TELEFONOS DE MEXICO S A B DE C V
Form 6-K
February 04, 2010

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of **February 2010**

Commission File Number: 333-13580

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

(Exact Name of the Registrant as Specified in the Charter)

Telephones of Mexico

(Translation of Registrant's Name into English)

Parque Vía 190

Colonia Cuauhtémoc

México City 06599, México, D.F.

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F. Form 20-F....√ .....Form 40-F.........

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ____

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ____

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ..... No...√ ..

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

I N D E X

FS-01 CONSOLIDATED BALANCE SHEETS, AT DECEMBER 31, 2009 & 2008

FS-02 CONSOLIDATED BALANCE SHEETS - BREAKDOWN OF MAIN CONCEPTS -

FS-03 CONSOLIDATED BALANCE SHEETS - OTHER CONCEPTS -

FS-04 CONSOLIDATED STATEMENTS OF INCOME FROM JANUARY 01 TO DECEMBER 31, 2009 & 2008

FS-05 CONSOLIDATED STATEMENTS OF INCOME - BREAKDOWN OF MAIN CONCEPTS -

FS-06 CONSOLIDATED STATEMENTS OF INCOME - OTHER CONCEPTS -

FS-07 CONSOLIDATED QUARTERLY STATEMENTS OF INCOME FROM OCTOBER 01 TO DECEMBER 31, 2009 & 2008

FS-08 CONSOLIDATED QUARTERLY STATEMENTS OF INCOME - BREAKDOWN OF MAIN CONCEPTS -

FS-09 CONSOLIDATED QUARTERLY STATEMENTS OF INCOME - OTHER CONCEPTS -

FS-12 DATA PER SHARE - CONSOLIDATED INFORMATION

FS-13 RATIOS - CONSOLIDATED INFORMATION

FS-14 STATE OF CASH FLOW (INDIRECT METHOD)

FS-15 STATE OF CASH FLOW (INDERECT METHOD) - BREAKDOWN OF MAIN CONCEPTS

ANNEX 1.- CHIEF EXECUTIVE OFFICER REPORT

ANNEX 2.- NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ANNEX 3a.- SHARE INVESTMENTS -SUBSIDIARIES-

ANNEX 3b.- SHARE INVESTMENTS -AFFILATES-

ANNEX 5.- CREDITS BREAKDOWN

ANNEX 6.- FOREING EXCHANGE MONETARY POSITION

ANNEX 7.- CALCULATION AND RESULT FROM MONETARY POSITION

ANNEX 8.- DEBT INSTRUMENTS

ANNEX 9.- PLANTS, - COMMERCIAL, DISTRIBUTION AND/OR SERVICE CENTERS-

ANNEX 10.- RAW MATERIALS

ANNEX 11a.- SALES DISTRIBUTION PRODUCT - SALES -

ANNEX 11b.- SALES DISTRIBUTION PRODUCT - FOREIGN SALES -

ANALYSIS OF PAID CAPITAL STOCK

ANNEX 13.- PROJECT INFORMATION

ANNEX 14.- TRANSACTIONS IN FOREIGN CURRENCY AND EXCHANGE OF FINANCIAL STATEMENTS FROM FOREIGN OPERATIONS

COMPLIANCE WITH THE REQUIREMENT ISSUED BY THE COMISION BANCARIA Y DE VALORES (BANKING AND SECURITIES COMMISSION)

GENERAL INFORMATION

BOARD OF DIRECTORS

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-01

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 2009 & 2008

(Thousands of Mexican Pesos)

Final printing

REF S	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%
s01	TOTAL ASSETS	178,355,377	100	187,125,347	100
s02	**CURRENT ASSETS**	**51,836,373**	**29**	**52,118,223**	**28**
s03	CASH AND SHORT-TERM INVESTMENTS	**14,379,768**	8	**6,136,563**	3
s04	ACCOUNTS AND NOTES RECEIVABLE (NET)	16,300,592	9	15,950,441	9
s05	OTHER ACCOUNTS AND NOTES RECEIVABLE (NET)	4,812,731	3	4,858,322	3
s06	INVENTORIES	1,543,648	1	1,914,306	1
s07	OTHER CURRENT ASSETS	**14,799,634**	8	**23,258,591**	12
s08	**LONG - TERM**	**1,775,380**	**1**	**1,494,133**	**1**
s09	ACCOUNTS AND NOTES RECEIVABLE (NET)	0	0	0	0
s10	INVESTMENT IN SHARES OF NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES	1,650,890	1	1,369,467	1
s11	OTHER INVESTMENTS	124,490	0	124,666	0
s12	**PROPERTY, PLANT AND EQUIPMENT (NET)**	**104,304,749**	**58**	**112,865,377**	**60**
s13	LAND AND BUILDINGS	0	0	0	0
s14	MACHINERY AND INDUSTRIAL EQUIPMENT	402,629,778	226	398,629,711	213
s15	OTHER EQUIPMENT	0	0	0	0
s16	ACCUMULATED DEPRECIATION	298,734,103	167	286,221,263	153
s17	CONSTRUCTIONS IN PROGRESS	409,074	0	456,929	0
s18	OTHER INTANGIBLE ASSETS AND DEFERRED ASSETS (NET)	**2,360,671**	1	**2,493,802**	1
s19	OTHER ASSETS	**18,078,204**	10	**18,153,812**	10

s20	TOTAL LIABILITIES	140,034,604	100	147,754,248	100
s21	**CURRENT LIABILITIES**	**37,288,883**	**27**	**41,364,856**	**28**
s22	SUPPLIERS	0	0	0	0
s23	BANK LOANS	7,363,129	5	19,983,092	14
s24	STOCK MARKET LOANS	12,405,765	9	2,900,000	2
s103	OTHER LOANS WITH COST	0	0	0	0
s25	TAXES PAYABLE	2,211,626	2	783,543	1
s26	OTHER CURRENT LIABILITIES	**15,308,363**	11	**17,698,221**	12
s27	**LONG - TERM LIABILITIES**	**83,105,454**	**59**	**84,172,355**	**57**
s28	BANK LOANS	35,750,038	26	44,101,991	30
s29	STOCK MARKET LOANS	47,355,416	34	40,070,364	27
s30	OTHER LOANS WITH COST	0	0	0	0
s31	DEFERRED LIABILITIES	**466,696**	0	**411,106**	0
s32	OTHER NON CURRENT LIABILITIES	**19,173,571**	14	**21,805,931**	15
s33	CONSOLIDATED STOCKHOLDERS' EQUITY	38,320,773	100	39,371,099	100
s34	NON-CONTROLLING INTEREST	41,480	0	41,186	0
s35	**CONTROLLING INTEREST**	**38,279,293**	**100**	**39,329,913**	**100**
s36	**CONTRIBUTED CAPITAL**	**9,020,300**	**24**	**9,138,632**	**23**
s79	CAPITAL STOCK (NOMINAL)	**9,020,300**	**24**	**9,138,632**	23
s39	PREMIUM ON SALES OF SHARES	0	**0**	0	0
s40	CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	0	0	0	0
s41	**CAPITAL INCREASE (DECREASE)**	**29,258,993**	**76**	**30,191,281**	**77**
s42	RETAINED EARNINGS AND CAPITAL RESERVE	**28,375,768**	74	**27,374,656**	70
s44	OTHER ACCUMULATED COMPREHENSIVE RESULT	**883,225**	2	**2,816,625**	7
s80	SHARES REPURCHASED	0	0	0	0

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-02

CONSOLIDATED BALANCE SHEETS

- BREAKDOWN OF MAIN CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

REF S	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%
s03	**CASH AND AVAILABLE INVESTMENTS**	**14,379,768**	**100**	**6,136,563**	**100**
s46	CASH	1,010,973	7	1,001,967	16
s47	AVAILABLE INVESTMENTS	13,368,795	93	5,134,596	84
s07	**OTHER CURRENT ASSETS**	**14,799,634**	**100**	**23,258,591**	**100**
s81	DERIVATIVE FINANCIAL INSTRUMENTS	11,496,359	78	20,418,889	88
s82	DISCONTINUED OPERATIONS	0	0	0	0
s83	OTHER	3,303,275	22	2,839,702	12
s18	**OTHER INTANGIBLE ASSETS AND DEFERRED ASSETS (NET)**	**2,360,671**	**100**	**2,493,802**	**100**
s48	AMORTIZED OR REDEEMED EXPENSES	1,442,330	61	1,468,775	59
s49	GOODWILL	0	0	0	0
s51	OTHERS	918,341	39	1,025,027	41
s19	**OTHER ASSETS**	**18,078,204**	**100**	**18,153,812**	**100**
s85	DERIVATIVE FINANCIAL INSTRUMENTS	0	0	0	0
s50	DEFERRED TAXES	0	0	0	0
s104	BENEFITS FOR EMPLOYEES	16,430,857	91	15,485,402	85
s86	DISCONTINUED OPERATIONS	0	0	0	0
s87	OTHER	1,647,347	9	2,668,410	15
s21	CURRENT LIABILITIES	37,288,883	100	41,364,856	100
s52	FOREIGN CURRENCY LIABILITIES	18,294,695	49	22,699,010	55
s53	MEXICAN PESOS LIABILITIES	18,994,188	51	18,665,846	45
s26	**OTHER CURRENT LIABITIES**	**15,308,363**	**100**	**17,698,221**	**100**
s88	DERIVATIVE FINANCIAL INSTRUMENTS	119,719	1	0	0
s89	INTEREST LIABILITIES	936,550	6	1,187,525	7
s68	PROVISIONS	0	0	0	0
s90	DISCONTINUED OPERATIONS	0	0	0	0
s58	OTHER CURRENT LIABILITIES	8,932,547	58	10,899,412	62
s105	BENEFITS FOR EMPLOYEES	5,319,547	35	5,611,284	32

s27	LONG-TERM LIABILITIES	83,105,454	100	84,172,355	100
s59	FOREIGN CURRENCY LIABILITIES	52,705,454	63	64,972,355	77
s60	MEXICAN PESOS LIABILITIES	30,400,000	37	19,200,000	23
s31	**DEFERRED LIABILITIES**	**466,696**	**100**	**411,106**	**100**
s65	GOODWILL	0	0	0	0
s67	OTHERS	466,696	100	411,106	100
s32	**OTHER NON CURRENT LIABILITIES**	**19,173,571**	**100**	**21,805,931**	**100**
s66	DEFERRED TAXES	15,060,058	79	16,808,391	77
s91	OTHER LIABILITIES IN RESPECT OF SOCIAL INSURANCE	4,113,513	21	4,997,540	23
s92	DISCONTINUED OPERATIONS	0	0	0	0
s69	OTHER LIABILITIES	0	0	0	0
s79	**CAPITAL STOCK**	**9,020,300**	**100**	**9,138,632**	**100**
s37	CAPITAL STOCK (NOMINAL)	78,545	1	80,113	1
s38	RESTATEMENT OF CAPITAL STOCK	8,941,755	99	9,058,519	99
s42	RETAINED EARNINGS AND CAPITAL RESERVES	28,375,768	100	27,374,656	100
s93	LEGAL RESERVE	1,880,513	7	1,880,513	7
s43	RESERVE FOR REPURCHASE OF SHARES	0	0	0	0
s94	OTHER RESERVES	0	0	0	0
s95	RETAINED EARNINGS	6,026,566	21	5,317,207	19
s45	NET INCOME FOR THE YEAR	**20,468,689**	72	**20,176,936**	74
s44	**OTHER ACCUMULATED COMPREHENSIVE RESULT**	**883,225**	**100**	**2,816,625**	**100**
s70	ACCUMULATED MONETARY RESULT	0	0	0	0
s71	RESULT FROM HOLDING NON-MONETARY ASSETS	0	0	0	0
s96	CUMULATIVE RESULT FROM FOREIGN CURRENCY TRANSLATION	187,552	21	201,103	7
s97	CUMULATIVE RESULT FROM DERIVATIVE FINANCIAL INSTRUMENTS	1,155,361	131	4,036,298	143
s98	CUMULATIVE EFFECT OF DEFERRED INCOME TAXES	(459,688)	(52)	(1,420,776)	(50)
s100	OTHERS	0	0	0	0

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-03

CONSOLIDATED BALANCE SHEETS

- OTHER CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

REF S	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR	QUARTER OF PREVIOUS FINANCIAL YEAR
		Amount	Amount
s72	WORKING CAPITAL	**14,547,490**	**10,753,367**
s73	PENSIONS FUND AND SENIORITY PREMIUMS	0	0
s74	EXECUTIVES (*)	84	98
s75	EMPLOYEES (*)	9,269	9,523
s76	WORKERS (*)	43,593	44,696
s77	OUTSTANDING SHARES (*)	18,191,892,260	18,555,053,360
s78	REPURCHASE OF OWN SHARER(*)	363,161,100	805,344,110
s101	RESTRICTED CASH	0	0
s102	DEBT WITH COST OF AFFILIATES NON CONSOLIDATED	0	0
	(*) THESE CONCEPTS SHOULD BE EXPRESSED IN UNITS		

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-04

CONSOLIDATED STATEMENTS OF INCOME

- FROM **JANUARY 01 TO DECEMBER 31, 2009 & 2008** -

(Thousands of Mexican Pesos)

Final printing

REF R	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR	QUARTER OF PREVIOUS FINANCIAL YEAR

