branch. Both branches feature a "tech bar" where

customers can check their accounts on tablets, in-branch Wi-Fi and a configuration that replaces teller lines with pods where customers sit down with bank representatives to discuss services beyond traditional banking needs.

- We remain focused on running our business efficiently. During 2015, we had positive operating leverage with total revenue growth of $44.2 million, or 23 percent, while operating expenses increased $19.5 million, or 17 percent compared to 2014.

Our focus continues to be on loan and deposit growth and implementing opportunities to increase fee income while maintaining a strong expense discipline. With our recent expansion into new markets, we are focused on executing our strategy to successfully build our brand and grow our business in these markets. The low interest rate environment remains a challenge for our net interest income, but our organic growth will help to mitigate the impact.

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Results of Operations

Year Ended December 31, 2015

Earnings Summary

Net income available to common shareholders increased $9.2 million, or 16 percent, to $67.1 million or $1.98 per share in 2015 compared to $57.9 million or $1.95 per share in 2014. Integrity's results have been included in our financial statements since the consummation of the Merger on March 4, 2015. The increase in net income was primarily due to an increase in net interest income of $39.5 million, or 27 percent, and noninterest income of $4.7 million, or 10 percent partially offset by increases in our provision for loan losses of $8.7 million, noninterest expenses of $19.5 million and our provision for income taxes of $6.9 million. Noninterest expense included $3.2 million of merger related expenses during the year ended December 31, 2015.

Net interest income increased $39.5 million, or 27 percent, to $187.6 million compared to $148.0 million in 2014. The increase was primarily due to the increase in average interest-earning assets of $1.0 billion, or 24 percent, partially offset by an increase in average interest-bearing liabilities of $887 million, or 29 percent, compared to 2014. The increase in average interest-earning assets related to the Merger and our successful efforts in growing our loan portfolio organically during 2015. Net interest income was favorably impacted by accretion resulting from purchase accounting fair value adjustments related to the Merger of $6.2 million for 2015. Net interest margin, on a fully taxable-equivalent, or FTE, basis, increased to 3.56 percent in 2015 compared to 3.50 percent for 2014.

The provision for loan losses increased $8.7 million to $10.4 million during 2015 compared to $1.7 million in 2014. The higher provision for loan losses was due to an increase in net loan charge-offs. Net loan charge-offs were $10.2 million, or 0.22 percent of average loans for 2015 compared to only $0.1 million, or 0.00 percent of average loans in 2014. During 2014, our net loan charge-offs and other asset quality metrics were at historically low levels resulting in an unusually low provision for loan losses.

Total noninterest income increased $4.7 million, or 10 percent, to $51.0 million for 2015 compared to $46.3 million for 2014. The increase was primarily due to additional income as a result of the Merger, including higher mortgage banking income. Total noninterest expense increased $19.5 million to $136.7 million for 2015 compared to $117.2 million for 2014. Salaries and employee benefits increased $7.8 million during 2015 primarily due to additional employees, annual merit increases and higher pension and incentive expense. Additional increases were due to higher operating expenses resulting from the Merger and $3.2 million of merger related expenses.

The provision for income taxes increased $6.9 million to $24.4 million compared to $17.5 million in 2014. The increase was primarily due to a $16.1 million increase in pretax income.

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 79 percent of operating revenue (net interest income plus noninterest income, excluding security gains/losses and non-recurring income and expenses) in 2015 and 76 percent of operating revenue in 2014. Refer to page 48 Explanation of Use of Non-GAAP Financial Measures for a discussion of operating revenue as a non-GAAP financial measure. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our Asset and Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to produce an acceptable level of net interest income.

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

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

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

	Years Ended December 31,					
(dollars in thousands)	2015		2014		2013	
Total interest income	$203,549		$160,523		$153,756	
Total interest expense	15,998		12,481		14,563	
Net interest income per consolidated statements of net income	187,551		148,042		139,193	
Adjustment to FTE basis	6,123		5,461		4,850	
Net Interest Income (FTE) (non-GAAP)	$193,674		$153,503		$144,043	
Net interest margin	3.45	%	3.38	%	3.39	%
Adjustment to FTE basis	0.11		0.12		0.11	
Net Interest Margin (FTE) (non-GAAP)	3.56	%	3.50	%	3.50	%

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

Average Balance Sheet and Net Interest Income Analysis

The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the years ended December 31:

(dollars in thousands)	2015 Average Balance	Interest	Rate	2014 Average Balance	Interest	Rate	2013 Average Balance	Interest	Rate
ASSETS									
Loans(1)(2)	$4,692,433	$191,860	4.09 %	$3,707,808	$150,531	4.06 %	$3,448,529	$145,366	4.22 %
Interest-bearing deposits with banks	66,101	165	0.25 %	93,645	234	0.25 %	167,952	444	0.26 %
Taxable investment securities(3)	516,335	10,162	1.97 %	442,513	8,803	1.99 %	371,099	7,458	2.01 %
Tax-exempt investment securities (2)	138,321	6,084	4.40 %	128,750	5,933	4.61 %	110,009	5,231	4.76 %
Federal Home Loan Bank and other restricted stock	19,672	1,401	7.12 %	14,083	483	3.43 %	13,692	107	0.78 %
Total Interest-earning Assets	5,432,862	209,672	3.86 %	4,386,799	165,984	3.78 %	4,111,281	158,606	3.86 %
Noninterest-earning assets:									
Cash and due from banks	56,655			50,255			51,534		
Premises and equipment, net	46,794			36,115			37,087		
Other assets	455,244			337,205			353,857		
Less allowance for loan losses	(49,457)			(48,011)			(47,967)		
Total Assets	$5,942,098			$4,762,363			$4,505,792		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Interest-bearing demand	$592,301	$770	0.13 %	$321,907	$70	0.02 %	$309,748	$75	0.02 %
Money market	388,172	724	0.19 %	321,294	507	0.16 %	319,831	446	0.14 %
Savings	1,072,683	1,712	0.16 %	1,033,482	1,607	0.16 %	1,001,209	1,735	0.17 %
Certificates of deposit	1,093,564	8,439	0.77 %	905,346	7,165	0.79 %	973,339	8,918	0.92 %
Brokered deposits	376,095	1,299	0.35 %	226,169	780	0.34 %	81,112	232	0.29 %
Total Interest-bearing	3,522,815	12,944	0.37 %	2,808,198	10,129	0.36 %	2,685,239	11,406	0.42 %

deposits									
Securities sold under repurchase agreements	44,394	4	0.01 %	28,372	2	0.01 %	54,057	62	0.12 %
Short-term borrowings	257,117	932	0.36 %	164,811	511	0.31 %	101,973	279	0.27 %
Long-term borrowings	83,648	790	0.94 %	20,571	617	3.00 %	24,312	746	3.07 %
Junior subordinated debt securities	47,071	1,328	2.82 %	45,619	1,222	2.68 %	65,989	2,070	3.14 %
Total Interest-bearing Liabilities	3,955,045	15,998	0.40 %	3,067,571	12,481	0.41 %	2,931,570	14,563	0.50 %
Noninterest-bearing liabilities:									
Noninterest-bearing demand	1,170,011			1,046,606			955,475		
Other liabilities	66,973			52,031			69,976		
Shareholders' equity	750,069			596,155			548,771		
Total Liabilities and Shareholders' Equity	$5,942,098			$4,762,363			$4,505,792		
Net Interest Income(2)(3)		$193,674			$153,503			$144,043	
Net Interest Margin(2)(3)			3.56 %			3.50 %			3.50 %

(1) Nonaccruing loans are included in the daily average loan amounts outstanding.

(2) Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2015, 2014 and 2013.

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

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

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

(dollars in thousands)	2015 Compared to 2014 Increase (Decrease) Due to			2014 Compared to 2013 Increase (Decrease) Due to		
	Volume[4]	Rate[4]	Net	Volume[4]	Rate[4]	Net
Interest earned on:						
Loans[1][2]	$39,974	$1,355	$41,329	$10,929	$(5,764)	$5,165
Interest-bearing deposits with bank	(69)	—	(69)	(198)	(12)	(210)
Taxable investment securities[3]	1,468	(109)	1,359	1,449	(104)	1,345
Tax-exempt investment securities[2]	441	(290)	151	891	(189)	702
Federal Home Loan Bank and other restricted stock	192	726	918	3	374	377
Total Interest-earning Assets	42,006	1,682	43,688	13,074	(5,695)	7,379
Interest paid on:						
Interest-bearing demand	$59	$641	$700	$3	$(8)	$(5)
Money market	105	112	217	2	59	61
Savings	61	44	105	56	(184)	(128)
Certificates of deposit	1,489	(215)	1,274	(623)	(1,130)	(1,753)
Brokered deposits	517	2	519	415	133	548
Securities sold under repurchase agreements	2	—	2	(30)	(29)	(59)
Short-term borrowings	287	134	421	172	60	232
Long-term borrowings	1,893	(1,720)	173	(115)	(14)	(129)
Junior subordinated debt securities	39	67	106	(639)	(209)	(848)
Total Interest-bearing Liabilities	4,452	(935)	3,517	(759)	(1,322)	(2,081)
Net Change in Net Interest Income	$37,554	$2,617	$40,171	$13,833	$(4,373)	$9,460

(1) Nonaccruing loans are included in the daily average loan amounts outstanding.
(2) Tax-exempt income is on a FTE basis using the statutory federal corporate income tax rate of 35 percent for 2015, 2014 and 2013.
(3) Taxable investment income is adjusted for the dividend-received deduction for equity securities.
(4) Changes to rate/volume are allocated to both rate and volume on a proportionate dollar basis.

Net interest income on a FTE basis increased $40.2 million, or 26.2 percent, to $193.7 million compared to $153.5 million in 2014. Net interest margin on a FTE basis increased six basis points to 3.56 percent for 2015 compared to 3.50 percent compared to 2014. Net interest income was favorably impacted by accretion resulting from purchase accounting fair value adjustments related to the Merger of $6.2 million for 2015. This impacted net interest margin on a FTE basis by 12 basis points for 2015.