		Amount	%	Amount	%
r01	**OPERATING REVENUES**	**119,100,212**	**100**	**124,105,235**	**100**
r02	COST OF SALES AND SERVICES	63,905,908	54	64,499,260	52
r03	**GROSS INCOME**	**55,194,304**	**46**	**59,605,975**	**48**
r04	OPERATING EXPENSES	20,830,245	17	19,863,006	16
r05	**OPERATING INCOME**	**34,364,059**	**29**	**39,742,969**	**32**
r08	OTHER EXPENSES AND INCOMES (NET)	**(1,349,680)**	(1)	**(679,592)**	0
r06	COMPREHENSIVE FINANCING COST	**(4,314,554)**	(4)	**(9,232,694)**	(7)
r12	EQUITY IN NET INCOME OF NON-CONSOLIDATED SUBSIDIARIES, JOINT BUSINESSES AND AFFILIATES	254,680	0	(62,113)	(0)
r48	NON-ORDINARY ITEMS	0	0	0	0
r09	**INCOME BEFORE INCOME TAX AND EMPLOYEE PROFIT SHARING**	**28,954,505**	**24**	**29,768,570**	**24**
r10	PROVISIONS FOR INCOME TAX AND EMPLOYEE PROFIT SHARING	**8,485,522**	7	**9,591,659**	8
r11	**NET INCOME AFTER INCOME TAX AND EMPLYEE PROFIT SHARING**	**20,468,983**	**17**	**20,176,911**	**16**
r14	INCOME FROM DISCONTINUED OPERATIONS (NET)	0	0	0	0
r18	**NET INCOME**	**20,468,983**	**17**	**20,176,911**	**16**
r19	NET INCOME OF NON-CONTROLLING INTEREST	294	0	(25)	0
r20	NET INCOME OF CONTROLLING INTEREST	20,468,689	17	20,176,936	16

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-05

CONSOLIDATED STATEMENTS OF INCOME

- BREAKDOWN OF MAIN CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

REF R	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%

r01	OPERATING REVENUES	119,100,212	100	124,105,235	**100**
r21	DOMESTIC	114,413,138	96	120,090,214	97
r22	FOREIGN	4,687,074	4	4,015,021	3
r23	TRANSLATION INTO DOLLARS (***)	346,021	0	357,276	0
r08	OTHER EXPENSES AND INCOMES (NET)	**(1,349,680)**	100	**(679,592)**	100
r49	OTHER EXPENSES AND INCOMES (NET)	260,126	(19)	468,999	(69)
r34	EMPLOYEE PROFIT SHARING	2,217,482	(164)	2,548,762	(375)
r35	DEFERRED EMPLOYEE PROFIT SHARING	(607,676)	45	(1,400,171)	206
r06	COMPREHENSIVE FINANCING COST	**(4,314,554)**	100	**(9,232,694)**	100
r24	INTEREST EXPENSE	6,122,328	(142)	7,652,427	(83)
r42	LOSS (GAIN) ON RESTATEMENT OF UDI'S	0	0	0	0
r45	OTHER FINANCIAL COSTS	0	0	0	0
r26	INTEREST INCOME	711,243	(16)	913,462	(10)
r46	OTHER FINANCIAL PRODUCTS	0	0	0	0
r25	FOREIGN EXCHANGE LOSS (GAIN) (NET)	1,096,531	(25)	(2,493,729)	27
r28	RESULT FROM MONETARY POSITION	0	0	0	0
r10	PROVISION FOR INCOME TAX AND EMPLOYEE PROFIT SHARING	8,485,522	100	9,591,659	100
r32	INCOME TAX	9,560,860	113	10,606,003	111
r33	DEFERRED INCOME TAX	(1,075,338)	(13)	(1,014,344)	(11)
(***) THOUSAND DOLLARS AT THE PREVAILING EXCHANGE RATE AT THE END OF THE REPORTING PERIOD.					

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-06

CONSOLIDATED STATEMENTS OF INCOME

- OTHER CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

REF	CONCEPTS	QUARTER OF PRESENT	

R		FINANCIAL YEAR	QUARTER OF PREVIOUS FINANCIAL YEAR
		Amount	Amount
r36	TOTAL REVENUES	119,100,212	124,105,235
r37	TAX RESULT FOR THE YEAR	0	0
r38	OPERATING REVENUES (**)	119,100,212	124,105,235
r39	OPERATING INCOME (**)	34,364,059	39,742,969
r40	NET INCOME OF CONTROLLING INTEREST (**)	20,468,689	20,176,936
r41	NET INCOME (**)	20,468,983	20,176,911
r47	OPERATIVE DEPRECIATION AND ACCUMULATED	17,152,939	16,961,597
(**)	INFORMATION OF THE PAST TWELVE MONTHS		

--

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-07

CONSOLIDATED QUARTERLY STATEMENTS OF INCOME

- FROM OCTOBER 01 TO DECEMBER 31, 2009 & 2008 -

(Thousands of Mexican Pesos)

Final printing

REF RT	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%
rt01	**OPERATING REVENUES**	**29,746,853**	**100**	**30,967,321**	**100**
rt02	COST OF SALES AND SERVICES	16,638,003	56	16,486,929	53
rt03	**GROSS INCOME**	**13,108,850**	**44**	**14,480,392**	**47**
rt04	OPERATING EXPENSES	5,333,346	18	5,228,463	17
rt05	**OPERATING INCOME**	**7,775,504**	**26**	**9,251,929**	**30**
rt08	OTHER EXPENSES AND INCOMES (NET)	**(136,859)**	(0)	**212,174**	1
rt06	COMPREHENSIVE FINANCING COST	**(1,221,100)**	(4)	**(3,808,396)**	(12)

rt12	EQUITY IN NET INCOME OF NON-CONSOLIDATED SUBSIDIARIES, JOINT BUSINESSES AND AFFILIATES	91,718	0	(131,619)	0
rt48	NON-ORDINARY ITEMS	0	0	0	0
rt09	**INCOME BEFORE INCOME TAX AND EMPLOYEE PROFIT SHARING**	**6,509,263**	**22**	**5,524,088**	**18**
rt10	PROVISIONS FOR INCOME TAX AND EMPLOYEE PROFIT SHARING	**1,515,659**	5	**2,544,416**	8
rt11	**NET INCOME AFTER INCOME TAX AND EMPLYEE PROFIT SHARING**	**4,993,604**	**17**	**2,979,672**	**10**
rt14	INCOME FROM DISCONTINUED OPERATIONS (NET)	0	0	0	0
rt18	**NET INCOME**	**4,993,604**	**17**	**2,979,672**	**10**
rt19	NET INCOME OF NON-CONTROLLING INTEREST	(655)	(0)	1,811	0
rt20	NET INCOME OF CONTROLLING INTEREST	4,994,259	17	2,977,861	10

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-08

CONSOLIDATED QUARTERLY STATEMENTS OF INCOME

- BREAKDOWN OF MAIN CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

--

REF RT	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%
rt01	OPERATING REVENUES	29,746,853	100	30,967,321	100
rt21	DOMESTIC	28,265,238	95	29,629,475	96
rt22	FOREIGN	1,481,615	5	1,337,846	4
rt23	TRANSLATION INTO DOLLARS (***)	113,796	0	109,203	0
rt08	OTHER REVENUES AND (EXPENSES), NET	**(136,859)**	100	**212,174**	100
rt49	OTHER REVENUES AND (EXPENSES), NET	71,202	(52)	35,287	17
rt34	EMPLOYEE PROFIT SHARING	463,264	(338)	489,959	231

rt35	DEFERRED EMPLOYEE PROFIT SHARING	(255,203)	186	(666,846)	(314)
rt06	COMPREHENSIVE FINANCING COST	**(1,221,100)**	100	**(3,808,396)**	100
rt24	INTEREST EXPENSE	1,425,900	(117)	2,481,015	(65)
rt42	LOSS (GAIN) ON RESTATEMENT OF UDI'S	0	0	0	0
rt45	OTHER FINANCIAL COSTS	0	0	0	0
rt26	INTEREST INCOME	149,403	(12)	310,102	(8)
rt46	OTHER FINANCIAL PRODUCTS	0	0	0	0
rt25	FOREIGN EXCHANGE LOSS (GAIN) (NET)	55,397	(5)	(1,637,483)	43
rt28	RESULT FROM MONETARY POSITION	0	0	0	0
rt10	PROVISION FOR INCOME TAX AND EMPLOYEE PROFIT SHARING	1,515,659	100	2,544,416	100
rt32	INCOME TAX	1,885,766	124	2,751,071	108
rt33	DEFERRED INCOME TAX	(370,107)	(24)	(206,655)	(8)
(***) THOUSAND DOLLARS AT THE PREVAILING EXCHANGE RATE AT THE END OF THE REPORTING PERIOD.					

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-09

CONSOLIDATED QUARTERLY STATEMENTS OF INCOME

- OTHER CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

REF RT	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR	QUARTER OF PR FINANCIAL Y
		Amount	Amount
rt47	OPERATIVE DEPRECIATION AND ACCUMULATED IMPAIRMENT LOSSES	4,282,816	

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-12

DATA PER SHARE

- CONSOLIDATED INFORMATION -

(Thousands of Mexican Pesos)

Final printing

REF D	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount		Amount	
d01	BASIC INCOME PER ORDINARY SHARE (**)	$1.11		$1.07	
d02	BASIC INCOME PER PREFERENT SHARE (**)	$0.00		$0.00	
d03	DILUTED INCOME PER ORDINARY SHARE (**)	$0.00		$0.00	
d04	INCOME (LOSS) FROM CONTINUOUS OPERATIONS PER ORDINARY SHARE (**)	$1.11		$1.07	
d05	EFFECT OF DISCONTINUOUS OPERATIONS ON INCOME (LOSS) FROM CONTINUOS OPERATIONS PER ORDINARY SHARE (**)	$0.00		$0.00	
d08	CARRYING VALUE PER SHARE	**$2.10**		**$2.12**	
d09	ACUMULATED CASH DIVIDEND PER SHARE	$0.83		$0.41	
d10	SHARE DIVIDENDS PER SHARE	0.00	shares	0.00	shares
d11	MARKET PRICE TO CARRYING VALUE	5.22	times	6.77	times
d12	MARKET PRICE TO BASIC INCOME PER ORDINARY SHARE (**)	9.87	times	13.41	times
d13	MARKET PRICE TO BASIC INCOME PER PREFERENT SHARE (**)	0.00	times	0.00	times
(**) INFORMATION OF THE PAST TWELVE MONTHS					

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-13

RATIOS

- CONSOLIDATED INFORMATION -

(Thousands of Mexican Pesos)

Final printing

REF P	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
	YIELD				
p01	NET INCOME (LOSS) TO OPERATING REVENUES	**17.19**	%	**16.26**	%
p02	NET INCOME TO STOCKHOLDERS' EQUITY (**)	**53.41**	%	**51.25**	%
p03	NET INCOME TO TOTAL ASSETS (**)	**11.48**	%	**10.78**	%
p04	CASH DIVIDENDS TO PREVIOUS YEAR NET INCOME	74.80	%	21.44	%
p05	INCOME DUE TO MONETARY POSITION TO NET INCOME	**0.00**	%	**0.00**	%
	ACTIVITY				
p06	OPERATING REVENUES TO TOTAL ASSETS (**)	**0.67**	times	**0.66**	times
p07	OPERATING REVENUES TO FIXED ASSETS (**)	**1.14**	times	**1.10**	times
p08	INVENTORIES ROTATION (**)	41.40	times	33.69	times
p09	ACCOUNTS RECEIVABLE IN DAYS OF SALES	**43.00**	days	**40.00**	days
p10	INTEREST PAID TO TOTAL LIABILITIES WITH COST (**)	5.95	%	7.15	%
	LEVERAGE				
p11	TOTAL LIABILITIES TO TOTAL ASSETS	**78.51**	%	**78.96**	%
p12	TOTAL LIABILITIES TO STOCKHOLDERS' EQUITY	**3.65**	times	**3.75**	times
p13	FOREIGN CURRENCY LIABILITIES TO TOTAL LIABILITIES	**50.70**	%	**59.34**	%
p14	LONG-TERM LIABILITIES TO FIXED ASSETS	**79.68**	%	**74.58**	%
p15	OPERATING INCOME (LOSS) TO INTEREST PAID	**5.61**	times	**5.19**	times
p16	OPERATING REVENUES TO TOTAL LIABILITIES (**)	**0.85**	times	**0.84**	times
	LIQUIDITY				
p17	CURRENT ASSETS TO CURRENT LIABILITIES	**1.39**	times	**1.26**	times

p18	CURRENT ASSETS LESS INVENTORY TO CURRENT LIABILITIES	**1.35**	times	**1.21**	times
p19	CURRENT ASSETS TO TOTAL LIABILITIES	**0.37**	times	**0.35**	times
p20	AVAILABLE ASSETS TO CURRENT LIABILITIES	**38.56**	%	**14.84**	%
(**) INFORMATION OF THE PAST TWELVE MONTHS					

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-14

STATE OF CASH FLOW (INDIRECT METHOD)

MAIN CONCEPTS

- CONSOLIDATED INFORMATION -

(Thousands of Mexican Pesos)

Final printing

REF E	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR Amount	QUARTER OF PREVIOUS FINANCIAL YEAR Amount
	OPERATION ACTIVITIES		
e01	**INCOME (LOST) BEFORE INCOME TAXES**	28,954,505	29,768,570
e02	+(-) ITEMS NOT REQUIRING CASH	**6,716,526**	5,723,061
e03	+(-) ITEMS RELATED TO INVESTING ACTIVITIES	**17,694,183**	17,978,865
e04	+(-) ITEMS RELATED TO FINANCING ACTIVITIES	**5,601,641**	10,975,298
e05	**CASH FLOWS BEFORE INCOME TAX**	58,966,855	64,445,794
e06	CASH FLOW PROVIDED OR USED IN OPERATION	**(18,019,701)**	(18,540,620)
e07	**NET CASH FLOWS PROVIDED OF OPERATING ACTIVITIES**	40,947,154	45,905,174
	INVESTMENT ACTIVITIES		
e08	NET CASH FLOW FROM INVESTING ACTIVITIES	**(9,759,128)**	(12,725,549)
e09	**CASH IN EXCESS (REQUIRED) TO BE APPLIED IN FINANCING ACTIVITIES**	31,188,026	33,179,625
	FINANCING ACTIVITIES		
e10	NET CASH FROM FINANCING ACTIVITIES	**(22,944,821)**	(31,740,814)

e11	**NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS**	8,243,205	1,438,811
e12	**TRANSLATION DIFFERENCES IN CASH AND CASH EQUIVALENTS**	0	0
e13	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	6,136,563	4,697,752
e14	**CASH AND CASH EQUIVALENTS AT THE END OF PERIOD**	14,379,768	6,136,563

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-15

STATE OF CASH FLOW (INDIRECT METHOD)

BREAKDOWN OF MAIN CONCEPTS

- CONSOLIDATED INFORMATION -

(Thousands of Mexican Pesos)

Final printing

REF E	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR	QUARTER OF PREVIOUS FINANCIAL YEAR
		Amount	Amount
e02	**+(-) ITEMS NOT REQUIRING CASH**	**6,716,526**	**5,723,0**
e15	+ESTIMATES FOR THE PERIOD	69,669	14,6
e16	+PROVISIONS FOR THE PERIOD	6,646,857	5,742,8
e17	+(-) OTHER UNREALIZED ITEMS	0	(34,41
e03	**+(-) ITEMS RELATED TO INVESTING ACTIVITIES**	**17,694,183**	**17,978,8**
e18	+DEPRECIATION AND AMORTIZATION FOR THE PERIOD (*)	17,948,862	17,916,7
e19	(-)+GAIN OR LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT	0	
e20	+IMPAIRMENT LOSS	0	
e21	(-)+EQUITY RESULTS OF ASSOCIATES AND JOINT VENTURES	(254,679)	62,1
e22	(-)DIVIDENDS RECEIVED	0	
e23	(-)INTEREST INCOME	0	
e24	(-)+ OTHER ITEMS	0	

e04	**+(-) ITEMS RELATED TO FINANCING ACTIVITIES**	**5,601,641**	**10,975,29**
e25	+ACCRUED INTERESTS	6,122,328	7,652,42
e26	+(-) OTHER ITEMS	(520,687)	3,322,87
e06	**CASH FLOW PROVIDED OR USED IN OPERATION**	**(18,019,701)**	**(18,540,62**
e27	+(-) DECREASE (INCREASE) IN ACCOUNTS RECEIVABLE	(350,150)	175,46
e28	+(-) DECREASE (INCREASE) IN INVENTORIES	370,658	276,80
e29	+(-) DECREASE (INCREASE) IN OTHER ACCOUNTS RECEIVABLE AND OTHER ASSETS	(6,143,490)	(5,485,78
e30	+(-) INCREASE (DECREASE) IN SUPPLIERS	(1,391,737)	(461,31
e31	+(-) INCREASE (DECREASE) IN OTHER LIABILITIES	144,921	(1,333,88
e32	+(-) INCOME TAXES PAID OR RETURNED	(10,649,903)	(11,711,90
e08	**NET CASH FLOWS OF INVESTING ACTIVITIES**	**(9,759,128)**	**(12,725,54**
e33	- PERMANENT INVESTMENT IN SHARES	(87,889)	(19,16
e34	+DISPOSITION OF PERMANENT INVESTMENT IN SHARES	0	95,37
e35	- INVESTMENTS IN PROPERTY, PLANT AND EQUIPMENT	(10,613,208)	(11,771,79
e36	+ SALE OF PROPERTY, PLANT AND EQUIPMENT	0	
e37	- INVESTMENT IN INTANGIBLE ASSETS	(14,166)	(135,27
e38	+ DISPOSITION OF INTANGIBLE ASSETS	0	
e39	- OTHER PERMANENT INVESTMENTS	0	
e40	+ DISPOSITION OF OTHER PERMANENT INVESTMENTS	0	
e41	+ DIVIDENDS RECEIVED	0	
e42	+ INTERESTS RECEIVED	0	
e43	+(-) DECREASE (INCREASE) ADVANCES AND LOANS TO THIRD PARTS	0	
e44	+(-) OTHER ITEMS	956,135	(894,69
e10	**NET CASH FLOWS OF FINANCING ACTIVITIES**	**(22,944,821)**	**(31,740,81**
e45	+ BANK FINANCING	23,689,235	11,862,83
e46	+ STOCK MARKET FINANCING	0	
e47	+ OTHER FINANCING	0	
e48	(-) BANK FINANCING AMORTIZATION	(24,552,238)	(15,781,35
e49	(-) STOCK MARKET FINANCING AMORTIZATION	0	
e50	(-) OTHER FINANCING AMORTIZATION	0	
e51	+ (-) INCREASE (DECREASE) IN CAPITAL STOCK	0	
e52	(-) DIVIDENDS PAID	(15,093,082)	(7,609,47
e53	+ PREMIUM ON ISSUANCE OF SHARES	0	
e54	+ CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	0	
e55	- INTEREST EXPENSE	(4,200,480)	(5,049,09
e56	(-) REPURCHASE OF SHARES	(4,095,320)	(12,871,84
e57	+(-) OTHER ITEMS	1,307,064	(2,291,87

* IN CASE THAT THIS AMOUNT IS DIFFERENT FROM ACCOUNT R47 IT SHALL BE EXPLAINED IN NOTES			

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

ANNEX 1

CHIEF EXECUTIVE OFFICER REPORT

Consolidated

Final printing

---**Highlights**

Fourth Quarter 2009

- At year-end 2009 we had 15.882 million lines, including 703 thousand public telephony lines and 1.7 million social telephony lines. The year-end total for the first time excludes lines on which payments were behind by at least two months. That action reduced the number of lines by 1.2 million. The year-end 2008 total included 1.1 million lines on which payments were behind by at least two months.

- In the Mexican telecommunications market, including cellular telephony and services provided by other fixed-line operators, TELMEX has 15.8% of total lines and is the third operator in the market in terms of lines after Telcel and Telefónica. TELMEX has 80.6% of fixed lines, below the average of 85.3% for 35 countries worldwide included in the *Bank of America/ Merrill Lynch Global Wireline Matrix*.

- During the fourth quarter, we continued growth, but at a lower pace in broadband Infinitum (ADSL) services, the fastest connection, with a gain of 221 thousand services, bringing the total to 6.5 million customers. Compared with December 2003, the speed of Internet services has multiplied 100 times from 56 Kbps to more than 5 Mbps. In that period the number of customers has increased more than 36 times and the price per kilobyte in packages has decreased 48 times.

- This growth has been driven by installment sales of more than 2.5 million computers since 1999. The lack of computers in Mexican homes is the main limitation for higher broadband growth, which also is slowed by the shortage of domestic applications and content on the Internet.

- Based on the last report from Teligen (November, 2009), the OECD's tariff consultant, Mexico continues to be one of the countries with the lowest telephony prices in all of the OECD, resulting from TELMEX's policy of supporting the country's and consumers' economic well-being by reducing its prices for the last 10 years in real terms.

- TELMEX has decided to reduce the prices of its packages that include Infinitum, Internet access through broadband and various voice services for discounted prices in spite of new taxes (a special telecommunications tax of 3% and a 1% increase in the value added tax).

- At TELMEX, one of our main commitments is to promote penetration and access to broadband services. The **TELMEX 2010 program –Driving Technological Innovation–** positions Teléfonos de México as the main promoter of connectivity, education and digital culture and the development of information technologies in our country, supported by our world-class network along with the company's highly trained personnel. The program comprises the following:

  - Increase connectivity in the country: TELMEX will contribute so the country reaches 12 million broadband accesses in the next three years, including all technologies and all providers, with the result that more than half of the population will be able to access the Internet. Additionally, this year, Infinitum´s access speed will be increased while maintaining the quality, continuity and speed consistency that characterize this service. The number of sites with Infinitum Móvil will be doubled to reach 3,000 nationwide this year.

  - Enhance Information Technologies: Start the operation of the **Instituto Tecnológico de Teléfonos de México en Tecnologías de la Información (Inttelmex IT)**, (TELMEX´s Technological Institute of Information Technologies) to expand training (of 1,000 professionals) in the application of information technologies.

  - Support Education and Digital Culture: Through the operation of 3,300 Bibliotecas Digitales TELMEX (TELMEX DigitalLibraries) and 1,000 Aulas Digitales TELMEX (TELMEX Digital Classrooms) at year-end 2010.

- Revenues in the fourth quarter totaled 29.7 billion pesos, a decrease of 3.9% compared with the same period of the previous year. Revenues related to corporate networks services increased 43.1% and Internet access revenues increased 13.6%. Local, long distance and interconnection revenues decreased 8.5%. 20.8% and 16.4%, respectively.

- In the fourth quarter, EBITDA (1) totaled 12.2 billion pesos, producing a margin of 41.2%. Operating income totaled 7.8 billion pesos, with a margin of 26.1%.

- Net income from controlling interest in the quarter totaled 5.0 billion pesos, 67.7% higher than the fourth quarter of 2008. For the fourth quarter, earnings per share were 27 Mexican cents, 68.8% higher than the same year-earlier period, and earnings per ADR (2) were 41 US cents, an increase of 64.0% compared with the fourth quarter of 2008.

- At December 31, 2009, total debt was the equivalent of 7.878 billion dollars. Total net debt (3) was equivalent to 6.777 billion dollars, 678 million dollars less than December 31, 2008.

- In the fourth quarter, capital expenditures (Capex) were the equivalent of 124 million dollars and for the twelve months, Capex was the equivalent of 661 million dollars. From October to December, the company used 1.045 billion pesos to repurchase 91 million 969 thousand of its own shares.

(1) EBITDA: defined as operating income plus depreciation and amortization. Go to www.telmex.com in the Investor Relations section where you will find the reconciliation of EBITDA to operating income.

(2) One ADR represents 20 shares.

(3) Net debt is defined as total debt less cash and cash equivalents and marketable securities.

Relevant Event

TELMEX Shareholders´ Meeting Resolutions

On December 1, 2009, TELMEX´s Ordinary Shareholders' Meeting approved the payment of a special cash dividend of 0.40 Mexican pesos per outstanding share in a single payment made in Mexico on or after December 17, 2009, resulting from unappropriated earnings. For holders of American Depositary Shares, the payment date was December 24, 2009.

Operating Results

Lines and local traffic

At year-end 2009 we had 15.882 million lines, including 703 thousand public telephony lines and 1.7 million social telephony lines. The year-end total for the first time excludes lines on which payments were behind by at least two months. That action reduced the number of lines by 1.2 million. The year-end 2008 total included 1.1 million lines on which payments were behind by at least two months.

In the Mexican telecommunications market, including cellular telephony and services provided by other fixed-line operators, TELMEX has 15.8% of total lines and is the third operator in the market in terms of lines after Telcel and Telefónica. TELMEX has 80.6% of fixed lines, below the average of 85.3% for 35 countries worldwide included in the *Bank of America/ Merrill Lynch Global Wireline Matrix*.

During the fourth quarter, local calls decreased 7.7% compared with the same period of 2008, totaling 5 billion local calls. Local traffic volume continues to be affected mainly by the increase in cellular telephony services, which is changing our customers' consumption habits, by the reduction in the number of lines and by competition from other operators.

Long distance

In the fourth quarter, domestic long distance (DLD) traffic decreased 2.3% compared with the previous year's fourth quarter, totaling 4.810 billion minutes, in spite of the fact that there was growth of multi-service package offerings that include DLD minutes and an increase in termination traffic from other long distance operators. These positive contributions were offset by the decrease in termination traffic with cellular telephony operators.

In the quarter, outgoing international long distance (ILD) traffic decreased 26.8% compared with the year-earlier fourth quarter, totaling 307 million minutes. The decline reflected a decrease in traffic from mobile operators and the slowdown of economic activity in the country. Incoming international long distance traffic decreased 0.7% compared with the same period of the previous year, totaling 1.760 billion minutes. The incoming-outgoing ratio was 5.7x.

Interconnection

In the fourth quarter, interconnection traffic totaled 10.678 billion minutes, 6.8% lower than the same quarter of 2008, mainly due to the decrease of 13.0% in calling party pays traffic. Interconnection traffic with local, long distance and cellular telephony operators decreased 4.9%.

Internet access

During the fourth quarter, we continued growth, but at a lower pace in broadband Infinitum (ADSL) services, the fastest connection, with a gain of 221 thousand services, bringing the total to 6.5 million customers. Compared with December 2003, the speed of Internet services has multiplied 100 times from 56 Kbps to more than 5 Mbps. In that period the number of customers has increased more than 36 times and the price per kilobyte in packages has decreased 48 times.

This growth has been driven by installment sales of more than 2.5 million computers since 1999. The lack of computers in Mexican homes is the main limitation for higher broadband growth, which also is slowed by the shortage of domestic applications and content on the Internet.

TELMEX has decided to reduce the prices of its packages that include Infinitum, Internet access through broadband and various voice services for discounted prices in spite of new taxes (a special telecommunications tax of 3% and a 1% increase in the value added tax).

Financial Results

The following financial information for 2009 and 2008 is presented in nominal pesos, according to Mexican Financial Reporting Standards.

Revenues In the fourth quarter revenues totaled 29.7 billion pesos, a decrease of 3.9% compared with the same period of the previous year. Revenues related to corporate networks services increased 43.1% and Internet access revenues increased 13.6%. Local, long distance and interconnection revenues decreased 8.5%. 20.8% and 16.4%, respectively.

- **Local:** Local service revenues totaled 10.799 billion pesos in the fourth quarter, a decrease of 8.5% compared with the same quarter of 2008, due to decreases of 6.2% in revenue per local billed call and 7.7% in local traffic volume.

- **DLD:** In the quarter, DLD revenues totaled 3.298 billion pesos, 7.6% lower than the fourth quarter of 2008, because of the 2.3% decrease in traffic and the 5.5% decline in average revenue per minute, reflecting increased penetration of multi-service packages that include long distance service.

- **ILD:** ILD revenues totaled 1.436 billion pesos in the quarter, a decrease of 40.3% compared with the same period of the previous year. Contributing factors included the 26.8% decrease in outgoing traffic reflecting, among other things, the decrease in the country's economic activity as well as the 2.7% decrease in average revenue per minute. Incoming international long distance traffic revenues totaled 534 million pesos, a decrease of 53.2% compared with the fourth quarter of the previous year, due to the decline of 52.9% in average revenue per minute and the decrease of 0.7% in incoming traffic.

- **Interconnection:** In the quarter, interconnection revenues decreased 16.4% to 3.974 billion pesos compared with the fourth quarter of 2008, due to the 13.0% decline in calling party pays services and the decrease of 6.1% in average revenue of these services, as well as the 7.5% decrease in interconnection traffic with local and long distance operators.