Interest income on a FTE basis increased $43.7 million, or 26.3 percent, compared to 2014. Average interest-earning assets increased $1.0 billion, or 23.8 percent, compared to 2014, mainly attributable to higher loan balances related to the Merger and organic growth. The rate earned on loans increased three basis points to 4.09 percent compared to 4.06 percent to the prior year. The rate was favorably impacted by purchase accounting accretion related to the Merger of $4.9 million, or 11 basis points, which was offset by the continued pressure on loan rates in the current environment.

Average interest-bearing deposits with banks, which is primarily cash at the Board of Governors of the Federal Reserve, or Federal Reserve, decreased $27.5 million while average investment securities increased $83.4 million compared to 2014. Federal Home Loan Bank, or FHLB, and other restricted stock, increased $5.6 million compared to 2014 with a significant increase in the rate, primarily due to a special dividend received of $0.3 million during 2015. The FTE rate on total interest-earning assets increased eight basis points to 3.86 percent compared to 3.78 percent for 2014. The $4.9 million loan purchase accounting accretion had a positive impact on the interest-earning asset rate of ten basis points.

Interest expense increased $3.5 million to $16.0 million for 2015 as compared to $12.5 million for 2014. The increase in interest expense was mainly driven by an increase in average deposits of $714.6 million, primarily related to the Merger. Average interest-bearing customer deposits, which excludes brokered deposits, increased $564.7 million. Average brokered deposits increased $149.9 million and average borrowings increased $172.9 million compared to 2014 to fund strong loan growth during 2015. At December 31, 2015, average long-term borrowings increased $63.1million compared to December 31, 2014, as a result of shifting $100.0 million of short-term borrowings to a long-term variable rate borrowing in the second quarter of 2015. Overall, the cost of interest-bearing liabilities decreased one basis point to 0.40 percent compared to 0.41 percent for 2014. Deposit purchase accounting adjustments related to the Merger of $1.3 million positively impacted the cost of interest-bearing liabilities by three basis points.

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

Provision for Loan Losses

The provision for loan losses is the amount to be added to the ALL after adjusting for charge-offs and recoveries to bring the ALL to a level considered appropriate to absorb probable losses inherent in the loan portfolio. The provision for loan losses increased $8.7 million to $10.4 million for 2015 compared to $1.7 million for 2014. This increase in the provision is primarily related to an increase in loan charge-offs compared to the prior year.

Net charge-offs were $10.2 million, or 0.22 percent of average loans in 2015, compared to $0.1 million, or 0.00 percent of average loans in 2014. Net loan charge-offs of $0.1 million in 2014 were unusually low. Approximately $6.0 million of net charge-offs during 2015 related to loans acquired in the Merger, primarily due to four relationships that experienced credit deterioration subsequent to the acquisition date. Total nonperforming loans increased to $35.4 million, or 0.70 percent of total loans at December 31, 2015, compared to $12.5 million, or 0.32 percent of total loans at December 31, 2014. The increase in nonperforming loans primarily related to acquired loans from the Merger that experienced credit deterioration subsequent to the acquisition date. Special mention and substandard commercial loans increased $71.3 million to $183.5 million from $112.2 million at December 31, 2014, primarily related to the Merger.

The ALL at December 31, 2015, was $48.1 million, or 0.96 percent of total portfolio loans, compared to $47.9 million, or 1.24 percent of total portfolio loans at December 31, 2014. The decrease in the overall level of the reserve as a percentage to total portfolio loans is partly due to the Merger as the acquired loans were recorded at fair value with no carry over of the ALL. The ALL as a percentage of originated loans was 1.10 percent at December 31, 2015. Refer to the Allowance for Loan Losses section of this Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, for further details.

Noninterest Income

	Years Ended December 31,			
(dollars in thousands)	2015	2014	$ Change	% Change
Securities gains, net	$(34)	$41	$(75)	NM
Debit and credit card fees	12,113	10,781	1,332	12.4%
Service charges on deposit accounts	11,642	10,559	1,083	10.3%
Wealth management fees	11,444	11,343	101	0.9%
Insurance fees	5,500	5,955	(455)	(7.6)%
Mortgage banking	2,554	917	1,637	178.5%
Other Income:				
BOLI income	2,221	1,773	448	25.3%
Letter of credit origination fees	1,242	1,017	225	22.1%
Interest rate swap fees	577	440	137	31.1%
Other	3,774	3,512	262	7.5%
Total Other Noninterest Income	7,814	6,742	1,072	15.9%
Total Noninterest Income	$51,033	$46,338	$4,695	10.1%

NM- percentage not meaningful

Noninterest income increased $4.7 million, or 10.1 percent, in 2015 compared to 2014, with increases in almost all noninterest income categories. Various categories of noninterest income were positively impacted by the Merger which closed on March 4, 2015.

Mortgage banking income increased $1.6 million in 2015 compared to 2014 due to an increase in the volume of loans originated for sale in the secondary market, in part due to the Merger, and more favorable pricing on loan sales. Debit and credit card fees increased $1.3 million due to the Merger and reversal of a $0.5 million customer rewards program liability related to the planned strategic repositioning of the credit card portfolio. Service charges on deposit accounts increased $1.1 million due to the Merger and due to fee increases in the second half of 2014. The increases in BOLI

income and letter of credit origination fees were primarily related to the Merger.
Insurance fees decreased $0.5 million primarily due to increased competition and a decline in customers in the energy sector due to industry consolidation.

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

Noninterest Expense

	Years Ended December 31,			
(dollars in thousands)	2015	2014	$ Change	% Change
Salaries and employee benefits	$68,252	$60,442	$7,810	12.9%
Net occupancy	10,652	8,211	2,441	29.7%
Data processing	9,677	8,737	940	10.8%
Furniture and equipment	6,093	5,317	776	14.6%
Marketing	4,224	3,316	908	27.4%
Other taxes	3,616	2,905	711	24.5%
FDIC insurance	3,416	2,436	980	40.2%
Professional services and legal	3,365	3,717	(352)	(9.5)%
Merger related expense	3,167	689	2,478	359.7%
Other expenses:				
Joint venture amortization	3,615	4,054	(439)	(10.8)%
Loan related expenses	2,938	2,579	359	13.9%
Telecommunications	2,653	2,220	433	19.5%
Supplies	1,493	1,161	332	28.6%
Amortization of intangibles	1,818	1,129	689	61.0%
Postage	1,262	1,058	204	19.3%
Other	10,476	9,269	1,207	13.0%
Total Other Noninterest Expense	24,255	21,470	2,785	13.0%
Total Noninterest Expense	$136,717	$117,240	$19,477	16.6%

Noninterest expense increased $19.5 million, or 16.6 percent, to $136.7 million, for the year ended December 31, 2015 compared to 2014. The increase was due in part to higher operating expenses related to the Merger which closed on March 4, 2015 and $3.2 million of merger related expenses.

In 2015, we incurred merger related expenses of $3.2 million compared to $0.7 million in 2014. These expenses included $1.3 million for data processing contract termination and conversion costs, $1.2 million in legal and professional expenses, $0.4 million in severance payments and $0.3 million in various other expenses.

Salaries and employee benefits increased $7.8 million during 2015 primarily due to additional employees, annual merit increases and higher pension and incentive expense. Approximately $4.1 million of the increase related to the addition of new employees resulting from the Merger. Annual merit increases resulted in $1.6 million of additional salary expense. Pension expense increased $1.0 million due to a change in actuarial assumptions used to calculate our pension liability. Incentive expense increased $1.3 million due to a higher number of participants and strong performance in 2015.

Operating expenses increased in 2015 compared to 2014 due to the Merger. The increase of $2.4 million in net occupancy expense and $0.8 million in furniture and equipment expense compared to 2014 was due to additional locations acquired as part of the Merger, as well as additional expenses related to our newer locations, including our LPO in central Ohio, our branches in Indiana and McCandless and our training and operations center. Other noninterest expense increased $1.2 million primarily due to training and travel related to the Merger and our expansion efforts. FDIC insurance increased $1.0 million, other taxes increased $0.7 million and amortization of intangibles increased $0.7 million all related to the Merger. The increase of $0.9 million in data processing expense in 2015 primarily related to an increased customer processing base due to the Merger and growth in digital channels. The increase in marketing expense of $0.9 million is due to additional marketing promotions.

Our efficiency ratio, which measures noninterest expense as a percent of noninterest income plus net interest income, on a FTE basis, excluding security gains/losses, was 56 percent for 2015 and 59 percent for 2014. Refer to page 48

Explanation of Use of Non-GAAP Financial Measures for a discussion of this non-GAAP financial measure.

Federal Income Taxes

We recorded a federal income tax provision of $24.4 million in 2015 compared to $17.5 million in 2014. The effective tax rate, which is the provision for income taxes as a percentage of pretax income was 26.7 percent in 2015 compared to 23.2 percent in 2014. We ordinarily generate an annual effective tax rate that is less than the statutory rate of 35 percent due to benefits resulting from tax-exempt interest, excludable dividend income, tax-exempt income on bank owned life insurance, or BOLI, and tax benefits associated with Low Income Housing Tax Credits, or LIHTC. The increase to our effective tax rate was primarily due to an increase of $16.1 million in pre-tax income.

Results of Operations

Year Ended December 31, 2014

Earnings Summary

Net income available to common shareholders increased $7.4 million, or 14.6 percent, to $57.9 million or $1.95 per share in 2014 compared to $50.5 million or $1.70 per share in 2013. The increase in net income was primarily due to an increase in net interest income of $8.8 million, or 6.4 percent and a $6.6 million, or 79 percent, decrease in the provision for loan losses.

Net interest income increased $8.8 million, or 6.4 percent, to $148.0 million compared to $139.2 million in 2013. The increase in net interest income is mainly due to interest earning asset growth and lower funding costs. Total average interest earning assets increased $275.5 million, or 6.7 percent, compared to 2013. The increase was driven by higher average loans, which is due to our successful efforts in growing our loan portfolio organically over the past year. Net interest margin, on a FTE basis, was unchanged at 3.50 percent for both 2014 and 2013.

The provision for loan losses decreased $6.6 million, or 79 percent, to $1.7 million during 2014 compared to $8.3 million in 2013. The lower provision for loan losses was due to improving economic conditions in our markets which have positively impacted our asset quality metrics in all categories, including decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio. Net loan charge-offs were only $0.1 million for 2014 compared to $8.5 million in 2013.