- **Internet access:** Revenues from Internet access in the fourth quarter totaled 4.175 billion pesos, 13.6% higher than the prior year's fourth quarter due to the increase of 27.5% in Internet access services, offset by lower average unit revenue for broadband Infinitum services.

- **Corporate networks:** Due to the increase in services from VPN (Virtual Private Networks) and the integration of value-added services into our portfolio of products and services for the corporate market, the corresponding revenues increased 43.1% compared with the same period of the previous year, totaling 4.641 billion pesos.

Costs and expenses: In the fourth quarter, total costs and expenses were 21.971 billion pesos, 1.2% higher than the same period of the previous year, mainly due to higher costs of equipment for customer sales and to the increase in the reserve for uncollectables, partially offset by lower interconnection costs resulting from the decrease of 9.9% in the amount paid to cellular telephony operators for calling party pays services and by initiatives to optimize resource use.

• **Cost of sales and services:** In the fourth quarter, cost of sales and services increased 7.5% compared with the same period of 2008, totaling 9.290 billion pesos, due to higher costs related to services for corporate customers and computer sales at Tiendas TELMEX (TELMEX Stores).

- **Commercial, administrative and general:** In the fourth quarter, commercial, administrative and general expenses totaled 5.333 billion pesos, 2.0% higher than the year-ago fourth quarter, mainly due to an increase in the reserve for uncollectables primarily from bad accounts from some telecommunications operators.

- **Interconnection:** Interconnection costs totaled 2.883 billion pesos, a decrease of 14.2% compared with the fourth quarter of 2008 due to the 9.9% decrease in the amount paid to cellular telephony operators for calling party pays services and the decrease in calling party pays traffic.

- **Depreciation and amortization:** In the fourth quarter, depreciation and amortization decreased 0.4% compared with the same period of 2008, to 4.465 billion pesos.

EBITDA (1) and operating income: EBITDA (1) totaled 12.241 billion pesos in the fourth quarter, a decrease of 10.9% compared with the same period of the previous year. The EBITDA margin was 41.2%. Operating income totaled 7.776 billion pesos in the fourth quarter and the operating margin was 26.1%.

Financing cost: In the fourth quarter, financing cost produced a charge of 1.221 billion pesos. This resulted from: i) a net interest charge of 1.276 billion pesos, which includes the recognition of the market value of interest rate swaps, partially offset by the decrease in interest paid due to lower debt and ii) a net exchange gain of 55 million pesos from the fourth-quarter exchange rate appreciation of 0.4455 pesos per dollar and 4.423 billion dollars in dollar-peso hedges at year-end 2009.

Net income from controlling interest: In the fourth quarter, net income from controlling interest totaled 4.995 billion pesos, 67.7% higher than the same period of the previous year. Earnings per share were 27 Mexican cents, 68.8% higher than the same quarter of 2008, and earnings per ADR (2) were 41 US cents, an increase of 64.0% compared with the same period of the prior year.

Investments and other uses of cash: In the fourth quarter, capital expenditures (Capex) were the equivalent of 124 million dollars and for the twelve months, Capex was the equivalent of 661 million dollars, of which 67.4% was used for projects in the data and connectivity platform and transmission networks, and the rest for operational support projects.

Debt: Total debt at December 31, 2009, was the equivalent of 7.878 billion dollars, of which 80.8% is long-term, 49.6% has fixed rates considering interest rate swaps, and 67.7% is in foreign currency, equivalent to 5.336 billion dollars. To minimize risks from variations in the exchange rate, at the end of December we had dollar-peso hedges for 4.423 billion dollars.

Total net debt (3) decreased during the last twelve months the equivalent of 678 million dollars, bringing the total to 6.777 billion dollars.

Repurchase of shares: During the fourth quarter, the company used 1.045 billion pesos to repurchase 91 million 969 thousand of its own shares.

Mexico Local and Long Distance Accounting Separation

Based on Condition 7-5 of the Amendments of the Concession Title of Teléfonos de México, the commitment to present the accounting separation of the local and long distance services is presented below for the fourth quarter of 2009 and 2008.

Mexico Local Service Business

Income Statements

[In millions of Mexican pesos]

					%					%
		4Q2009		4Q2008	**Inc.**		**12 months 09**		12 months 08	**Inc.**
Revenues										
Access, rent and measured service	**P.**	**10,724**	P.	11,693	**(8.3)**	P.	**44,641**	P.	48,363	**(7.7)**
LADA interconnection		**1,244**		1,250	**(0.5)**		**5,154**		4,145	**24.3**
Interconnection with operators		**377**		437	**(13.7)**		**1,754**		1,560	**12.4**
Interconnection with cellular operators		**2,683**		3,022	**(11.2)**		**11,119**		12,397	**(10.3)**
Other		**3,166**		3,811	**(16.9)**		**14,212**		14,936	**(4.8)**
Internet access										

Total		**18,194**		20,213	**(10.0)**		**76,880**		81,401	**(5.6)**
Costs and expenses										
Cost of sales and services		**6,106**		6,191	**(1.4)**		**24,059**		23,444	**2.6**
Commercial, administrative and general		**4,651**		4,940	**(5.9)**		**17,851**		18,605	**(4.1)**
Interconnection		**1,788**		1,979	**(9.7)**		**7,306**		8,540	**(14.4)**
Depreciation and amortization		**2,412**		2,740	**(12.0)**		**9,818**		11,260	**(12.8)**
Total		**14,957**		15,850	**(5.6)**		**59,034**		61,849	**(4.6)**
Operating income	**P.**	**3,237**	P.	4,363	**(25.8)**	P.	**17,846**	P.	19,552	**(8.7)**
EBITDA (1)	**P.**	**5,649**	P.	7,103	**(20.5)**	P.	**27,664**	P.	30,812	**(10.2)**
EBITDA margin (%)		**31.0**		35.1	**(4.1)**		**36.0**		37.9	**(1.9)**
Operating margin (%)		**17.8**		21.6	**(3.8)**		**23.2**		24.0	**(0.8)**

Mexico Long Distance Service Business

Income Statements

[In millions of Mexican pesos]

					%					**%**
		4Q2009		4Q2008	**Inc.**		**12 months 09**		12 months 08	**Inc.**
Revenues										
Domestic long distance	**P.**	**3,824**	P.	4,161	**(8.1)**	**P.**	**16,259**	P.	18,316	**(11.2)**
International long distance		**1,397**		2,539	**(45.0)**		**6,284**		9,138	**(31.2)**
Total		**5,221**		6,700	**(22.1)**		**22,543**		27,454	**(17.9)**
Costs and expenses										
Cost of sales and services		**1,281**		1,465	**(12.6)**		**5,189**		5,391	**(3.7)**

Commercial, administrative and general		**1,316**		1,420	**(7.3)**		**5,515**		5,783	**(4.6)**
Interconnection to the local network		**1,833**		2,101	**(12.8)**		**7,514**		7,900	**(4.9)**
Depreciation and amortization		**431**		553	**(22.1)**		**1,788**		2,211	**(19.1)**
Total		**4,861**		5,539	**(12.2)**		**20,006**		21,285	**(6.0)**
Operating income	**P.**	**360**	P.	1,161	**(69.0)**	**P.**	**2,537**	P.	6,169	**(58.9)**
EBITDA (1)	**P.**	**791**	P.	1,714	**(53.9)**	**P.**	**4,325**	P.	8,380	**(48.4)**
EBITDA margin (%)		**15.2**		25.6	**(10.4)**		**19.2**		30.5	**(11.3)**
Operating margin (%)		**6.9**		17.3	**(10.4)**		**11.3**		22.5	**(11.2)**

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

ANNEX 2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Mexican Pesos)

Consolidated

Final printing

(Figures in thousands of Mexican pesos)

RECOGNITION OF THE EFFECTS OF INFLATION

From January 1, 2008, Mexican FRS B-10 “Effects of Inflation”, replaced Mexican accounting Bulletin B-10 “Accounting Recognition of the Effects of Inflation on Financial Information”. Based on Mexican FRS B-10, the economic environments in Mexico in 2009 and 2008 have been qualified as non-inflationary, due to inflation in the preceding three fiscal years was 15.01% and 11.56%, respectively. Therefore, during 2009 and 2008 the effects of inflation on financial information of this period were not recognized, keeping the effects of inflation recognized up to December 31, 2007.

BALANCE SHEET

S 23 AND S 28 BANK LOANS

In this item are included the bank credits related to purchase programs to suppliers that have been traditionally reported in the suppliers' credits item of the Balance Sheet because long-term caption to suppliers does not exist in EMISNET.

TELMEX entered into a syndicated loan agreement in 2004, which was restructured in 2005 and 2006 to improve the credit conditions and increase the total loan amount to 3 billion dollars divided in three tranches, the first one for 1.3 billion dollars with a three-year maturity, the second one for 1 billion dollars with a five-year maturity years and the third one for 700 million dollars with a seven- year maturity. In August 2009, TELMEX prepaid the total amount of the first tranche, which original maturity was scheduled for October 2009.

On June 30, 2006 Telmex entered into a syndicated loan agreement in the amount for 500 million dollars divided into two tranches of 250 million dollars each, with a four-year and six-year maturity, respectively.

S 24 AND S 29 SENIOR NOTES

On November 19, 2003, TELMEX issued a bond for U.S.$ 1.0 billion due November 2008, with an annual interest of 4.5%. Interests were payable semiannually. In November 2008, the Company repaid the outstanding balance of this bond.

On January 27, 2005 and with a reopening on February 22, 2005, TELMEX placed senior notes in the total amount of U.S.$1.75 billions divided into two issuances of U.S.$ 950 million and U.S.$ 800 million, respectively, the first one maturing in 2010 and bearing interest at 4.75% annual and the second one maturing in 2015 and bearing interest at 5.50% annual. Interests are payable semiannually.

On January 26, 2006, TELMEX placed abroad a senior note in the amount of Ps. 4,500,000 (nominal value), maturing in 2016 and bearing interest at 8.75% annual. Interests are payable semiannually.

On November 12, 2009, TELMEX issued a bond for U.S.$500 million due 2019 with an annual interest of 5.5%, interests are payable semiannually.

On September 30, 2005, TELMEX obtained approval for a long-term domestic senior notes program in the amount of Ps.10,000,000 (nominal value). As of April 30, 2007, domestic senior notes had been issued for the total amount authorized under this program.

In December 2007, TELMEX obtained approval for a long-term domestic senior notes program in the amount of Ps.10,000,000 (nominal value). In April 2008, domestic senior notes were placed in the amount of Ps.1,600,000. On July 8, 2009, two issuances of domestic senior notes were made under this program for a total amount of Ps.8,000,000.

In September 2009, TELMEX obtained approval for a dual program to issue short and long-term domestic senior notes in the total amount of P. 15,000,000 (nominal amount). On November 3, 2009, two issuances of domestic senior notes were made under this program for a total amount of Ps.6,000,000.

S 29 SENIOR NOTES (LONG-TERM)

As of December 31, 2009 and 2008, this item rose to $ 47,355,416 and $ 40,070,364, respectively, and is comprised as follows:

	2009	2008
Domestic Senior Notes	Ps. 25,900,000	Ps. 11,900,000
Bonds	16,955,416	23,670,364
Global peso Senior Notes	Ps 4,500,000	4,500,000

S 42 RETAINED EARNINGS AND CAPITAL RESERVES

On March 3, 2009 the Annual Ordinary Shareholders' Meeting approved to increase in Ps. 10,000,000 (nominal value), the funds authorized to repurchase its own shares, bringing the total maximum amount to Ps. $ 10,340,868 (nominal value).

From January through December 2009, the Company acquired 361.2 million L shares for Ps. 4,073,625 and 1.9 million A shares for Ps. 21,695.

From January through December 2008, the Company acquired 796.7 million L shares for Ps 12,764,130 and 8.6 million A shares for Ps. 107,712.

The Company's repurchased shares are applied to unappropiated retained earnings, in the amount exceeding the portion of the capital stock, corresponding to the repurchased shares.

S 104 EMPLOYEES BENEFITS

This item includes the projected net assets as of December 31, 2009 and 2008 pursuant to Mexican FRS D-3 “Employees Benefits”.

S 87 OTHERS

In this item there are included the inventories for telephone plant operation, which are valued by the average cost method and up to December 31, 2007 were updated based on the specific index method which is similar to its replacement value, without exceeding their market value.

S 58 OTHER CURRENT LIABILITIES

As of December 31, 2009 and 2008, this item rose to Ps. 8,932,547 and Ps. 10,899,412 respectively and is comprised as follows:

	2009	2008
Accounts payable	Ps. 6,024,730	Ps. 8,407,821
Other accrued liabilities	1,803,642	711,476
Deferred credits	1,104,175	1,780,115

S 91 EMPLOYEE BENEFITS

This item includes liabilities for deferred employee profit sharing and actuarial obligations for labor termination as of December 2009 and 2008, pursuant to Mexican FRS D-3 and Bulletin D-3, respectively.

RATIOS

P 08 INVENTORY TURNOVER RATE-COST

EMISNET automatically calculates the inventory turnover rate by dividing the cost of sales and services (Ref. R 02) by the inventories for sale (Ref. S 06), affecting the actual inventory turnover rate.

RECLASIFICATIONS

Certain 2008 financial statements have been reclassified to conform with the presentation used for the year 2009.