Total noninterest income decreased $5.2 million, or 10.1 percent, to $46.3 million for 2014 compared to $51.5 million for 2013. The decrease in noninterest income was primarily related to a $3.1 million gain on the sale of our merchant card servicing business that occurred in 2013. Mortgage banking income decreased $1.2 million, or 57 percent, due to higher interest rates in 2014 compared to 2013, resulting in a decrease in the volume of loans being originated and sold. Interest rate swap fees with our commercial customers decreased $0.6 million, or 57 percent, due to a decline in customer demand for this product. These decreases were partially offset by an increase in our wealth management fees of $0.6 million, or six percent, due to new business development efforts and certain fee increases.

Total noninterest expense decreased $0.2 million to $117.2 million for 2014 compared to $117.4 million for 2013. Despite significant growth in 2014, expenses were well controlled. Notable declines were a decrease of $2.1 million for pension expense resulting from a change in actuarial assumptions used to calculate our pension liability and a $0.8 million decrease in other taxes due to legislative changes that resulted in a reduction in Pennsylvania shares tax. These decreases were offset by relatively small increases in various expense items in numerous categories.

The provision for income taxes increased $3.0 million to $17.5 million compared to $14.5 million in 2013. The increase is primarily due to a $10.4 million increase in pretax income.

Net Interest Income

Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 76 percent of operating revenue in 2014 and 74 percent of operating revenue in 2013. Refer to page 48 Explanation of Use of Non-GAAP Financial Measures for a discussion of operating revenue as a non-GAAP financial measure. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our ALCO in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to maintain an acceptable net interest margin on interest-earning assets.

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

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

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

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

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

Average Balance Sheet and Net Interest Income Analysis

The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the years ended December 31:

(dollars in thousands)	2014 Average Balance	Interest	Rate	2013 Average Balance	Interest	Rate	2012 Average Balance	Interest	Rate
ASSETS									
Loans[(1)(2)]	$3,707,808	$150,531	4.06 %	$3,448,529	$145,366	4.22 %	$3,213,018	$147,819	4.59 %
Interest-bearing deposits with banks	93,645	234	0.25 %	167,952	444	0.26 %	289,947	718	0.25 %
Taxable investment securities[(3)]	442,513	8,803	1.99 %	371,099	7,458	2.01 %	291,483	7,346	2.52 %
Tax-exempt investment securities[(2)]	128,750	5,933	4.61 %	110,009	5,231	4.76 %	95,382	4,802	5.03 %
Federal Home Loan Bank and other restricted stock	14,083	483	3.43 %	13,692	107	0.78 %	17,945	37	0.21 %
Total Interest-earning Assets	4,386,799	165,984	3.78 %	4,111,281	158,606	3.86 %	3,907,775	160,722	4.10 %
Noninterest-earning assets:									
Cash and due from banks	50,255			51,534			53,517		
Premises and equipment, net	36,115			37,087			38,460		
Other assets	337,205			353,857			361,982		
Less allowance for loan losses	(48,011)			(47,967)			(49,196)		
Total Assets	4,762,363			4,505,792			4,312,538		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Interest-bearing demand	321,907	70	0.02 %	309,748	75	0.02 %	306,994	146	0.05 %
Money market	321,294	507	0.16 %	319,831	446	0.14 %	308,719	528	0.17 %
Savings	1,033,482	1,607	0.16 %	1,001,209	1,735	0.17 %	902,889	2,356	0.26 %
Certificates of deposit	905,346	7,165	0.79 %	973,339	8,918	0.92 %	1,078,945	13,715	1.27 %
Brokered deposits	226,169	780	0.34 %	81,112	232	0.29 %	25,317	51	0.20 %
	2,808,198	10,129	0.36 %	2,685,239	11,406	0.42 %	2,622,864	16,796	0.64 %

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

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

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

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

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

Net interest income on a FTE basis increased $9.5 million, or 6.6 percent, to $153.5 million compared to $144.0 million in 2013. Net interest margin on a FTE basis remained unchanged at 3.50 percent compared to 2013. The increase in interest income of $7.4 million, or 4.7 percent, was mainly driven by the $275.5 million increase in interest-earning assets compared to 2013. The interest-earning asset balance increase is mainly attributable to loan growth. Average loan balances increased by $259.3 million compared to 2013 as a result of organic growth, primarily in our commercial loan portfolio. Due to the continued low interest rate environment the rate earned on loans decreased 16 basis points compared to 2013. Average interest-bearing deposits with banks, which is primarily cash at the Federal Reserve, decreased $75.0 million compared to 2013. Average investment securities, including FHLB and other restricted stock, increased $91.2 million compared to 2013. Deployment of excess cash at the Federal Reserve to higher yielding investment securities and an increase in the FHLB dividend rate had a positive impact on the interest-earning asset rate. Overall, the FTE rate on total interest-earning assets decreased eight basis points to 3.78

percent compared to 2013.

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

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Provision for Loan Losses

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

Noninterest Income

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

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

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

Mortgage banking income decreased $1.2 million in 2014 compared to 2013 due to an increase in mortgage rates that occurred in the second quarter of 2013, resulting in a decrease in the volume of loans originated for sale in the secondary market, less favorable pricing on loan sales and also impacted the valuation of our mortgage servicing rights, or MSRs, asset. During the year ended December 31, 2014, we sold 33 percent fewer mortgages with $42.0 million in loan sales compared to $62.9 million during 2013. We maintain the servicing rights when selling our loans and experienced a minor impairment on our MSR asset in 2014 compared to an impairment recapture of $0.8 million in 2013.

Interest rate swap fees from our commercial customers decreased $0.6 million compared to the prior year due to a decline in customer demand for this product. The decrease in other noninterest income of $0.5 million for year ended

December 31, 2014 was primarily attributable to a change in the valuation of our rabbi trust related to a deferred compensation plan, which has a corresponding offset in salaries and benefit expense resulting in no impact to net income. Wealth management fees increased $0.6 million due to higher assets under management, new business development efforts and fee increases.

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Noninterest Expense

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

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

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

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

Our efficiency ratio was 59 percent for 2014 and 60 percent for 2013. Refer to page 48 Explanation of Use of Non-GAAP Financial Measures for a discussion of this non-GAAP financial measure.

Federal Income Taxes

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

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Financial Condition
December 31, 2015

Total assets increased $1.3 billion, or 27.3 percent, to $6.3 billion as of December 31, 2015 compared to $5.0 billion at December 31, 2014 primarily due to the increase in total portfolio loans of $1.2 billion, or 30.0 percent. We acquired
$788.7 million of loans from the Merger and $370.1 million of loans from organic growth as a result of market expansion through our LPOs and increased activity in our existing footprint. Our commercial loan portfolio grew by $944.4 million, or 32.6 percent, to $3.8 billion with $608.2 million related to the merger, while our consumer loan portfolio increased $214.5 million, or 22.0 percent, to $1.2 billion with $180.5 million related to the merger. Securities increased $20.7 million compared to December 31, 2014 primarily due to normal investing activity.
Our deposit base increased $1.0 billion, or 24.8 percent, with total deposits of $4.9 billion at December 31, 2015 compared to $3.9 billion at December 31, 2014. The increase in deposits primarily consisted of $722.3 million of deposits added from the Merger and an increase of $196.5 million in brokered deposits. Total borrowings increased $195.1 million, or 50.6 percent, as compared to 2014 primarily to fund our asset growth in 2015.
Total shareholders' equity increased $183.8 million, or 30.2 percent, compared to December 31, 2014 primarily due to $142.5 million of common stock issued in the Merger and net income of $67.1 million offset by $24.5 million in dividends.
Securities Activity
The balances and average rates of our securities are presented below as of December 31:

	2015			2014			2013		
(dollars in thousands)	Balance	Weighted-Average Yield		Balance	Weighted-Average Yield		Balance	Weighted-Average Yield	
U.S. Treasury securities	$14,941	1.24	%	$14,880	1.24	%	$—	—	%
Obligations of U.S. government corporations and agencies	263,303	1.65	%	269,285	1.65	%	234,751	1.52	%
Collateralized mortgage obligations of U.S. government corporations and agencies	128,835	2.26	%	118,006	2.28	%	63,774	2.38	%
Residential mortgage-backed securities of U.S. government corporations and agencies	40,125	2.76	%	46,668	2.87	%	48,669	3.02	%
Commercial mortgage-backed securities of U.S. government	69,204	2.12	%	39,673	1.94	%	39,052	1.95	%

corporations and agencies												
Obligations of states and political subdivisions [(1)]		134,886	4.19	%		142,702	4.36	%		114,264	4.54	%
Marketable equity securities		9,669	3.90	%		9,059	4.08	%		8,915	4.14	%
Total Securities Available-for-Sale	$	660,963	2.43	%	$	640,273	2.50	%	$	509,425	2.53	%

(1) Weighted-average yields are calculated on a taxable-equivalent basis using the federal statutory tax rate of 35%.

We invest in various securities in order to provide a source of liquidity, satisfy various pledging requirements, increase net interest income and as a tool of the ALCO to reposition the balance sheet for interest rate risk purposes. Securities are subject to market risks that could negatively affect the level of liquidity available to us. Security purchases are subject to an investment policy approved annually by our Board of Directors and administered through ALCO and our treasury function. The securities portfolio increased $20.7 million, or 3.2 percent, from December 31, 2014. The increase is primarily due to normal purchase activity. We acquired $11.5 million of securities through the Merger and all of those acquired securities were sold during the quarter ended June 30, 2015.

Management evaluates the securities portfolio for OTTI on a quarterly basis. At December 31, 2015, our bond portfolio was in a net unrealized gain position of $8.1 million, compared to net unrealized gain position of $9.3 million at December 31, 2014. At December 31, 2015, total gross unrealized gains were $9.8 million offset by total gross unrealized losses of $1.7 million. Total gross unrealized gains of $11.2 million were offset by total gross unrealized losses of $1.8 million at December 31, 2014. The increase in the value of our securities portfolio was a result of the changing interest rate environment in 2015. Unrealized losses were not related to the underlying credit quality of the bond portfolio. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the securities. There were no unrealized losses on marketable equity securities as of December 31, 2015. We do not intend to sell and it is more likely than not that we will not be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost. We did not record any OTTI in 2015, 2014 and 2013. The performance of the debt and equity securities markets could generate impairments in future periods requiring realized losses to be reported.