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

ANNEX 3a

SHARE INVESTMENTS SUBSIDIARIES

Consolidated

Final printing

COMPANY NAME	MAIN ACTIVITIES	NUMBER OF SHARES	OWNERSHIP %
Integración de Servicios TMX, S.A. de C.V.	Investments in all types of businesses	106,419,052,434	100.00
Aerocomunicaciones, S.A. de C.V.	Aeronautic radiocom. mobile serv.	128,234,600	100.00
Aerofrisco, S.A. de C.V.	Air Taxi services	7,230,624,600	100.00
Alquiladora de Casas, S.A. de C.V.	Real estate acquisition & leasing	686,001,490	100.00
Buscatel, S.A. de C.V.	Paging services	142,445	100.00
Cía. de Teléfonos y Bienes Raíces, S.A. de C.V.	Real estate acquisition & leasing	1,034,000,000	100.00
Comertel Argos, S.A. de C.V.	Personnel services	6,000	100.00
Consorcio Red Uno, S.A. de C.V.	Design & integrated telecom. Services	279,634,377	100.00
Construcciones y Canalizaciones, S.A. de C.V.	Construction & maint. of telephone network	28,369,000	100.00
Empresa de Limpieza Mexicana, S.A. de C.V.	Cleaning Service Company	50	100.00
Fintel Holdings, L.L.C.	Investments in all types of businesses	1,490	100.00
Fuerza y Clima, S.A de C.V.	Air conditioning installation & maint.	4,925,000	100.00
Grupo Técnico de Administración, S.A. de C.V.	Management, consulting & org. Services	50,000	100.00
Impulsora Mexicana de Telecomunicaciones, S.A.	Network projects	4,602,225	100.00
Instituto Tecnológico de Teléfonos de México, S.C	Trainning & research services	1,000	100.00
Multicomunicación Integral, S.A. de C.V.	Trunking, installation & sales services	665,759	100.00
Operadora Mercantil, S.A. de C.V.	Marketing services	50,000	100.00
Renta de Equipo, S.A. de C.V.	Equipment, vehicles & real estate leasing	15,377,595,000	100.00
Servicios Administrativos Tecmarketing, SA de CV	Software development, sales & management	140,687,728	100.00
Tecmarketing, S.A. de C.V.	Telemarketing services	6,850,000	100.00
Telecomunicaciones Controladora de Servicios, S.A.	Investments in all types of businesses	138,839	100.00
Teleconstructora, S.A. de C.V.	Construction & maint. of telephone network	19,400,000	100.00
Teléfonos del Noroeste, S.A. de C.V.	Telecommunication services	110,000,000	100.00
Telmex Holdings, Inc.	Telecommunication services	1,000	100.00
Teninver, S.A. de C.V.	Investments in all types of businesses	835,796,722	100.00
Uninet, S.A. de C.V.	Data transmission services	65,837,647	100.00

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

ANNEX 3b

SHARE INVESTMENTS AFFILATES

Consolidated

Final printing

COMPANY NAME	MAIN ACTIVITIES	NUMBER OF SHARES	OWNERSHIP %	TOTAL AMOUNT (Thousands of Mexican Pesos)	
				ACQUISITION COST	PRESENT VALUE
Grupo Telvista, S.A. de C.V.	Telemarketing in Mexico and USA	510,138,000	45.00	510,138	907,973
Centro Histórico de la Ciudad de México, SA de CV	Real estate services	16,004,000	12.79	80,020	102,239
2Wire, Inc.	Broadband Services	8,619,242	13.00	648,400	301,035
TM and MS, L.L.C.	Internet portal (Prodigy MSN)	1	50.00	29,621	177,786
Eidon Software, S.A. de C.V.	Software development	76,629,615	49.00	155,737	161,857
TOTAL INVESTMENT IN ASSOCIATES				**1,423,916**	**1,650,890**
OTHER PERMANENT INVESTMENTS					124,490
T O T A L					**1,775,380**

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

ANNEX 5

CREDITS BREAKDOWN

(Thousands of Mexican Pesos)

Consolidated

Final printing

---

e / n	Foreign Institution	Signature date	Amortization Date	Interest Rate	Amortization of Credits Denominated in Pesos						Amortization of Credits in Foreign Curre				
					Time Interval						Time Interval				
					Current Year	Until 1 Year	Until 2 Year	Until 3 Year	Until 4 Year	Until 5 Years or more	Current Year	Until 1 Year	Until 2 Year	Until 3 Year	Until 4 Year
NT	Y	16/03/2006	22/07/2014	0.7697	0	0	0	0	0	0	0	182,486	182,486	142,004	142,00
)	Y	15/01/2007	10/03/2018	0.7760	0	0	0	0	0	0	0	827,059	827,060	827,060	827,06
	Y	28/02/1986	31/03/2022	2.0000	0	0	0	0	0	0	0	27,735	27,734	27,734	27,73
EBT															
AL															
.A.	N/A	21/02/2007	22/02/2010	4.8250	0	1,500,000	0	0	0	0	0	0	0	0	
A.	Y	13/06/2008	13/06/2014	0.6006	0	0	0	0	0	0	0	0	0	0	261,17
A	Y	12/02/2008	18/02/2014	0.6075	0	0	0	0	0	0	0	0	0	0	
(4)	N/A	26/02/2007	26/02/2010	4.8650	0	1,300,000	0	0	0	0	0	0	0	0	
(2)	Y	30/06/2006	30/06/2010	0.4506	0	0	0	0	0	0	0	3,264,675	0	0	
(2)	Y	30/06/2006	30/06/2012	0.5006	0	0	0	0	0	0	0	0	0	3,264,675	
.A.	Y	11/08/2006	20/10/2011	0.5006	0	0	0	0	0	0	0	0	13,058,700	0	
.A.	Y	11/08/2006	11/08/2013	0.5756	0	0	0	0	0	0	0	0	0	3,047,030	6,094,06
EMS	Y	25/04/2007	19/11/2013	4.5000	0	0	0	0	0	0	0	261,174	261,174	235,057	208,93
	N/A	00/01/1900	00/01/1900	0.0000	0	0	0	0	0	0	0	0	0	0	
KS					**0**	**2,800,000**	**0**	**0**	**0**	**0**	**0**	**4,563,129**	**14,357,154**	**7,543,560**	**7,560,97**

.														
OCK E														
O														
AT -(3)	N/A	31/05/2002	31/05/2012	10.2000	0	0	0	300,000	0	0	0	0	0	0
AT 5)	N/A	21/09/2006	15/09/2011	5.0550	0	0	500,000	0	0	0	0	0	0	0
AT 3)	N/A	23/04/2007	16/03/2037	8.3600	0	0	0	0	0	5,000,000	0	0	0	0
AT 2 (4)	N/A	23/04/2007	16/04/2012	4.8150	0	0	0	4,500,000	0	0	0	0	0	0
AT 3)	N/A	21/04/2008	05/04/2018	8.2700	0	0	0	0	0	1,600,000	0	0	0	0
AT 4)	N/A	10/07/2009	07/07/2011	5.6550	0	0	4,000,000	0	0	0	0	0	0	0
AT 2 (4)	N/A	10/07/2009	04/07/2013	5.8650	0	0	0	0	4,000,000	0	0	0	0	0
AT 3 (4)	N/A	03/11/2009	30/10/2014	5.8650	0	0	0	0	0	4,000,000	0	0	0	0
AT 4 (4)	N/A	03/11/2009	27/10/2016	6.1650	0	0	0	0	0	2,000,000	0	0	0	0
	Y	27/01/2005	27/01/2015	5.5000	0	0	0	0	0	0	0	0	0	0
	Y	27/01/2005	27/01/2010	4.7500	0	0	0	0	0	0	0	12,405,765	0	0
	Y	12/11/2009	15/11/2019	5.5000	0	0	0	0	0	0	0	0	0	0
S	N/A	31/01/2006	31/01/2016	8.7500	0	0	0	0	0	4,500,000	0	0	0	0
EBT														
C ITS														
O														
EBT														
CK					**0**	**0**	**4,500,000**	**4,800,000**	**4,000,000**	**17,100,000**	**0**	**12,405,765**	**0**	**0**
S														
G AND SHORT TERM LOANS WITH COST (S103) AND (S30)														
NS	N/A				0	0	0	0	0	0	0	0	0	0
					0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

ER LONG AND SHORT TERM LOANS WITH AND (S30)															
RENT LIABILITIES WITHOUT COST (S26)															
ILITIES OST (S26)		0	0	0.0000	0	15,308,363	0	0	0	0	0	0	0	0	
ER CURRENT LIABILITIES WITHOUT COST					**0**	**15,308,363**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
					0	**18,108,363**	**4,500,000**	**4,800,000**	**4,000,000**	**17,100,000**	**0**	**16,968,894**	**14,357,154**	**7,543,560**	**7,560,97**

Notes:

A.- Interest rates:

The credits breakdown is presented with an integrated rate as follows:

(1) 6 months USD Libor rate plus margin

(2) 3 months USD Libor rate plus margin

(3) Fixed Rate

(4) 28 days TIIE rate plus margin

(5) 91 days TIIE rate plus margin

(6) 3 months JPY LIBOR plus margin

B.- The following rates were considered:

- Libor at 6 months in US dollars is equivalent to 0.4297 at December 31, 2009

- Libor at 3 months in US dollars is equivalent to 0.2506 at December 31, 2009

- TIIE at 28 days is equivalent to 4.9150 at December 31, 2009

- TIIE at 91 days is equivalent to 5.0750 at December 31, 2009

- Libor at 3 months in JPY is equivalent to 0.2775 at December 31, 2009

C.- The suppliers' Credits are reclassified to Bank Loans because in this document, Emisnet, Long-Term opening to Suppliers' does not exist.

D.- Liabilities in foreign currency were exchanged at the prevailing exchange rate at the end of the reporting period, which at December 31, 2009 were as follows:

CURRENCY	Securities sold under repurchase agreements	33,847	33,847	—	—	33,847
Short-term borrowings	140,000		140,000	—	—	140,000
Long-term borrowings	21,810		22,924	—	—	22,924

Junior subordinated debt securities	45,619	45,619	—	—	45,619
Interest rate swaps	13,647	13,647	—	13,647	—

(1) As reported in the Consolidated Balance Sheets

Table of Contents

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

NOTE 4. SECURITIES AVAILABLE-FOR-SALE

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

	September 30, 2014				December 31, 2013			
(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$14,863	$—	$(60)	$14,803	$—	$—	$—	$—
Obligations of U.S. government corporations and agencies	263,254	1,930	(1,778)	263,406	235,181	2,151	(2,581)	234,751
Collateralized mortgage obligations of U.S. government corporations and agencies	110,626	644	(217)	111,053	63,776	601	(603)	63,774
Residential mortgage-backed securities of U.S. government corporations and agencies	43,405	1,429	(253)	44,581	47,934	1,420	(685)	48,669
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,967	80	(667)	39,380	40,357	—	(1,305)	39,052
Obligations of states and political subdivisions	129,133	4,952	(140)	133,945	115,572	1,294	(2,602)	114,264
Debt Securities	601,248	9,035	(3,115)	607,168	502,820	5,466	(7,776)	500,510
Marketable equity securities	7,579	910	—	8,489	7,579	1,336	—	8,915
Total	$608,827	$9,945	$(3,115)	$615,657	$510,399	$6,802	$(7,776)	$509,425

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2014	2013	2014	2013
Gross realized gains	$—	$3	$41	$5
Gross realized losses	—	—	—	—
Net Realized Gains	$—	$3	$41	$5

18

Table of Contents

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

NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

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

	September 30, 2014								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	3	$14,803	$(60)	—	$—	$—	3	$14,803	$(60)
Obligations of U.S. government corporations and agencies	9	83,654	(377)	8	62,754	(1,401)	17	146,408	(1,778)
Collateralized mortgage obligations of U.S. government corporations and agencies	6	71,273	(217)	—	—	—	6	71,273	(217)
Residential mortgage-backed securities of U.S. government corporations and agencies	—	—	—	1	9,118	(253)	1	9,118	(253)
Commercial mortgage-backed securities of U.S. government corporations and agencies	1	9,927	(97)	2	20,546	(570)	3	30,473	(667)
Obligations of states and political subdivisions	3	12,313	(3)	2	10,715	(137)	5	23,028	(140)
Total Temporarily Impaired Securities	22	$191,970	$(754)	13	$103,133	$(2,361)	35	$295,103	$(3,115)

19

Table of Contents

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

NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

	December 31, 2013								
	Less Than 12 Months			12 Months or More			Total		
(dollars in thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury securities	—	$—	$—	—	$—	$—	$—	$—	$—
Obligations of U.S. government corporations and agencies	16	126,017	(2,581)	—	—	—	16	126,017	(2,581)
Collateralized mortgage obligations of U.S. government corporations and agencies	3	39,522	(603)	—	—	—	3	39,522	(603)
Residential mortgage-backed securities of U.S. government corporations and agencies	2	22,822	(685)	—	—	—	2	22,822	(685)
Commercial mortgage-backed securities of U.S. government corporations and agencies	4	39,052	(1,305)	—	—	—	4	39,052	(1,305)
Obligations of states and political subdivisions	16	47,529	(1,739)	2	10,088	(863)	18	57,617	(2,602)
Debt Securities	41	274,942	(6,913)	2	10,088	(863)	43	285,030	(7,776)
Marketable equity securities	—	—	—	—	—	—	—	—	—
Total Temporarily Impaired Securities	41	$274,942	$(6,913)	2	$ 10,088	$(863)	43	$285,030	$(7,776)

We do not believe any individual unrealized loss as of September 30, 2014 represents an other than temporary impairment, or OTTI. As of September 30, 2014, the unrealized losses on 35 debt securities were attributable to changes in interest rates and not related to the credit quality of these securities. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. There were no unrealized losses on marketable equity securities as of September 30, 2014. We do not intend to sell and it is not more likely than not that we will be required to sell any of the securities, referenced in the table above, in an

unrealized loss position before recovery of their amortized cost.

20

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

NOTE 4. SECURITIES AVAILABLE-FOR-SALE – continued

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

	September 30, 2014			December 31, 2013		
(dollars in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/ (Losses)	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains/ (Losses)
Total unrealized gains/(losses) on securities available-for-sale	$9,945	$(3,115)	$6,830	$6,802	$(7,776)	$ (974)
Income tax expense/(benefit)	3,480	(1,090)	2,390	2,381	(2,722)	(341)
Net unrealized gains/(losses), net of tax included in accumulated other comprehensive income/(loss)	$6,465	$(2,025)	$4,440	$4,421	$(5,054)	$ (633)

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

	September 30, 2014	
(dollars in thousands)	Amortized Cost	Fair Value
Obligations of the U.S. Treasury and U.S. government corporations and agencies, and obligations of states and political subdivisions		
Due in one year or less	$20,713	$20,936
Due after one year through five years	202,379	202,439
Due after five years through ten years	90,813	91,899
Due after ten years	93,345	96,880
	407,250	412,154
Collateralized mortgage obligations of U.S. government corporations and agencies	110,626	111,053
Residential mortgage-backed securities of U.S. government corporations and agencies	43,405	44,581
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,967	39,380
Debt Securities	601,248	607,168
Marketable equity securities	7,579	8,489
Total	$608,827	$615,657

At September 30, 2014 and December 31, 2013, securities with carrying values of $314.8 million and $243.2 million were pledged for various regulatory and legal requirements.

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

NOTE 5. LOANS AND LOANS HELD FOR SALE

Loans are presented net of unearned income of $2.0 million and $1.3 million at September 30, 2014 and December 31, 2013. The following table indicates the composition of the loans as of the dates presented:

(dollars in thousands)	September 30, 2014	December 31, 2013
Commercial		
Commercial real estate	$1,691,649	$1,607,756
Commercial and industrial	946,366	842,449
Commercial construction	183,509	143,675
Total Commercial Loans	2,821,524	2,593,880
Consumer		
Residential mortgage	491,404	487,092
Home equity	418,659	414,195
Installment and other consumer	66,607	67,883
Consumer construction	2,995	3,149
Total Consumer Loans	979,665	972,319
Total Portfolio Loans	3,801,189	3,566,199
Loans held for sale	3,126	2,136
Total Loans	$3,804,315	$3,568,335

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, collateral and industry and actively managing concentrations. When concentrations exist in certain segments, we mitigate this risk by monitoring the relevant economic indicators and internal risk rating trends and through stress testing of the loans in these segments. Total commercial loans represented 74 percent of total portfolio loans at September 30, 2014 and 73 percent of total portfolio loans at December 31, 2013. Within our commercial portfolio, the commercial real estate, or CRE, and commercial construction portfolios combined comprised 66 percent of total commercial loans and 49 percent of total portfolio loans at September 30, 2014 and 68 percent of total commercial loans and 49 percent of total portfolio loans at December 31, 2013. Further segmentation of the CRE and commercial construction portfolios by industry and collateral type revealed no concentration in excess of nine percent of total loans at either September 30, 2014 or December 31, 2013.

Our market area includes Pennsylvania and the contiguous states of Ohio, West Virginia, New York and Maryland. The majority of our commercial and consumer loans are made to businesses and individuals in this market area resulting in a geographic concentration. We believe our knowledge and familiarity with customers and conditions locally outweighs this geographic concentration risk. The conditions of the local and regional economies are monitored closely through publicly available data as well as information supplied by our customers. Management believes underwriting guidelines, active monitoring of economic conditions and ongoing review by credit administration mitigates the concentration risk present in the loan portfolio. Our CRE and commercial construction portfolios have out of market exposure of 7.7 percent of the combined portfolio and 3.8 percent of total loans at September 30, 2014 and 7.9 percent of the combined portfolio and 3.9 percent of total loans at December 31, 2013.

Troubled debt restructurings, or TDRs, are loans where we, for economic or legal reasons related to a borrower's financial difficulties, grant a concession to the borrower that we would not otherwise grant. We strive to identify borrowers in financial difficulty early and work with them to modify the terms before their loan reaches nonaccrual status. These modified terms generally include extensions of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar risk characteristics, reductions in contractual interest rates or principal deferment. While unusual, there may be instances of principal forgiveness. These modifications are generally for longer term periods that would not be considered insignificant. Additionally, we classify loans where the debt obligation has been discharged through a Chapter 7 Bankruptcy and not reaffirmed as TDRs.

We individually evaluate all substandard commercial loans that have experienced a forbearance or change in terms agreement, as well as all substandard consumer and residential mortgage loans that entered into an agreement to modify their existing loan to determine if they should be designated as TDRs. All TDRs are considered to be impaired loans and will be reported as impaired loans for the remaining life of the loan, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and it is fully expected that the remaining principal and interest will be collected according to the restructured agreement. Further, all impaired loans are reported as nonaccrual loans unless the loan is a TDR that has met the requirements to be returned to

22

Table of Contents

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

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

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

(dollars in thousands)	September 30, 2014			December 31, 2013		
	Accruing TDRs	Nonaccruing TDRs	Total TDRs	Accruing TDRs	Nonaccruing TDRs	Total TDRs
Commercial real estate	$17,140	$898	$18,038	$19,711	$3,898	$23,609
Commercial and industrial	7,401	1,443	8,844	7,521	1,884	9,405
Commercial construction	6,273	1,869	8,142	5,338	2,708	8,046
Residential mortgage	2,743	486	3,229	2,581	1,356	3,937
Home equity	3,594	223	3,817	3,924	218	4,142
Installment and other consumer	122	10	132	154	3	157
Total	$37,273	$4,929	$42,202	$39,229	$10,067	$49,296

There were five TDRs for $0.5 million returned to accruing status during the three months ended September 30, 2014 and ten TDRs for $2.0 million were returned to accruing status during the nine months ended September 30, 2014. There were no TDRs returned to accruing status during the three months ended September 30, 2013 and one TDR for $0.2 million was returned to accruing status during the nine months ended September 30, 2013.

Table of Contents

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

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

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

	Three Months Ended September 30, 2014				Three Months Ended September 30, 2013			
(dollars in thousands)	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment
Commercial real estate								
Principal deferral	1	$ 487	$ 475	$ (12)	—	$ —	$ —	$ —
Chapter 7 bankruptcy[2]	1	83	83	—	—	—	—	—
Maturity date extension and interest rate reduction	—	—	—	—	2	664	644	(20)
Commercial and industrial								
Principal deferral	2	381	366	(15)	1	278	278	—
Residential mortgage								
Chapter 7 bankruptcy[2]	2	135	134	(1)	—	—	—	—
Interest rate reduction	—	—	—	—	1	54	54	—
Home equity								
Chapter 7 bankruptcy[2]	2	14	14	—	8	772	767	(5)
Maturity date extension and interest rate reduction	2	96	96	—	—	—	—	—
Installment and other consumer								
Chapter 7 bankruptcy[2]	2	14	11	(3)	3	17	15	(2)
Total by Concession Type								
Principal deferral	3	868	841	(27)	1	278	278	—
Chapter 7 bankruptcy[2]	7	246	242	(4)	11	789	782	(7)
Interest rate reduction	—	—	—	—	1	54	54	—
Maturity date extension and interest rate reduction	2	96	96	—	2	664	644	(20)
Total	12	$ 1,210	$ 1,179	$ (31)	15	1,785	1,758	(27)

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

period end.

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

24

Table of Contents

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

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

(dollars in thousands)	Nine Months Ended September 30, 2014				Nine Months Ended September 30, 2013			
	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment[1]	Post-Modification Outstanding Recorded Investment[1]	Total Difference in Recorded Investment
Commercial real estate								
Principal deferral	2	$ 616	$ 602	$ (14)	3	$ 1,541	$ 1,288	$ (253)
Maturity date extension and interest rate reduction	—	—	—	—	2	664	644	(20)
Principal forgiveness[3]	—	—	—	—	1	4,339	4,339	—
Chapter 7 bankruptcy[2]	1	83	83	—	7	258	255	(3)
Commercial and industrial								
Principal deferral	2	381	366	(15)	2	670	665	(5)
Maturity date extension	—	—	—	—	1	751	751	—
Chapter 7 bankruptcy[2]	1	287	286	(1)	1	3	3	—
Commercial Construction								
Maturity date extension	1	1,019	1,019	—	—	—	—	—
Residential mortgage								
Principal deferral	—	—	—	—	2	153	153	—
Interest rate reduction	—	—	—	—	1	54	54	—
Chapter 7 bankruptcy[2]	7	464	461	(3)	8	353	344	(9)
Home equity								
Principal deferral	—	—	—	—	1	174	45	(129)
Chapter 7 bankruptcy[2]	12	283	265	(18)	31	1,420	1,407	(13)
Maturity date extension and interest rate reduction	2	96	96	—	—	—	—	—
Installment and other consumer								
Chapter 7 bankruptcy[2]	3	23	20	(3)	9	90	88	(2)

Total by Concession Type								
Principal deferral	4	997	968	(29)	8	2,538	2,151	(387)
Interest rate reduction	—	—	—	—	1	54	54	—
Principal forgiveness(3)	—	—	—	—	1	4,339	4,339	—
Maturity date extension and interest rate reduction	2	96	96	—	2	664	644	(20)
Maturity date extension	1	1,019	1,019	—	1	751	751	—
Chapter 7 bankruptcy(2)	24	1,140	1,115	(25)	56	2,124	2,097	(27)
Total	31	$ 3,252	$ 3,198	$ (54)	69	$ 10,470	10,036	(434)

(1) Excludes loans that were fully paid off or fully charged-off by period end. The pre-modification balance represents the balance outstanding prior to modification. The post-modification balance represents the outstanding balance at period end.
(2) Chapter 7 bankruptcy loans where the debt has been legally discharged through the bankruptcy court and not reaffirmed.
(3) This loan had debt forgiveness of $0.1 million to the customer; however, the loan was previously charged off to a balance below the actual contractual balance.

For the three months ended September 30, 2014, we modified two commercial and industrial, or C&I loans totaling $2.8 million that were not considered to be TDRs. For the nine months ended September 30, 2014, we modified five loans that were not considered to be TDRs, including three C&I, loans for $3.2 million and two CRE loans for $1.2 million. The modifications primarily represented instances where we were adequately compensated through additional collateral or a higher interest rate or there was an insignificant delay in payment. As of September 30, 2014 we have no commitments to lend additional funds on any TDRs.

Table of Contents

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

NOTE 5. LOANS AND LOANS HELD FOR SALE – continued

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

	Defaulted TDRs							
	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2014		September 30, 2013		September 30, 2014		September 30, 2013	
(dollars in thousands)	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment	Number of Defaults	Recorded Investment
Commercial real estate	—	$ —	1	$ 75	—	$ —	1	$ 75
Commercial and Industrial	—	—	1	435	—	—	1	435
Commercial construction	—	—	—	—	—	—	—	—
Residential real estate	—	—	4	450	1	72	7	514
Home equity	—	—	1	42	—	—	5	193
Total	—	$ —	7	$ 1,002	1	$ 72	14	$ 1,217

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

	Nonperforming Assets	
(dollars in thousands)	September 30, 2014	December 31, 2013
Nonperforming Assets		
Nonaccrual loans	$8,573	$12,387
Nonaccrual TDRs	4,929	10,067
Total nonaccrual loans	13,502	22,454
OREO	200	410
Total Nonperforming Assets	$13,702	$22,864

OREO consists of three properties and is included in other assets in the Consolidated Balance Sheets.

NOTE 6. ALLOWANCE FOR LOAN LOSSES

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

The following are key risks within each portfolio segment:

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

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

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

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

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

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

The ALL methodology for groups of loans collectively evaluated for impairment is comprised of both a quantitative and qualitative analysis. A key assumption in the quantitative component of the reserve is the loss emergence period, or LEP. The LEP is an estimate of the average amount of time from the point at which a loss is incurred on a loan to the point at which the loss is confirmed. In general, the LEP is expected to be shorter in an economic slowdown or recession and longer during times of economic stability or growth, as customers are better able to delay loss confirmation after a potential loss event has occurred. In conjunction with our annual review of the ALL assumptions,

we have updated our study of LEPs for our commercial portfolio segments using our loan charge-off history. Our study showed that the LEP for our commercial construction portfolio has lengthened and that our current estimated LEPs for the CRE and C&I portfolio segments did not materially change. We also lengthened the LEP for our consumer loan portfolio segments as economic conditions continue to improve. 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 C&I, commercial construction and the consumer loan portfolio segments in order to capture relevant historical data believed to be reflective of losses inherent in the portfolios.

Table of Contents

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES - continued

The changes made to the ALL assumptions were applied prospectively and did not result in a material change to the total ALL at September 30, 2014. Lengthening the LEP does increase the historical loss rates and therefore the quantitative component of the ALL. We believe this makes the quantitative component of the ALL more reflective of inherent losses that exist within the loan portfolio, which resulted in a decrease in the qualitative component of the ALL. The ALL at September 30, 2014 reflects these changes within the commercial construction and consumer portfolio segments.

Management monitors various credit quality indicators for both the commercial and consumer loan portfolios, including delinquency, nonperforming status and changes in risk ratings on a monthly basis.
The following tables present the age analysis of past due loans segregated by class of loans as of September 30, 2014 and December 31, 2013:

	September 30, 2014					
(dollars in thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	Nonaccrual	Total Past Due	Total Loans
Commercial real estate	$1,684,411	$1,606	$458	$5,174	$7,238	$1,691,649
Commercial and industrial	943,389	317	234	2,426	2,977	946,366
Commercial construction	181,620	—	—	1,889	1,889	183,509
Residential mortgage	487,634	865	657	2,248	3,770	491,404
Home equity	414,279	2,380	265	1,735	4,380	418,659
Installment and other consumer	66,140	380	57	30	467	66,607
Consumer construction	2,995	—	—	—	—	2,995
Loans held for sale	3,126	—	—	—	—	3,126
Totals	$3,783,594	$5,548	$1,671	$13,502	$20,721	$3,804,315

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

We continually monitor the commercial loan portfolio through an internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and are reviewed on an ongoing basis according to our internal policies. Loans within the pass rating generally have a lower risk of loss than loans risk rated as special mention or substandard.
Our risk ratings are consistent with regulatory guidance and are as follows:
Pass—The loan is currently performing and is of high quality.
Special Mention—A special mention loan has potential weaknesses that warrant management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects or in the strength of

our credit position at some future date. Economic and market conditions, beyond the borrower's control, may in the future necessitate this classification.