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The following table sets forth the maturities of securities at December 31, 2015 and the weighted average yields of such securities. Taxable-equivalent adjustments (using a 35 percent federal income tax rate) for 2015 have been made in calculating yields on obligations of state and political subdivisions.

	Maturing									
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years		No Fixed Maturity	
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available-for-Sale										
U.S. Treasury securities	$—	— %	$14,941	1.24 %	$—	— %	$—	— %	$—	— %
Obligations of U.S. government corporations and agencies	45,212	1.54 %	197,796	1.62 %	20,295	2.20 %	—	— %	—	—%
Collateralized mortgage obligations of U.S. government corporations and agencies	—	— %	—	— %	37,952	2.52 %	90,883	2.16 %	—	—%
Residential mortgage-backed securities of U.S. government corporations and agencies	—	— %	1,813	4.37 %	3,545	5.18 %	34,767	2.44 %	—	—%
Commercial mortgage-backed securities of U.S. government corporations and agencies	—	— %	39,193	1.95 %	30,011	2.77 %	—	—	—	—%
Obligations of states and political subdivisions [1]	1,298	8.57 %	11,597	3.93 %	38,498	3.97 %	83,493	4.33 %	—	—%
Marketable equity securities	—	— %	—	— %	—	— %	—	— %	9,669	4.08 %
Total	$46,510		$265,340		$130,301		$209,143		$9,669	
Weighted Average Yield		2.43 %		1.77 %		2.87 %		3.07 %		4.08 %

[1] Weighted-average yields are calculated on a taxable-equivalent basis using the federal statutory tax rate of 35 percent.

Lending Activity

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

	2015		2014		2013		2012		2011	
(dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial										
Commercial real estate	$2,166,603	43.09 %	$1,682,236	43.48 %	$1,607,756	45.09 %	$1,452,133	43.39 %	$1,415,333	45.22 %
	1,256,830	25.00 %	994,138	25.70 %	842,449	23.62 %	791,396	23.65 %	685,753	21.91 %

Commercial and industrial										
Commercial construction	413,444	8.22 %	216,148	5.59 %	143,675	4.03 %	168,143	5.02 %	188,852	6.04 %
Total Commercial Loans	3,836,877	76.32 %	2,892,522	74.77 %	2,593,880	72.74 %	2,411,672	72.06 %	2,289,938	73.17 %
Consumer										
Residential mortgage	639,372	12.72 %	489,586	12.65 %	487,092	13.66 %	427,303	12.77 %	358,846	11.47 %
Home equity	470,845	9.37 %	418,563	10.82 %	414,195	11.61 %	431,335	12.89 %	411,404	13.14 %
Installment and other consumer	73,939	1.47 %	65,567	1.69 %	67,883	1.90 %	73,875	2.21 %	67,131	2.14 %
Consumer construction	6,579	0.13 %	2,508	0.06 %	3,149	0.09 %	2,437	0.07 %	2,440	0.08 %
Total Consumer Loans	1,190,735	23.68 %	976,224	25.23 %	972,319	27.26 %	934,950	27.94 %	839,821	26.83 %
Total Portfolio Loans	$5,027,612	100.00 %	$3,868,746	100.00 %	$3,566,199	100.00 %	$3,346,622	100.00 %	$3,129,759	100.00 %

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

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We maintain a General Lending Policy to control the quality of our loan portfolio. The policy delegates the authority to extend loans under specific guidelines and underwriting standards. The General Lending Policy is formulated by management and reviewed and ratified annually by the Board of Directors.

Total portfolio loans increased $1.2 billion, or 30.0 percent, since December 31, 2014, to $5.0 billion at December 31, 2015. The increase was primarily due to the addition of $788.7 million of loans from the Merger and $370.2 million of organic growth. The $788.7 million of loans acquired in the Merger consisted of $331.6 million of CRE, $184.2 million of C&I, $92.4 million of commercial construction, $116.9 million of residential mortgage, $25.6 million of home equity, $36.1 million of installment and other consumer and $1.9 million of consumer construction. Organic loan growth was strong across all of our commercial portfolios and in our residential mortgage portfolio with total organic growth of $370.2 million during 2015. Almost 60 percent of our total organic loan growth, or $219.6 million, was from our newer markets in Ohio and New York. Further driving loan growth was the expansion of our sales team with the addition of commercial lenders in various markets.

Commercial loans, including CRE, C&I and commercial construction, comprised 76 percent and 75 percent of total portfolio loans at December 31, 2015 and 2014. Although commercial loans can have a relatively higher risk profile, management believes these risks are mitigated through active portfolio management, conservative underwriting standards and continuous portfolio review. The loan-to-value, or LTV, policy guidelines for CRE loans are generally 65-80 percent. At December 31, 2015, variable commercial loans were 77 percent of the total commercial loans compared to 79 percent in 2014.

Total commercial loans have increased $944.4 million, or 32.6 percent, from December 31, 2014 with growth in all portfolios. CRE loans increased $484.4 million, or 28.8 percent, with $331.6 million of the growth from the Merger and $152.8 of organic growth. C&I loans increased $262.7 million, or 26.4 percent, with $184.2 million of growth from the Merger and $78.5 million of organic growth. Commercial construction loans increased $197.3 million, or 91.3 percent, with $92.4 million related to the Merger and $104.9 million of organic growth.

Consumer loans represent 24 percent of our loan portfolio at December 31, 2015 compared to 25 percent at December 31, 2014. Total consumer loans have increased $214.5 million, or 22.0 percent, from December 31, 2014 with $180.5 million of the increase due to the Merger and $34.0 million of organic growth.

The residential mortgage portfolio increased $149.8 million, or 30.1 percent, with $116.9 million of growth from the Merger and $32.9 million of organic growth. Residential mortgage lending continues to be a focus through a centralized mortgage origination department, secondary market activities and the utilization of commission compensated originators. Management believes that continued adherence to our conservative mortgage lending policies for portfolio loans will be as important in a growing economy as it was during the downturn in recent years. The LTV policy guideline is 80 percent for residential first lien mortgages. Higher LTV loans may be approved with the appropriate private mortgage insurance coverage. We primarily limit our fixed rate portfolio loans to a maximum term of 20 years for traditional mortgages, and 15 years with a maximum amortization term of 30 years for balloon payment mortgages. We may originate home equity loans with a lien position that is second to unrelated third party lenders, but normally only to the extent that the combined LTV considering both the first and second liens does not exceed 100 percent of the fair value of the property. Combo mortgage loans consisting of a residential first mortgage and a home equity second mortgage are also available.

We originate and sell loans into the secondary market, primarily to Fannie Mae. We sell these loans in order to mitigate interest-rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio, to generate fee revenue from sales and servicing and to maintain the primary customer relationship. During 2015 and 2014, we sold $77.2 million and $40.1 million, of 1-4 family mortgages to Fannie Mae. In addition, we service $361.2 million of secondary market mortgage loans that we originated at December 31, 2015 compared to $327.2 million at December 31, 2014. Loans sold to Fannie Mae in 2015 increased compared to 2014 due to the Merger and increased organic volume.

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

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The following table presents the maturity of consumer and commercial loans outstanding as of December 31, 2015:

	Maturity			
(dollars in thousands)	Within One Year	After One But Within Five Years	After Five Years	Total
Fixed interest rates	$166,815	$449,217	$263,745	$879,777
Variable interest rates	760,095	836,737	1,360,268	2,957,100
Total Commercial Loans	$926,910	$1,285,954	$1,624,013	$3,836,877
Fixed interest rates	76,320	224,871	292,295	593,486
Variable interest rates	371,995	53,142	172,112	597,249
Total Consumer Loans	$448,315	$278,013	$464,407	$1,190,735
Total Portfolio Loans	$1,375,225	$1,563,967	$2,088,420	$5,027,612

Credit Quality

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

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

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

(dollars in thousands)	2015	2014	2013	2012	2011
Nonperforming Loans					
Commercial real estate	$5,171	$2,255	$6,852	$20,972	$20,777
Commercial and industrial (1)	7,709	1,266	1,412	5,496	7,570
Commercial construction	7,488	105	34	1,454	3,604
Residential mortgage	4,964	1,877	1,982	4,526	2,859
Home equity	2,379	1,497	2,073	3,312	2,936
Installment and other consumer	12	21	34	40	4
Consumer construction	—	—	—	218	181
Total Nonperforming Loans (1)	27,723	7,021	12,387	36,018	37,931
Nonperforming Troubled Debt Restructurings					
Commercial real estate	3,548	2,180	3,898	9,584	10,871
Commercial and industrial	1,570	356	1,884	939	—
Commercial construction	1,265	1,869	2,708	5,324	2,943
Residential mortgage	665	459	1,356	2,752	4,370
Home Equity	523	562	218	341	—
Installment and other consumer	88	10	3	—	—
Total Nonperforming Troubled Debt Restructurings	7,659	5,436	10,067	18,940	18,184
Total Nonperforming Loans (1)	35,382	12,457	22,454	54,958	56,115
OREO	354	166	410	911	3,967
Total Nonperforming Assets (1)	$35,736	$12,623	$22,864	$55,869	$60,082
Nonperforming loans as a percent of total loans (1)	0.70 %	0.32 %	0.63 %	1.63 %	1.79 %
Nonperforming assets as a percent of total loans plus OREO(1)	0.71 %	0.33 %	0.64 %	1.66 %	1.92 %

(1)Subsequent to releasing our earnings for the fourth quarter of 2015 on January 26, 2016, we obtained new information regarding the collectability of a $4.7 million C&I loan. The loan is now classified as an impaired loan, with no required reserve, and as a nonperforming loan. We previously reported in our fourth quarter of 2015 earnings release nonperforming loans of $30.7 million, total NPA's of $31.0 million, nonperforming loans as a percentage of total gross loans of 0.61 percent, NPA's to total gross loans plus OREO of 0.61 percent and ALL to nonperforming loans of 157 percent. Even though the information regarding the collectability of this loan did not become available to us until after the release of our earnings for the fourth quarter of 2015, GAAP requires that this information be reflected in our audited Consolidated Financial Statements for 2015 and related disclosures. Thus, revised amounts and ratios are included within this Form 10-K.