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

Table of Contents

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES - continued

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

	September 30, 2014											
(dollars in thousands)	Commercial Real Estate	% of Total		Commercial and Industrial	% of Total		Commercial Construction	% of Total		Total	% of Total	
Pass	$1,624,718	96.0	%	$903,273	95.5	%	$162,629	88.6	%	$2,690,620	95.4	%
Special mention	41,628	2.5	%	27,809	2.9	%	12,747	6.9	%	82,184	2.9	%
Substandard	25,303	1.5	%	15,284	1.6	%	8,133	4.5	%	48,720	1.7	%
Total	$1,691,649	100	%	$946,366	100.0	%	$183,509	100.0	%	$2,821,524	100.0	%

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

We monitor the delinquent status of the consumer portfolio on a monthly basis. Loans are considered nonperforming when interest and principal are 90 days or more past due or management has determined that a material deterioration in the borrower’s financial condition exists. The risk of loss is generally highest for nonperforming loans.
The following tables indicate the recorded investment in consumer loan classes by performing and nonperforming status as of the dates presented:

	September 30, 2014														
(dollars in thousands)	Residential Mortgage	% of Total		Home Equity	% of Total		Installment and other consumer	% of Total		Consumer Construction	% of Total		Total	% of Total	
Performing	$489,156	99.5	%	$416,924	99.6	%	$66,577	99.9	%	$2,995	100.0	%	$975,652	99.6	%
Nonperforming	2,248	0.5	%	1,735	0.4	%	30	0.1	%	—	—	%	4,013	0.4	%
Total	$491,404	100.0	%	$418,659	100.0	%	$66,607	100.0	%	$2,995	100.0	%	$979,665	100.0	%

	December 31, 2013														
(dollars in thousands)	Residential Mortgage	% of Total		Home Equity	% of Total		Installment and other consumer	% of Total		Consumer Construction	% of Total		Total	% of Total	
Performing	$483,754	99.3	%	$411,904	99.4	%	$67,846	99.9	%	$3,149	100.0	%	$966,653	99.4	%
Nonperforming	3,338	0.7	%	2,291	0.6	%	37	0.1	%	—	—	%	5,666	0.6	%
Total	$487,092	100.0	%	$414,195	100.0	%	$67,883	100.0	%	$3,149	100.0	%	$972,319	100.0	%

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

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

29

Table of Contents

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES - continued

The following table presents investments in loans considered to be impaired and the related allowance at the dates indicated:

	September 30, 2014			December 31, 2013		
(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Without a related allowance recorded:						
Commercial real estate	$21,028	$26,366	$—	$26,968	$35,474	$—
Commercial and industrial	9,643	9,964	—	9,580	9,703	—
Commercial construction	8,143	11,831	—	7,391	12,353	—
Consumer real estate	7,000	7,553	—	8,026	9,464	—
Other consumer	111	115	—	124	128	—
Total without a Related Allowance Recorded	45,925	55,829	—	52,089	67,122	—
With a related allowance recorded:						
Commercial real estate	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Commercial construction	—	—	—	681	1,383	25
Consumer real estate	45	45	45	53	53	53
Other consumer	22	22	10	33	33	19
Total with a Related Allowance Recorded	67	67	55	767	1,469	97
Total:						
Commercial real estate	21,028	26,366	—	26,968	35,474	—
Commercial and industrial	9,643	9,964	—	9,580	9,703	—
Commercial construction	8,143	11,831	—	8,072	13,736	25
Consumer real estate	7,045	7,598	45	8,079	9,517	53
Other consumer	133	137	10	157	161	19
Total	$45,992	$55,896	$55	$52,856	$68,591	$97

Table of Contents

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES - continued

The following tables present investments in loans considered to be impaired and interest income recognized for the periods presented:

	For the Three Months Ended			
	September 30, 2014		September 30, 2013	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	$21,110	$159	$27,489	$271
Commercial and industrial	9,702	63	10,995	68
Commercial construction	8,160	58	9,768	46
Consumer real estate	7,034	100	8,349	114
Other consumer	115	1	119	1
Total without a Related Allowance Recorded	46,121	381	56,720	500
With a related allowance recorded:				
Commercial real estate	—	—	1,014	—
Commercial and industrial	—	—	—	—
Commercial construction	—	—	5,929	49
Consumer real estate	47	1	100	2
Other consumer	23	—	35	1
Total with a Related Allowance Recorded	70	1	7,078	52
Total:				
Commercial real estate	21,110	159	28,503	271
Commercial and industrial	9,702	63	10,995	68
Commercial construction	8,160	58	15,697	95
Consumer real estate	7,081	101	8,449	116
Other consumer	138	1	154	2
Total	$46,191	$382	$63,798	$552

Table of Contents

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES - continued

	For the Nine Months Ended			
	September 30, 2014		September 30, 2013	
(dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Without a related allowance recorded:				
Commercial real estate	$21,593	$512	$29,951	$330
Commercial and industrial	9,477	177	11,964	203
Commercial construction	8,254	172	14,492	271
Consumer real estate	7,181	306	8,912	693
Other consumer	122	3	110	4
Total without a Related Allowance Recorded	46,627	1,170	65,429	1,501
With a related allowance recorded:				
Commercial real estate	$—	$—	2,526	$5
Commercial and industrial	—	—	—	—
Commercial construction	—	—	1,976	49
Consumer real estate	49	2	62	—
Other consumer	24	2	21	3
Total with a Related Allowance Recorded	73	4	4,585	57
Total:				
Commercial real estate	21,593	512	32,477	335
Commercial and industrial	9,477	177	11,964	203
Commercial construction	8,254	172	16,468	320
Consumer real estate	7,230	308	8,974	693
Other consumer	146	5	131	7
Total	$46,700	$1,174	$70,014	$1,558

Table of Contents

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES - continued

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

	Three Months Ended September 30, 2014					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$20,733	$ 13,004	$4,759	$6,705	$1,379	$46,580
Charge-offs	—	(37)	(234)	(436)	(295)	(1,002)
Recoveries	(154)	315	—	48	75	284
Net (Charge-offs)/ Recoveries	(154)	278	(234)	(388)	(220)	(718)
Provision for loan losses	(602)	616	653	446	341	1,454
Balance at End of Period	$19,977	$ 13,898	$5,178	$6,763	$1,500	$47,316

	Three Months Ended September 30, 2013					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$23,484	$ 9,123	$5,812	$6,655	$1,031	$46,105
Charge-offs	(840)	(759)	(480)	(585)	(327)	(2,991)
Recoveries	617	167	481	122	63	1,450
Net (Charge-offs)/ Recoveries	(223)	(592)	1	(463)	(264)	(1,541)
Provision for loan losses	(5,572)	6,268	2,186	185	352	3,419
Balance at End of Period	$17,689	$ 14,799	$7,999	$6,377	$1,119	$47,983

	Nine Months Ended September 30, 2014					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
Balance at beginning of period	$18,921	$ 14,433	$5,374	$6,362	$1,165	$46,255
Charge-offs	(2,002)	(1,070)	(693)	(983)	(740)	(5,488)
Recoveries	1,681	3,564	140	272	284	5,941
Net Recoveries/(Charge-offs)	(321)	2,494	(553)	(711)	(456)	453
Provision for loan losses	1,377	(3,029)	357	1,112	791	608
Balance at End of Period	$19,977	$ 13,898	$5,178	$6,763	$1,500	$47,316

	Nine Months Ended September 30, 2013					
(dollars in thousands)	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Real Estate	Other Consumer	Total Loans
	$25,246	$ 7,759	$7,500	$5,058	$921	$46,484

Balance at beginning of period						
Charge-offs	(3,649)	(2,682)	(923)	(1,822)	(978)	(10,054)
Recoveries	2,939	457	536	630	242	4,804
Net (Charge-offs)/ Recoveries	(710)	(2,225)	(387)	(1,192)	(736)	(5,250)
Provision for loan losses	(6,847)	9,265	886	2,511	934	6,749
Balance at End of Period	$17,689	$ 14,799	$7,999	$6,377	$1,119	$47,983

33

Table of Contents

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

NOTE 6. ALLOWANCE FOR LOAN LOSSES - continued

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

	September 30, 2014					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$—	$19,977	$19,977	$21,028	$1,670,621	$1,691,649
Commercial and industrial	—	13,898	13,898	9,643	936,723	946,366
Commercial construction	—	5,178	5,178	8,143	175,366	183,509
Consumer real estate	45	6,718	6,763	7,045	906,013	913,058
Other consumer	10	1,490	1,500	133	66,474	66,607
Total	$55	$47,261	$47,316	$45,992	$3,755,197	$3,801,189

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

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Interest Rate Swaps

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

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

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

Interest Rate Lock Commitments and Forward Sale Contracts

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

Table of Contents

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

NOTE 7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – continued

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

(dollars in thousands)	Derivatives (included in Other Assets) September 30, 2014	Derivatives (included in Other Assets) December 31, 2013	Derivatives (included in Other Liabilities) September 30, 2014	Derivatives (included in Other Liabilities) December 31, 2013
Derivatives not Designated as Hedging Instruments:				
Interest Rate Swap Contracts—Commercial Loans				
Fair value	$12,125	$13,698	$12,103	$13,647
Notional amount	249,159	261,754	249,159	261,754
Collateral posted	—	—	11,492	12,611
Interest Rate Lock Commitments—Mortgage Loans				
Fair value	187	85	—	—
Notional amount	7,854	3,989	—	—
Forward Sale Contracts—Mortgage Loans				
Fair value	—	34	10	—
Notional amount	$—	$5,250	$7,948	$—

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

(dollars in thousands)	Derivatives (included in Other Assets) September 30, 2014	Derivatives (included in Other Assets) December 31, 2013	Derivatives (included in Other Liabilities) September 30, 2014	Derivatives (included in Other Liabilities) December 31, 2013
Derivatives not Designated as Hedging Instruments:				
Gross amounts recognized	$12,341	$14,012	$12,319	$13,961
Gross amounts offset	(216)	(314)	(216)	(314)
Net amounts presented in the Consolidated Balance Sheets	12,125	13,698	12,103	13,647
Gross amounts not offset[1]	—	—	(11,492)	(12,611)
Net Amount	$12,125	$13,698	$611	$1,036

[1] Amounts represent posted collateral.

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

(dollars in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013

Derivatives not Designated as Hedging Instruments				
Interest rate swap contracts—commercial loans	$(10)	$(10)	$(29)	$(166)
Interest rate lock commitments—mortgage loans	(105)	231	102	(261)
Forward sale contracts—mortgage loans	49	(519)	(43)	(114)
Total Derivatives Gain (Loss)	$(66)	$(298)	$30	$(541)

36

Table of Contents

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

NOTE 8. BORROWINGS

Short-term borrowings are for terms under one year and were comprised of securities sold under repurchase agreements, or REPOs, and Federal Home Loan Bank, or FHLB, advances. Our REPOs were with our local customers. Securities pledged as collateral under these REPO financing arrangements cannot be sold or repledged by the secured party and are therefore accounted for as a secured borrowing. FHLB advances are for various terms secured by a blanket lien on our residential mortgages and other real estate secured loans.

Long-term borrowings are for original terms greater than one year and were comprised of FHLB advances, a capital lease and junior subordinated debt securities. Long-term FHLB advances have the same collateral requirements as their short-term equivalents. We had total long-term borrowings outstanding of $16.8 million at a fixed rate and $48.7 million at a variable rate at September 30, 2014, excluding our capital lease of $0.2 million.

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

	September 30, 2014		December 31, 2013	
(dollars in thousands)	Balance	Weighted Average Rate	Balance	Weighted Average Rate
Short-term borrowings				
Securities sold under repurchase agreements	$23,084	0.01 %	$33,847	0.01 %
Short-term borrowings	265,000	0.29 %	140,000	0.30 %
Total short-term borrowings	288,084	0.27 %	173,847	0.24 %
Long-term borrowings				
Other long-term borrowings	20,042	2.97 %	21,810	3.01 %
Junior subordinated debt securities	45,619	2.69 %	45,619	2.70 %
Total long-term borrowings	65,661	2.78 %	67,429	2.80 %
Total Borrowings	$353,745	0.73 %	$241,276	0.96 %

We had total borrowings at September 30, 2014 and December 31, 2013 at the FHLB of Pittsburgh of $284.9 million and $161.6 million. This consisted of $265.0 million in short-term borrowings and $19.9 million in long-term borrowings at September 30, 2014. Our maximum borrowing capacity with the FHLB of Pittsburgh was $1.6 billion at September 30, 2014, with a remaining borrowing availability of $1.3 billion.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Commitments

In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event a customer does not satisfy the terms of their agreement, equals the contractual amount of the obligation less the value of any collateral. We apply the same credit policies in making commitments and standby letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon; the total commitment amounts do not necessarily represent future cash requirements. Our allowance for unfunded commitments totaled $2.7 million at September 30, 2014 and $2.9 million at December 31, 2013. The allowance for unfunded commitments is included in other liabilities in the Consolidated Balance Sheets. Estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties.

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

(dollars in thousands)	September 30, 2014	December 31, 2013
Commitments to extend credit	$1,105,285	$1,038,529
Standby letters of credit	76,968	78,639
Total	$1,182,253	$1,117,168

37

Table of Contents

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

Litigation
In the normal course of business, we are subject to various legal and administrative proceedings and claims. While any type of litigation contains a level of uncertainty, we believe that the outcome of such proceedings or claims will not have a material adverse effect on our consolidated financial position.
NOTE 10. OTHER COMPREHENSIVE INCOME
The following table presents the tax effects of the components of other comprehensive income (loss) for the periods presented:

	Three Months Ended September 30, 2014			Three Months Ended September 30, 2013		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in unrealized gains/losses on securities available-for-sale	$(2,032)	$712	$(1,320)	$335	$(117)	$218
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income [1]	—	—	—	(3)	1	(2)
Adjustment to funded status of employee benefit plans	269	(94)	175	631	(220)	411
Other Comprehensive Income (Loss)	$(1,763)	$618	$(1,145)	$963	$(336)	$627

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

	Nine Months Ended September 30, 2014			Nine Months Ended September 30, 2013		
(dollars in thousands)	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Change in unrealized gains/losses on securities available-for-sale	$7,844	$(2,746)	$5,098	$(13,494)	$4,723	$(8,771)
Reclassification adjustment for net (gains)/losses on securities available-for-sale included in net income [1]	(41)	15	(26)	(5)	2	(3)
Adjustment to funded status of employee benefit plans	692	(242)	450	1,827	(639)	1,188
Other Comprehensive Income (Loss)	$8,495	$(2,973)	$5,522	$(11,672)	$4,086	$(7,586)

[1] Reclassification adjustments are comprised of realized security gains. The gains have been reclassified out of accumulated other comprehensive income and have affected certain lines in the consolidated statement of comprehensive income as follows; the pre-tax amount is included in securities gains-net, the tax expense amount is included in the provision for income taxes and the net of tax amount is included in net income.