Our policy is to place loans in all categories in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. There were no loans 90 days or more past due and still accruing at December 31, 2015 or December 31, 2014.

NPAs increased $23.1 million to $35.7 million at December 31, 2015 compared to $12.6 million at December 31, 2014. NPAs were at historically low levels in 2014. The increase in NPAs during 2015 was primarily due to credit deterioration on acquired loans since the acquisition date and a $4.7 million C&I loan. Included in the total NPAs of $35.7 million was approximately $16.2 million of loans from the Merger all of which became 90 days past due subsequent to the merger date.

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

TDRs can be returned to accruing status if the following criteria are met: 1) the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and 2) there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring. All TDRs are considered to be impaired loans and will be reported as impaired loans for their remaining lives, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and we fully expect that the remaining principal and interest will be collected according to the restructured agreement. All impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements noted above to be returned to accruing status.

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As an example, consider a substandard commercial construction loan that is currently 90 days past due where the loan is restructured to extend the maturity date for a period longer than would be considered an insignificant period of time. The post-modification interest rate is not increased to correspond with the current credit risk of the borrower and all other terms remain the same according to the original loan agreement. This loan will be considered a TDR as the borrower is experiencing financial difficulty and a concession has been granted. The loan will be reported as nonaccrual and as an impaired loan and a TDR. In addition, the loan could be charged down to the fair value of the collateral if a confirmed loss exists. If the loan subsequently performs, by means of making on-time principal and interest payments according to the newly restructured terms for a period of six months, and it is expected that all remaining principal and interest will be collected according to the terms of the restructured agreement, the loan will be returned to accrual status and reported as an accruing TDR. The loan will remain an impaired loan for the remaining life of the loan because the interest rate was not adjusted to be equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk.

As of December 31, 2015, we had $31.6 million in total TDRs, including $24.0 million that were performing and $7.6 million that were nonperforming. This is a decrease from December 31, 2014 when we had $42.4 million in TDRs, including $37.0 million that were performing and $5.4 million that were nonperforming. The $10.8 million decrease in total TDRs is primarily due to principal reductions during 2015. Loan modifications resulting in TDRs increased in 2015 with 60 modifications or $8.3 million of new TDRs compared to 44 modifications or $4.9 million of new TDRs in 2014. Included in the 2015 new TDRs were 32 loans totaling $1.2 million related to Chapter 7 bankruptcy filings that were not reaffirmed resulting in discharged debt which compares to 29 loans totaling $1.1 million in 2014. For the year ended December 31, 2015 we had eight TDRs for $0.4 million that met the above requirements for being returned to performing status compared to nine TDRs for $1.9 million during 2014.

The following represents delinquency as of December 31:

	2015			2014			2013			2012			2011		
(dollars in thousands)	Amount	% of Loans		Amount	% of Loans		Amount	% of Loans		Amount	% of Loans		Amount	% of Loans	
90 days or more:															
Commercial real estate	$8,719	0.40	%	$4,435	0.26	%	$10,750	0.67	%	$30,556	2.10	%	$31,648	2.24	%
Commercial and Industrial	9,279	0.74	%	1,622	0.16	%	3,296	0.39	%	6,435	0.81	%	7,570	1.10	%
Commercial construction	8,753	2.12	%	1,974	0.91	%	2,742	1.91	%	6,778	4.03	%	6,547	3.47	%
Residential mortgage	5,629	0.88	%	2,336	0.48	%	3,338	0.69	%	7,278	1.70	%	7,229	2.01	%
Home equity	2,902	0.62	%	2,059	0.49	%	2,291	0.55	%	3,653	0.85	%	2,936	0.71	%
Installment and other consumer	100	0.14	%	31	0.05	%	37	0.05	%	40	0.05	%	4	0.01	%
Consumer construction	—	—	%	—	—	%	—	—	%	218	8.95	%	181	7.42	%
Total Loans	$35,382	0.70	%	$12,457	0.32	%	$22,454	0.63	%	$54,958	1.64	%	$56,115	1.79	%
30 to 89 days:															
Commercial real estate	$12,229	0.56	%	$2,871	0.17	%	$1,416	0.09	%	$2,643	0.18	%	$9,105	0.64	%
Commercial and industrial	2,749	0.22	%	1,380	0.14	%	2,877	0.34	%	4,646	0.59	%	5,284	0.77	%
Commercial construction	3,607	0.87	%	—	—	%	1,800	1.25	%	10,542	—		—	—	%
Residential mortgage	2,658	0.42	%	1,785	0.36	%	2,494	0.51	%	3,661	0.86	%	2,403	0.67	%
Home equity	2,888	0.61	%	2,201	0.53	%	3,127	0.75	%	3,197	0.74	%	2,890	0.70	%

Installment and other consumer	352	0.48	%	425	0.65	%	426	0.63	%	501	0.68	%	452	0.67	%
Consumer construction	—	—	%	—	—	%	—	—	%	—	—	%	—	—	%
Loans held for sale	143	—	%	—	—	%	—	—	%	—	—	%	—	—	%
Total Loans	$24,626	0.49	%	$8,662	0.22	%	$12,140	0.75	%	$25,190	0.64	%	$20,134	0.33	%

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

Loans past due 90 days or more increased $22.9 million compared to December 31, 2014 and represented 0.70 percent of total loans at December 31, 2015. Loans past due by 30 to 89 days increased $16.0 million and represent 0.49 percent of total loans at December 31, 2015. The increase in our delinquency categories is mainly due to the Merger which accounted for approximately $16.2 million of the total increase in loans past due 90 days or more and $14.2 million of the total increase in loans past due by 30 to 89 days. Delinquency increased in all loan categories in 2015, with the exception of installment and other consumer.

Allowance for Loan Losses

We maintain an ALL at a level determined to be adequate to absorb estimated probable credit losses inherent within the loan portfolio as of the balance sheet date. Determination of an adequate ALL is inherently subjective and may be subject to significant changes from period to period. The methodology for determining the ALL has two main components: evaluation and impairment tests of individual loans and impairment tests of certain groups of homogeneous loans with similar risk characteristics.

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

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

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

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

	Years Ended December 31,				
(dollars in thousands)	2015	2014	2013	2012	2011
ALL Balance at Beginning of Year:	$47,911	$46,255	$46,484	$48,841	$51,387
Charge-offs:					
Commercial real estate	(2,787)	(2,041)	(4,601)	(9,627)	(8,824)
Commercial and industrial	(5,463)	(1,267)	(2,714)	(5,278)	(8,971)
Commercial construction	(3,321)	(712)	(4,852)	(10,521)	(1,720)
Consumer real estate	(2,167)	(1,200)	(2,407)	(2,509)	(2,617)
Other consumer	(1,528)	(1,133)	(1,002)	(1,078)	(1,013)
Total	(15,266)	(6,353)	(15,576)	(29,013)	(23,145)
Recoveries:					
Commercial real estate	3,545	1,798	3,388	1,259	780
Commercial and industrial	605	3,647	2,142	1,153	357
Commercial construction	143	146	531	891	2,463
Consumer real estate	495	350	651	197	1,030
Other consumer	326	353	324	341	360
Total	5,114	6,294	7,036	3,841	4,990
Net Charge-offs	(10,152)	(59)	(8,540)	(25,172)	(18,155)
Provision for loan losses	10,388	1,715	8,311	22,815	15,609
ALL Balance at End of Year:	$48,147	$47,911	$46,255	$46,484	$48,841

Net loan charge-offs increased from $0.1 million to $10.1 million, or 0.22 percent of average loans, for 2015 compared to 0.00 percent of average loans for 2014. Net loan charge-offs were at historic low levels in 2014. The Merger accounted for approximately $6.0 million of loan charge-offs during 2015, which primarily related to four relationships that experienced credit deterioration subsequent to the acquisition date. Net charge-offs increased significantly in C&I, related to two originated loans, and in commercial construction due to the aforementioned acquired loans in comparison to 2014.

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

	2015	2014	2013	2012	2011
Commercial real estate	(0.04)%	0.01%	0.08%	0.59%	0.55%
Commercial and industrial	0.40%	(0.26)%	0.07%	0.57%	1.24%
Commercial construction	0.96%	0.32%	2.72%	5.94%	(0.34)%
Consumer real estate	0.17%	0.09%	0.20%	0.28%	0.20%
Other consumer	1.37%	1.19%	0.99%	0.91%	0.94%
Net charge-offs to average loans outstanding	0.22%	—%	0.25%	0.78%	0.56%
Allowance for loan losses as a percentage of total loans	0.96%	1.24%	1.30%	1.38%	1.56%
Allowance for loan losses to total nonperforming loans	136%	385%	206%	85%	87%
Provision for loan losses as a percentage of net loan charge-offs	102%	NM	97%	91%	86%

NM - percentage not meaningful

An inherent risk to the loan portfolio as a whole is the condition of the economy in our markets. In addition, each loan segment carries with it risks specific to the segment. We develop and document a systematic ALL methodology based on the following portfolio segments: 1) CRE, 2) C&I, 3) Commercial Construction, 4) Consumer Real Estate and 5) Other Consumer.

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

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

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

Consumer real estate loans are secured by first and second lien such as home equity loans, home equity lines of credit and 1-4 family residences, including purchase money mortgages. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk of this segment. The state of the local housing markets can also have a significant impact on this segment because low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

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

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

	2015			2014			2013			2012			2011		
(dollars in thousands)	Amount	% of Total		Amount	% of Total		Amount	% of Total		Amount	% of Total		Amount	% of Total	
Commercial real estate	$15,043	31	%	$20,164	42	%	$18,921	41	%	$25,246	54	%	$29,804	61	%
Commercial and industrial	10,853	23	%	13,668	28	%	14,443	31	%	7,759	17	%	11,274	23	%
Commercial construction	12,625	26	%	6,093	13	%	5,374	12	%	7,500	16	%	3,703	8	%
Consumer real estate	8,400	17	%	6,333	13	%	6,362	14	%	5,058	11	%	3,166	6	%
Other consumer	1,226	3	%	1,653	4	%	1,165	2	%	921	2	%	894	2	%
Total	$48,147	100	%	$47,911	100	%	$46,265	100	%	$46,484	100	%	$48,841	100	%

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Significant to our ALL is a higher concentration of commercial loans. The ability of borrowers to repay commercial loans is dependent upon the success of their business and general economic conditions. Due to the greater potential for loss within our commercial portfolio, we monitor the commercial loan portfolio through an internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and are reviewed on an ongoing basis according to our internal policies. Loans rated special mention or substandard have potential or well-defined weaknesses not generally found in high quality, performing loans, and require attention from management to limit loss.

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

(dollars in thousands)	2015	2014	2013	2012	2011
Collectively Evaluated for Impairment	$48,110	$47,857	$46,158	$44,253	$43,296
Individually Evaluated for Impairment	37	54	97	2,231	5,545
Total Allowance for Loan Losses	$48,147	$47,911	$46,255	$46,484	$48,841

The ALL was $48.1 million, or 0.96 percent of total loans, at December 31, 2015 as compared to $47.9 million, or 1.24 percent of total portfolio loans at December 31, 2014. The ALL as a percentage of originated loans was 1.10 percent at December 31, 2015. The decrease in the ALL to total portfolio loans from December 31, 2015 to December 31, 2014 is partly due to the Merger. Acquired loans of $788.7 million were recorded at fair value with no carryover of the ALL. Additional credit deterioration on acquired loans, in excess of the original credit discount embedded in the fair value determination at the date of acquisition, was recognized in the ALL through the provision for loan losses.

Overall, the total ALL balance remains relatively consistent, but a higher percentage of the ALL is attributable to the commercial construction portfolio segment due to increased inherent risk in this loan portfolio. The commercial construction portfolio loan balances have increased and we have experienced an increase in the delinquency rate during 2015 in this portfolio. Impaired loans increased $4.4 million, or 10.8 percent, from December 31, 2014. As of December 31, 2015, we had $45.7 million of impaired loans which included $19.0 million of new impaired loans during 2015. The $19.0 million of new impaired loans were due to $9.9 million of acquired loans, primarily due to nine relationships that experienced credit deterioration since the acquisition date, and $9.1 million of originated loans. The reserve for loans collectively evaluated for impairment did not change significantly at December 31, 2015 compared to December 31, 2014. While we experienced an increase our asset quality metrics, the changes have primarily been related to the acquired loan portfolio which was accounted for at fair value at the date of acquisition. Further deterioration in acquired loans was accounted for through additional provision during 2015 and considered in the total ALL at December 31, 2015.

Federal Home Loan Bank and Other Restricted Stock

At December 31, 2015 and 2014, we held FHLB of Pittsburgh stock of $22.2 million and $14.3 million. This investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We hold FHLB stock because we are a member of the FHLB of Pittsburgh. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon on the members' asset values, level of borrowings and participation in other programs offered. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the products and services offered by the FHLB. Unlike equity securities of traditional for-profit enterprises, the stock of the FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value. We reviewed and evaluated the FHLB capital stock for OTTI at December 31, 2015. The FHLB reported improved earnings throughout 2015 and 2014 and continues to exceed all capital ratios required. Additionally, we considered that the FHLB has been paying dividends and redeeming excess stock throughout 2015 and 2014. Accordingly, we believe sufficient evidence exists to conclude that no OTTI exists at

December 31, 2015.
At December 31, 2015 and 2014, we held Atlantic Community Bankers' Bank, or ACBB, stock of $0.9 million and $0.8 million. This investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the investment. Like FHLB stock, members purchase ACBB stock to access the products and services offered, as opposed to traditional equity investors who acquire stock for purposes such as appreciation in value. S&T acquired the ACBB stock as a result of bank acquisitions and does not use the bank's member services. ACBB continues to be classified as well capitalized by regulatory guidelines and the current purchase price for new members is $3,500 per share. As of December 31, 2015, the book value of our ACBB stock was $2,047 per share; therefore, management believes that no OTTI exists at December 31, 2015.

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Deposits

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

(dollars in thousands)	2015	2014	$ Change
Noninterest-bearing demand	$1,227,766	$1,083,919	$143,847
Interest-bearing demand	586,936	333,015	253,921
Money market	384,725	309,245	75,480
Savings	1,061,265	1,027,095	34,170
Certificates of deposit	1,197,030	933,210	263,820
Brokered deposits	418,889	222,358	196,531
Total	$4,876,611	$3,908,842	$967,769

Deposits are our primary source of funds. We believe that our deposit base is stable and that we have the ability to attract new deposits. Total deposits at December 31, 2015 increased $967.8 million, or 24.8 percent, primarily due to $722.3 million of deposits added from the Merger. Of the $722.3 million added from the Merger, $228.2 million was noninterest-bearing demand, $151.6 million was interest-bearing demand, $87.3 million was money market, $24.8 million was savings and $230.4 million was CDs including brokered deposits. Overall, our customer deposits increased $771.2 million from December 31, 2014. Customer deposit growth included a $143.8 million, or 13.3 percent, increase in noninterest-bearing demand, a $253.9 million, or 76.2 percent, increase in interest-bearing demand, a $75.5 million, or 24.4 percent, increase in money market, a $34.2 million, or 3.3 percent, increase in savings and $263.8 million, or 28.3 percent increase in CDs.

Our brokered deposits increased $196.5 million, or 88.4 percent, compared to December 31, 2014. Brokered deposits consist of CDs, money market, and interest-bearing demand funds and are an additional source of funds utilized by the ALCO as a way to diversify funding sources, as well as manage our funding costs and structure. The increase in brokered deposits was primarily due to funding needs to support our asset growth.

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

	2015			2014			2013		
(dollars in thousands)	Amount	Rate		Amount	Rate		Amount	Rate	
Noninterest-bearing demand	$1,170,011			$1,046,606			$955,475		
Interest-bearing demand	592,301	0.13	%	321,907	0.02	%	309,748	0.02	%
Money market	388,172	0.19	%	321,294	0.16	%	319,831	0.14	%
Savings	1,072,683	0.16	%	1,033,482	0.16	%	1,001,209	0.17	%
Certificates of deposit	1,093,564	0.77	%	905,346	0.79	%	973,339	0.92	%
Brokered deposits	376,095	0.35	%	226,169	0.34	%	81,112	0.29	%
Total	$4,692,826	0.28	%	$3,854,804	0.26	%	$3,640,714	0.31	%

CDs of $100,000 and over, including Certificate of Deposit Account Registry Services CDs, or CDARS, accounted for
11.8 percent of total deposits at December 31, 2015 and 9.8 percent at December 31, 2014, and primarily represent deposit relationships with local customers in our market area.

Maturities of certificates of deposit of $100,000 or more outstanding at December 31, 2015, including brokered deposits, are summarized as follows:

(dollars in thousands)	2015
Three months or less	$169,603
Over three through six months	98,569

Over six through twelve months	102,557
Over twelve months	184,709
Total	$555,438

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Borrowings

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

(dollars in thousands)	2015	2014	$ Change
Securities sold under repurchase agreements, retail	$62,086	$30,605	$31,481
Short-term borrowings	356,000	290,000	66,000
Long-term borrowings	117,043	19,442	97,601
Junior subordinated debt securities	45,619	45,619	—
Total Borrowings	$580,748	$385,666	$195,082

Borrowings are an additional source of funding for us. We define repurchase agreements with our local retail customers as retail REPOs. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. Short-term borrowings are for terms under one year and were comprised primarily of FHLB advances. Long-term borrowings are for terms greater than one year and consist primarily of FHLB advances. FHLB borrowings are for various terms secured by a blanket lien on eligible real estate secured loans. These borrowings were utilized to support strong asset growth during 2015.

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

	Securities Sold Under Repurchase Agreements					
(dollars in thousands)	2015		2014		2013	
Balance at December 31	$62,086		$30,605		$33,847	
Average balance during the year	44,394		28,372		54,057	
Average interest rate during the year	0.01	%	0.01	%	0.12	%
Maximum month-end balance during the year	$62,086		$40,983		$83,766	
Average interest rate at December 31	0.01	%	0.01	%	0.01	%

	Short-Term Borrowings					
(dollars in thousands)	2015		2014		2013	
Balance at December 31	$356,000		$290,000		$140,000	
Average balance during the year	257,117		164,811		101,973	
Average interest rate during the year	0.36	%	0.31	%	0.27	%
Maximum month-end balance during the year	$356,000		$290,000		$175,000	
Average interest rate at December 31	0.52	%	0.30	%	0.30	%

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

	Long-Term Borrowings					
(dollars in thousands)	2015		2014		2013	
Balance at December 31	$117,043		$19,442		$21,810	
Average balance during the year	83,648		20,571		24,312	
Average interest rate during the year	0.94	%	3.00	%	3.07	%
Maximum month-end balance during the year	$118,432		$21,616		$28,913	
Average interest rate at December 31	0.81	%	2.97	%	3.01	%

	Junior Subordinated Debt Securities					
(dollars in thousands)	2015		2014		2013	
Balance at December 31	$45,619		$45,619		$45,619	
Average balance during the year	47,071		45,619		65,989	
Average interest rate during the year	2.82	%	2.68	%	3.14	%
Maximum month-end balance during the year	$45,619		$45,619		$90,619	
Average interest rate at December 31	2.89	%	2.70	%	2.70	%

At December 31, 2015, long-term borrowings increased $97.6 million as compared to December 31, 2014 as a result of shifting $100 million of short-term borrowings to a long-term variable rate borrowing in the second quarter of 2015. At December 31, 2015, our long-term borrowings outstanding of $117.0 million included $13.9 million that were at a fixed rate and $103.1 million at a variable rate.

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

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

On March 4, 2015 we assumed a $13.5 million junior subordinated debt from the Integrity acquisition. On March 5, 2015, we paid off $8.5 million and on June 18, 2015, we paid off the remaining $5.0 million.

Wealth Management Assets

As of December 31, 2015, the fair value of the S&T Bank Wealth Management assets under management, or AUM, and administration, which are not accounted for as part of our assets, increased to $2.1 billion from $2.0 billion as of December 31, 2014. AUM consist of $1.1 billion in S&T Trust, $0.5 billion in S&T Financial Services and $0.5 billion in Stewart Capital Advisors. The increase in 2015 is primarily attributable to new business.

Explanation of Use of Non-GAAP Financial Measures

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

We believe the presentation of net interest income on a FTE basis ensures comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Consolidated Statements of Net Income is reconciled to net interest income adjusted to a FTE basis on pages 26 and 32.

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

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

Common return on average tangible assets, common return on average tangible common equity and the ratio of tangible common equity to tangible assets exclude goodwill, other intangible assets and preferred equity in order to show the significance of the tangible elements of our assets and common equity. Total assets and total average assets are reconciled to total tangible assets and total tangible average assets on page 19. Total shareholders equity and total average shareholders equity are also reconciled to total tangible common equity and total tangible average common equity on page 19. These measures are consistent with industry practice.

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

Capital Resources

Shareholders' equity increased $183.8 million, or 30.2 percent, to $792.2 million at December 31, 2015 compared to $608.4 million at December 31, 2014. The increase in shareholders' equity is primarily due to $142.5 million of common stock issued in the Merger and net income exceeding dividends by $42.6 million for 2015. Included in other comprehensive income (loss) was a decrease of $2.6 million due to the adjustment in the funded status of the employee benefit plans due to asset performance and by the change in unrealized gains on securities available-for-sale, due to the decline in interest rates at the end of the year.

We continue to maintain a strong capital position with a leverage ratio of 8.96 percent as compared to the regulatory guideline of 5.00 percent to be well capitalized and a Common Equity Tier 1 ratio of 9.77 percent compared to the regulatory guideline of 6.50 percent to be well capitalized. Our risk-based Tier 1 and Total capital ratios were 10.15 percent and 11.60 percent at December 31, 2015, which places us significantly above the federal bank regulatory agencies' "well capitalized" guidelines of 8.00 percent and 10.00 percent for Tier 1 and Total capital. We believe that we have the ability to raise additional capital, if necessary.

In July 2013 the federal banking agencies issued a final rule to implement Basel III (which were agreements reached in July 2010 by the international oversight body of the Basel Committee on Banking Supervision to require more and higher-quality capital) as well as the minimum leverage and risk-based capital requirements of the Dodd-Frank Act. The final rule establishes a comprehensive capital framework, and went into effect on January 1, 2015, for smaller banking organizations such as S&T and S&T Bank. It introduces a common equity Tier 1 risk-based capital ratio requirement of 4.50 percent, increases the minimum Tier 1 risk-based capital ratio to 6.00 percent, and requires a leverage ratio of 4.00 percent for all banks. Common equity Tier 1 capital consists of common stock instruments that meet the eligibility criteria in the rule, retained earnings, accumulated other comprehensive income and common equity Tier 1 minority interest. The rule also requires a banking organization to maintain a capital conservation buffer composed of common equity Tier 1 capital in an amount greater than 2.50 percent of total risk-weighted assets beginning in 2019. The capital conservation buffer will be phased in beginning in 2016, at 25 percent, increasing to 50 percent in 2017, 75 percent in 2018 and 100 percent in 2019 and beyond. As a result, starting in 2019, a banking organization must maintain a common equity Tier 1 risk-based capital ratio greater than 7.00 percent, a Tier 1 risk-based capital ratio greater than 8.50 percent and a Total risk-based capital ratio greater than 10.50 percent; otherwise, it will be subject to restrictions on capital distributions and discretionary bonus payments. By 2019, when the new rule is fully phased in, the minimum capital requirements plus the capital conservation buffer will exceed the regulatory capital ratios required for an insured depository institution to be well-capitalized under prompt corrective action law described below.

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

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

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

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

Contractual Obligations

Contractual obligations represent future cash commitments and liabilities under agreements with third parties and exclude contingent contractual liabilities for which we cannot reasonably predict future payments. We have various financial obligations, including contractual obligations and commitments that may require future cash payments. The following table presents as of December 31, 2015, significant fixed and determinable contractual obligations to third parties by payment date:

	Payments Due In				
(dollars in thousands)	2016	2017-2018	2019-2020	Later Years	Total
Deposits without a stated maturity(1)	$3,510,403	$—	$—	$—	$3,510,403
Certificates of deposit(1)	870,679	407,706	79,550	8,273	1,366,208
Securities sold under repurchase agreements(1)	62,086	—	—	—	62,086
Short-term borrowings(1)	356,000	—	—	—	356,000
Long-term borrowings(1)	102,330	4,908	4,518	5,287	117,043
Junior subordinated debt securities(1)	—	—	—	45,619	45,619
Operating and capital leases	2,936	5,946	5,924	53,717	68,523
Purchase obligations	11,360	23,866	25,478	—	60,704
Total	$4,915,794	$442,426	$115,470	$112,896	$5,586,586

(1) Excludes interest

Operating lease obligations represent short and long-term lease arrangements as described in Part II, Item 8, Note 10 Premises and Equipment, in the Notes to Consolidated Financial Statements. Purchase obligations primarily represent obligations under agreement with our third party data processing servicer and communications charges as described in Part II, Item 8, Note 18 Commitments and Contingencies, of this Report.

Off-Balance Sheet Arrangements

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

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

(dollars in thousands)	2015	2014
Commitments to extend credit	$1,619,854	$1,158,628
Standby letters of credit	97,676	73,584
Total	$1,717,530	$1,232,212

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

Our allowance for unfunded commitments is determined using a methodology similar to that used to determine the ALL. Amounts are added to the allowance for unfunded commitments through a charge to current earnings in noninterest expense. The balance in the allowance for unfunded commitments increased $0.2 million to $2.5 million at December 31, 2015 compared to $2.3 million at December 31, 2014.

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

Liquidity

Liquidity is defined as a financial institution's ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or of borrowers needing to access funds to meet their credit needs. In order to manage liquidity risk our Board of Directors has delegated authority to the ALCO for formulation, implementation and oversight of liquidity risk management for S&T. ALCO's goal is to maintain adequate levels of liquidity at a reasonable cost to meet funding needs in both a normal operating environment and for potential liquidity stress events. ALCO monitors and manages liquidity through various ratios, reviewing cash flow projections, performing stress tests and by having a detailed contingency funding plan. ALCO policy guidelines define graduated risk tolerance levels. If our liquidity position moves to a level that has been defined as high risk, specific actions are required, such as increased monitoring or the development of an action plan to reduce the risk position.

Our primary funding and liquidity source is a stable customer deposit base. We believe S&T Bank has the ability to retain existing and attract new deposits, mitigating any funding dependency on other more volatile sources. Refer to the Deposits Section of this Part II, Item 7, MD&A, for additional discussion on deposits. Although deposits are the primary source of funds, we have identified various funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. Additional funding sources accessible to S&T include borrowing availability at the FHLB of Pittsburgh, Federal Funds lines with other financial institutions, the brokered deposit market, and borrowing availability through the Federal Reserve Borrower-In-Custody program.

An important component of S&T's ability to effectively respond to potential liquidity stress events is maintaining a cushion of highly liquid assets. Highly liquid assets are those that can be converted to cash quickly, with little or no loss in value, to meet financial obligations. ALCO policy guidelines define a ratio of highly liquid assets to total assets by graduated risk tolerance levels of minimal, moderate and high. At December 31, 2015 S&T Bank had $442.8 million in highly liquid assets, which consisted of $41.2 million in interest-bearing deposits with banks, $366.2 million in unpledged securities and $35.3 million in loans held for sale. The highly liquid assets to total assets resulted in an asset liquidity ratio of 7.0 percent at December 31, 2015. Also, at December 31, 2015, we had borrowing availability of $1.4 billion with the FHLB of Pittsburgh. Refer to Part II, Item 8, Notes 16 and 17 Short-term and Long-term borrowings, and the Borrowings section of this Part II, Item 7, MD&A, for more details.

Inflation

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

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is defined as the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect a financial institution's earnings or capital. For most financial institutions, including S&T, market risk primarily reflects exposures to changes in interest rates. Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes affect capital by changing the net present value of a bank's future cash flows, and the cash flows themselves, as rates change. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can threaten a bank's earnings, capital, liquidity and solvency. Our sensitivity to changes in interest rate movements is continually monitored by the ALCO. ALCO monitors and manages market risk through rate shock analyses, economic value of equity, or EVE, analysis and by performing stress tests in order to mitigate earnings and market value fluctuations due to changes in interest rates.

Rate shock analyses results are compared to a base case to provide an estimate of the impact that market rate changes may have on 12 months of pretax net interest income. The base case and rate shock analyses are performed on a static balance sheet. A static balance sheet is a no growth balance sheet in which all maturing and/or repricing cash flows are reinvested in the same product at the existing product spread. Rate shock analyses assume an immediate parallel shift in market interest rates and also include management assumptions regarding the impact of interest rate changes on non-maturity deposit products (noninterest-bearing demand, interest-bearing demand, money market and savings) and changes in the prepayment behavior of loans and securities with optionality. S&T policy guidelines limit the change in pretax net interest income over a 12 month horizon using rate shocks of +/- 300 basis points. Policy guidelines define the percent change in pretax net interest income by graduated risk tolerance levels of minimal, moderate and high. We have temporarily suspended the -200 and -300 basis point rate shock analyses. Due to the low interest rate environment, we believe the impact to net interest income when evaluating the -200 and -300 basis point rate shock scenarios does not provide meaningful insight into our interest rate risk position.

In order to monitor interest rate risk beyond the 12 month time horizon of rate shocks, we also perform EVE analysis. EVE represents the present value of all asset cash flows minus the present value of all liability cash flows. EVE rate change results are compared to a base case to determine the impact that market rate changes may have on our EVE. As with rate shock analysis, EVE incorporates management assumptions regarding prepayment behavior of fixed rate loans and securities with optionality and the behavior and value of non-maturity deposit products. S&T policy guidelines limit the change in EVE given changes in rates of +/- 300 basis points. Policy guidelines define the percent change in EVE by graduated risk tolerance levels of minimal, moderate and high. We have also temporarily suspended the EVE -200 and -300 basis point scenarios due to the low interest rate environment.

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

	December 31, 2015		December 31, 2014	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
300	5.5	(0.8)	6.7	1.8
200	3.3	1.7	4.1	3.9
100	1.6	2.3	1.8	3.5
(100)	(5.1)	(11.1)	(3.4)	(12.3)

The results from the rate shock analyses are consistent with having an asset sensitive balance sheet. Having an asset sensitive balance sheet means more assets than liabilities will reprice during the measured time frames. The implications of an asset sensitive balance sheet will differ depending upon the change in market interest rates. For example, with an asset sensitive balance sheet in a declining interest rate environment, more assets than liabilities will decrease in rate. This situation could result in a decrease in net interest income and operating income. Conversely, with an asset sensitive balance sheet in a rising interest rate environment, more assets than liabilities will increase in rate. This situation could result in an increase in net interest income and operating income. As measured by rate shock analyses, an increase in interest rates would have a positive impact on pretax net interest income.

Our rate shock analyses indicate that there was a decline in the percent change in pretax net interest income for our rates up and rates down shock scenarios when comparing December 31, 2015 and December 31, 2014. The decline in the rates up shock scenarios is mainly a result of becoming slightly less asset sensitive due to utilization of short-term funding to support asset growth during the fourth quarter of 2015. The decline in the rates down shock scenario is mainly a result of higher rates on assets in the base case when compared to December 31, 2014. Higher base case asset portfolio rates resulted in a larger decrease in rates before hitting assumed floors.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - continued

When comparing the EVE results for December 31, 2015 and December 31, 2014, the percent change to EVE has decreased in the rates up shock scenarios and improved in the rate down shock scenario. The percent change to EVE in our rate shock scenarios is mainly attributed to the change in value of our core deposits due to a lower rate environment.

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

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements

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

(in thousands, except share and per share data)	December 31, 2015	2014
ASSETS		
Cash and due from banks, including interest-bearing deposits of $41,639 and $57,048 at December 31, 2015 and 2014	$99,399	$109,580
Securities available-for-sale, at fair value	660,963	640,273
Loans held for sale	35,321	2,970
Portfolio loans, net of unearned income	5,027,612	3,868,746
Allowance for loan losses	(48,147)	(47,911)
Portfolio loans, net	4,979,465	3,820,835
Bank owned life insurance	70,175	62,252
Premises and equipment, net	49,127	38,166
Federal Home Loan Bank and other restricted stock, at cost	23,032	15,135
Goodwill	291,764	175,820
Other intangible assets, net	6,525	2,631
Other assets	102,583	97,024
Total Assets	$6,318,354	$4,964,686
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$1,227,766	$1,083,919
Interest-bearing demand	616,188	335,099
Money market	605,184	376,612
Savings	1,061,265	1,027,095
Certificates of deposit	1,366,208	1,086,117
Total Deposits	4,876,611	3,908,842
Securities sold under repurchase agreements	62,086	30,605
Short-term borrowings	356,000	290,000
Long-term borrowings	117,043	19,442
Junior subordinated debt securities	45,619	45,619
Other liabilities	68,758	61,789
Total Liabilities	5,526,117	4,356,297
SHAREHOLDERS' EQUITY		
Common stock ($2.50 par value)		
Authorized—50,000,000 shares		
Issued—36,130,480 shares at December 31, 2015 and 31,197,365 shares at December 31, 2014	90,326	77,993
Outstanding—34,810,374 shares at December 31, 2015 and 29,796,397 shares at December 31, 2014		
Additional paid-in capital	210,545	78,818
Retained earnings	544,228	504,060
Accumulated other comprehensive income (loss)	(16,457)	(13,833)
Treasury stock (1,320,106 shares at December 31, 2015 and 1,400,968 shares at December 31, 2014, at cost)	(36,405)	(38,649)
Total Shareholders' Equity	792,237	608,389
Total Liabilities and Shareholders' Equity	$6,318,354	$4,964,686

See Notes to Consolidated Financial Statements

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

	Years ended December 31,		
(dollars in thousands, except per share data)	2015	2014	2013
INTEREST INCOME			
Loans, including fees	$188,012	$147,293	$142,492
Investment Securities:			
Taxable	9,792	8,983	7,478
Tax-exempt	3,954	3,857	3,401
Dividends	1,790	390	385
Total Interest Income	203,548	160,523	153,756
INTEREST EXPENSE			
Deposits	12,944	10,128	11,406
Borrowings and junior subordinated debt securities	3,053	2,353	3,157
Total Interest Expense	15,997	12,481	14,563
NET INTEREST INCOME	187,551	148,042	139,193
Provision for loan losses	10,388	1,715	8,311
Net Interest Income After Provision for Loan Losses	177,163	146,327	130,882
NONINTEREST INCOME			
Securities (losses) gains, net	(34)	41	5
Debit and credit card fees	12,113	10,781	10,931
Service charges on deposit accounts	11,642	10,559	10,488
Wealth management fees	11,444	11,343	10,696
Insurance fees	5,500	5,955	6,248
Gain on sale of merchant card servicing business	—	—	3,093
Mortgage banking	2,554	917	2,123
Other	7,814	6,742	7,943
Total Noninterest Income	51,033	46,338	51,527
NONINTEREST EXPENSE			
Salaries and employee benefits	68,252	60,442	60,847
Net occupancy	10,652	8,211	8,018
Data processing	9,677	8,737	8,263
Furniture and equipment	6,093	5,317	4,883
Marketing	4,224	3,316	2,929
Other taxes	3,616	2,905	3,743
FDIC insurance	3,416	2,436	2,772
Professional services and legal	3,365	3,717	4,184
Merger related expenses	3,167	689	838
Other	24,255	21,470	20,915
Total Noninterest Expense	136,717	117,240	117,392
Income Before Taxes	91,479	75,425	65,017
Provision for income taxes	24,398	17,515	14,478
Net Income Available to Common Shareholders	$67,081	$57,910	$50,539
Earnings per common share—basic	$1.98	$1.95	$1.70
Earnings per common share—diluted	$1.98	$1.95	$1.70
Dividends declared per common share	$0.73	$0.68	$0.61

See Notes to Consolidated Financial Statements

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

(dollars in thousands)	Years ended December 31, 2015	2014	2013
Net Income	$67,081	$57,910	$50,539
Other Comprehensive Income (Loss), Before Tax:			
Net change in unrealized (losses) gains on securities available-for-sale	(663)	11,825	(16,928)
Net available-for-sale securities losses (gains) reclassified into earnings	34	(41)	(5)
Adjustment to funded status of employee benefit plans	(3,551)	(13,394)	18,299
Other Comprehensive Income (Loss), Before Tax	(4,180)	(1,610)	1,366
Income tax benefit (expense) related to items of other comprehensive income	1,556	471	(478)
Other Comprehensive Income (Loss), After Tax	(2,624)	(1,139)	888
Comprehensive Income	$64,457	$56,771	$51,427

See Notes to Consolidated Financial Statements

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

(in thousands, except share and per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2012	$77,993	$77,458	$436,039	$(13,582)	$(40,486)	$537,422
Net income for 2013			50,539			50,539
Other comprehensive income (loss), net of tax				888		888
Cash dividends declared ($0.61 per share)			(18,137)			(18,137)
Treasury stock issued (5,516 shares, net)			(283)		195	(88)
Recognition of restricted stock compensation expense		586				586
Tax expense from stock-based compensation		96				96
Balance at December 31, 2013	$77,993	$78,140	$468,158	$(12,694)	$(40,291)	$571,306
Net income for 2014			57,910			57,910
Other comprehensive income (loss), net of tax				(1,139)		(1,139)
Cash dividends declared ($0.68 per share)			(20,203)			(20,203)
Treasury stock issued (58,672 shares, net)			(1,805)		1,642	(163)
Recognition of restricted stock compensation expense		933				933
Tax benefit from stock-based compensation		16				16
Issuance costs		(271)				(271)
Balance at December 31, 2014	$77,993	$78,818	$504,060	$(13,833)	$(38,649)	$608,389
Net income for 2015			67,081			67,081
Other comprehensive income (loss), net of tax				(2,624)		(2,624)
Cash dividends declared ($0.73 per share)			(24,487)			(24,487)
Common stock issued in acquisition (4,933,115 shares)	12,333	130,136				142,469
Treasury stock issued (80,862 shares, net)			(2,426)		2,244	(182)
Recognition of restricted stock compensation expense		1,670				1,670
Tax benefit from stock-based compensation		53	—			53
Issuance costs		(132)				(132)
Balance at December 31, 2015	$90,326	$210,545	$544,228	$(16,457)	$(36,405)	$792,237

See Notes to Consolidated Financial Statements

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

	Years ended December 31,		
(dollars in thousands)	2015	2014	2013
OPERATING ACTIVITIES			
Net Income	$67,081	$57,910	$50,539
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	10,388	1,715	8,311
Provision for unfunded loan commitments	258	(655)	(60)
Net depreciation, amortization and accretion	356	4,703	5,333
Net amortization of discounts and premiums on securities	3,600	3,680	3,826
Stock-based compensation expense	1,636	975	687
Securities losses, (gains), net	34	(41)	(5)
Net gain on sale of merchant card servicing business	—	—	(3,093)
Tax benefit from stock-based compensation	(53)	(16)	(96)
Mortgage loans originated for sale	(107,489)	(42,842)	(66,695)
Proceeds from the sale of loans	99,458	42,361	87,932
Deferred income taxes	(427)	1,536	(2,358)
Gain on sale of fixed assets	(179)	(33)	—
Gain on the sale of loans, net	(1,044)	(353)	(874)
Net increase in interest receivable	(2,744)	(933)	(130)
Net decrease in interest payable	(193)	(127)	(2,005)
Net (increase) decrease in other assets	(11,396)	7,628	25,681
Net increase (decrease) in other liabilities	1,298	2,595	(20,917)
Net Cash Provided by Operating Activities	60,584	78,103	86,076
INVESTING ACTIVITIES			
Proceeds from maturities, prepayments and calls of securities available-for-sale	50,142	57,092	66,744
Proceeds from sales of securities available-for-sale	11,119	1,418	94
Purchases of securities available-for-sale	(74,712)	(181,213)	(144,752)
Net purchases of Federal Home Loan Bank stock	(855)	(1,506)	1,685
Net increase in loans	(383,575)	(313,264)	(241,172)
Proceeds from the sale of loans not originated for resale	2,880	5,408	5,158
Purchases of premises and equipment	(5,133)	(5,079)	(2,833)
Proceeds from the sale of premises and equipment	467	96	643
Net cash paid in excess of cash acquired from bank merger	(16,347)	—	—
Proceeds from the sale of merchant card servicing business	—	—	4,750
Proceeds from surrender of bank owned life insurance	10,277		