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

NOTE 11. EMPLOYEE BENEFITS

We maintain a defined benefit pension plan, or Plan, covering substantially all employees hired prior to January 1, 2008. The benefits are based on years of service and the employee's compensation for the highest five consecutive years in the last ten years. Contributions are intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future. At this time, we are not required to make a cash contribution to the Plan in 2014. The expected long-term rate of return on plan assets is 8.00 percent. Through September 30, 2014, there have been no changes to the Plan.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(dollars in thousands)	2014	2013	2014	2013
Components of Net Periodic Pension Cost				
Service cost—benefits earned during the period	$516	$659	$1,778	$2,075
Interest cost on projected benefit obligation	1,141	997	3,353	2,989
Expected return on plan assets	(1,710)	(1,526)	(5,180)	(4,656)
Amortization of prior service cost (credit)	(34)	(34)	(104)	(102)
Recognized net actuarial loss	287	642	705	1,818
Net Periodic Pension Expense	$200	$738	$552	$2,124

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

NOTE 12. SEGMENTS
We manage three reportable operating segments including Community Banking, Insurance and Wealth Management.

- Our Community Banking segment offers services which include accepting time and demand deposit accounts, originating commercial and consumer loans and providing letters of credit and credit card services.
- Our Insurance segment includes a full-service insurance agency offering commercial property and casualty insurance, group life and health coverage, employee benefit solutions and personal insurance lines.
- Our Wealth Management segment offers discount brokerage services, services as executor and trustee under wills and deeds, guardian and custodian of employee benefits and other trust and brokerage services, as well as a registered investment advisor that manages private investment accounts for individuals and institutions.

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

(dollars in thousands)	September 30, 2014	December 31, 2013
Community Banking	$4,896,390	$4,524,939
Insurance	8,078	6,926
Wealth Management	2,276	1,325
Total Assets	$4,906,744	$4,533,190

The following tables provide financial information for our three segments for the three and nine month periods ended September 30, 2014 and 2013. The financial results of the business segments include allocations for shared services based on an internal analysis that supports line of business performance measurement. Shared services include expenses such as employee benefits, occupancy expense, computer support and corporate overhead. Even with these allocations, the financial results are not necessarily indicative of the business segments' financial condition and results of operations if they existed as independent entities. The information provided under the caption "Eliminations" represents operations not considered to be reportable segments and/or general operating expenses and eliminations and adjustments, which are necessary for purposes of reconciling to the Consolidated Financial Statements.

	Three Months Ended September 30, 2014				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$40,581	$—	$109	$(85)	$40,605
Interest expense	3,435	—	—	(359)	3,076
Net interest income	37,146	—	109	274	37,529
Provision for loan losses	1,454	—	—	—	1,454
Noninterest income	7,742	1,496	2,748	(55)	11,931
Noninterest expense	23,691	1,127	2,245	219	27,282
Depreciation expense	878	13	7	—	898
Amortization of intangible assets	238	13	9	—	260
Provision for income taxes	4,577	120	209	—	4,906
Net Income	$14,050	$223	$387	$—	$14,660

40

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

NOTE 12. SEGMENTS – continued

	Three Months Ended September 30, 2013				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$38,540	$—	$137	$(96)	$38,581
Interest expense	3,949	—	—	(642)	3,307
Net interest income	34,591	—	137	546	35,274
Provision for loan losses	3,419	—	—	—	3,419
Noninterest income	8,321	1,459	2,744	18	12,542
Noninterest expense	22,404	1,366	2,395	564	26,729
Depreciation expense	816	12	7	—	835
Amortization of intangible assets	355	13	11	—	379
Provision (benefit) for income taxes	4,027	18	162	—	4,207
Net Income	$11,891	$50	$306	$—	$12,247

	Nine Months Ended September 30, 2014				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$119,055	$1	$419	$(333)	$119,142
Interest expense	10,332	—	—	(1,165)	9,167
Net interest income	108,723	1	419	832	109,975
Provision for loan losses	608	—	—	—	608
Noninterest income	22,118	4,262	8,511	227	35,118
Noninterest expense	72,756	3,327	6,961	1,059	84,103
Depreciation expense	2,485	38	20	—	2,543
Amortization of intangible assets	805	38	30	—	873
Provision for income taxes	12,579	301	672	—	13,552
Net Income	$41,608	$559	$1,247	$—	$43,414

	Nine Months Ended September 30, 2013				
(dollars in thousands)	Community Banking	Insurance	Wealth Management	Eliminations	Consolidated
Interest income	$114,733	$1	$411	$(168)	$114,977
Interest expense	13,403	—	—	(1,965)	11,438
Net interest income	101,330	1	411	1,797	103,539
Provision for loan losses	6,749	—	—	—	6,749
Noninterest income	27,144	4,406	8,130	535	40,215
Noninterest expense	70,293	4,002	7,428	2,332	84,055
Depreciation expense	2,609	35	23	—	2,667
Amortization of intangible assets	1,148	38	37	—	1,223
Provision (benefit) for income taxes	10,004	56	320	—	10,380
Net Income	$37,671	$276	$733	$—	$38,680

41

NOTE 13. SUBSEQUENT EVENTS

On October 29, 2014, S&T and Integrity Bancshares, Inc., or Integrity, based in Camp Hill, Pennsylvania with eight branches and approximately $860 million in assets at September 30, 2014, entered into a definitive agreement and Plan of Merger of Integrity with and into S&T. The Merger Agreement provides that Integrity shareholders will have the opportunity to elect to receive in exchange for each share of Integrity common stock they own immediately prior to completion of the Merger either a cash payment of $52.50 or 2.0627 shares of S&T common stock. All shareholder elections will be subject to allocation and proration procedures set forth in the Merger Agreement which are intended to ensure that, in the aggregate, 80% of the Integrity common shares outstanding will be exchanged for S&T common stock and 20% of Integrity common shares outstanding will be exchanged for cash. The transaction is expected to be a tax-free exchange to the extent shareholders of Integrity receive S&T common stock in exchange for their Integrity shares.

The transaction, approved by the directors of both companies, was valued at $155 million and is expected to close in the first quarter of 2015, after satisfaction of customary closing conditions, including regulatory approvals and the approval of the shareholders of Integrity.

As soon as practicable following the Merger, Integrity Bank, a Pennsylvania state-chartered bank subsidiary of Integrity, will be merged with and into S&T Bank with S&T Bank continuing as the surviving bank. The bank merger is expected to close in the second quarter of 2015. However, for a period of at least three years following the Merger, S&T Bank intends to operate bank branches in the markets currently served by Integrity Bank using the name "Integrity Bank – A Division of S&T Bank".

Table of Contents

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

Management’s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, represents an overview of our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations at and for the three and nine month periods ended September 30, 2014 and 2013. Our MD&A should be read in conjunction with our Consolidated Financial Statements and notes thereto. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

Important Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains or incorporates statements that we believe are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements generally relate to our financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as “will likely result,” “may,” “are expected to,” “is anticipated,” “estimate,” “forecast,” “projected,” “intends to” or other similar words. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including, but not limited to, those described in this Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, which is on file with the 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/or S&T or S&T Bank, in particular, including the effects of the Dodd-Frank Act;
- the outcome of pending and future litigation and governmental proceedings;
- increasing price and product/service competition, including new entrants;
- the ability to continue to introduce competitive new products and services on a timely, cost-effective basis;
- managing our internal growth and acquisitions;
- containing costs and expenses;
- reliance on significant customer relationships;
- the possibility that the anticipated benefits from acquisitions cannot be fully realized in a timely manner or at all, or that integrating future acquired operations will be more difficult, disruptive or costly than anticipated;
- general economic or business conditions, either nationally or regionally in Western Pennsylvania and our other market areas, may be less favorable than expected, resulting in among other things, a reduced demand for credit and other

services;

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

43

Table of Contents

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

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

Critical Accounting Policies and Estimates

Our critical accounting policies involving the significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of September 30, 2014 have remained unchanged from the disclosures presented in our Annual Report on Form 10-K for the year ended December 31, 2013 under the section "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Overview

We are a bank holding company headquartered in Indiana, Pennsylvania with assets of $4.9 billion at September 30, 2014. We provide a full range of financial services through offices in 12 Pennsylvania counties with retail and commercial banking products, cash management services, insurance and trust and discount brokerage services. We also have two loan production offices, or LPOs, in Northeast and Central Ohio. Our common stock trades on the NASDAQ Global Select Market under the symbol "STBA."

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

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

During the nine months ended September 30, 2014, we successfully executed on our organic growth strategy through growth in our current footprint and by expanding into new markets. On January 21, 2014, we announced the opening of an LPO in Central Ohio. On June 18, 2014, we opened a new branch with a team of experienced banking professionals in State College, Pennsylvania. During the nine months ended September 30, 2014, we grew our business organically with portfolio loans increasing $235.0 million, or 6.6% percent, compared to December 31, 2013. This growth was primarily in our commercial loan portfolio.

On October 29, 2014, we entered into a definitive agreement to acquire Integrity Bancshares, Inc., or Integrity, based in Camp Hill Pennsylvania. Integrity has approximately $860 million in assets and maintains eight branches across four counties. The acquisition will expand our footprint into south-central Pennsylvania. The transaction was valued at approximately $155 million and is expected to close in the first quarter of 2015 after satisfaction of customary closing conditions, including regulatory approvals and the approval of the shareholders of Integrity.

As soon as practicable following the Merger, Integrity Bank, a Pennsylvania state-chartered bank subsidiary of Integrity, will be merged with and into S&T Bank with S&T Bank continuing as the surviving bank. The bank merger is expected close in the second quarter of 2015. However, for a period of at least three years following the Merger, S&T Bank intends to operate bank branches in the markets currently served by Integrity Bank using the name "Integrity Bank – A Division of S&T Bank".

Our focus continues to be on loan and deposit growth and implementing opportunities to increase fee income while maintaining a strong expense discipline. The low interest rate environment will continue to challenge our net interest

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

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

Earnings Summary

Net income available to common shareholders for the three months ended September 30, 2014 was $14.7 million, or diluted earnings per share of $0.49, compared to $12.2 million, or $0.41, for the same period in 2013. Net income for the nine months ended September 30, 2014 was $43.4 million, or diluted earnings per share of $1.46, compared to $38.7 million, or $1.30, for the same period in 2013. The increase in net income was primarily driven by an increase in net interest income and a lower provision for loan losses in both the three and nine months ended September 30, 2014.

Net interest income increased $2.3 million, or 6.4 percent, and $6.4 million, or 6.2 percent, for the three and nine month periods ended September 30, 2014 compared to the same periods in 2013. The increase in net interest income for both periods is mainly due to interest earning asset growth. Total average interest earning assets increased $276.5 million, or 6.7 percent, and $234.7 million, or 5.7 percent, for the three and nine month periods ended September 30, 2014 compared to the same periods in 2013. The increase was driven by higher average loans, which is due to our successful efforts in growing our loan portfolio organically over the past year.

The provision for loan losses decreased $1.9 million for the three months ended September 30, 2014 and decreased $6.1 million for the nine months ended September 30, 2014 compared to the same periods in 2013. The lower provision in both the three and nine months ended September 30, 2014 was due to improving economic conditions which have positively impacted our asset quality metrics in all categories, including decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio. Net charge-offs were $0.7 million for the three months ended September 30, 2014 compared to $1.5 million for the three months ended September 30, 2013 and we had net recoveries of $0.5 million for the nine months ended September 30, 2014 compared to net charge-offs of $5.3 million for the nine months ended September 30, 2013.

Our total noninterest income decreased $0.6 million to $11.9 million for the three months ended September 30, 2014 and $5.1 million to $35.1 million for the nine months ended September 30, 2014 compared to the same periods in 2013. The decrease in noninterest income for the three months ended September 30, 2014 was primarily due to a decrease in fees related to interest rate swaps with our commercial customers, consumer loan fees and letters of credit. The decrease in noninterest income for the nine months ended September 30, 2014 was primarily related to a $3.1 million gain on the sale of our merchant card servicing business that occurred in the first quarter of 2013 and decreases in mortgage banking income, debit and credit card fees, insurance fees, interest rate swap fees with our commercial customers and consumer loan fees. The decreases for the nine months ended September 30, 2014 were partially offset by an increase in our wealth management fees due to new business development efforts and certain fee increases.

Total noninterest expense increased $0.5 million to $28.4 million for the three months ended September 30, 2014 and decreased $0.4 million to $87.5 million for the nine months ended September 30, 2014 compared to the same periods in 2013. The increase for the three months ended September 30, 2014 primarily related to the reversal during 2013 of a contingent liability for an IRS proposed penalty. The decrease for the nine months ended September 30, 2014 was due to no merger related expenses in 2014 compared to $0.8 million in 2013, and lower professional services and legal, data processing expense, other taxes and Federal Deposit Insurance Corporation, or FDIC, insurance. These decreases were offset by the above mentioned reversal of a contingent liability and increased salaries and employee benefit expenses.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with generally accepted accounting principles, or GAAP, management uses, and this quarterly report contains or references, certain non-GAAP financial measures, such as net interest income on a fully taxable equivalent, or FTE, basis and operating revenue. Management believes these non-GAAP financial measures provide information useful to investors in understanding our underlying business, operational performance and performance trends as they facilitate comparisons with the performance of others in the

financial services industry. Although management believes that these non-GAAP financial measures enhance investors' understanding of our business and performance, these non-GAAP financial measures should not be considered an alternative to GAAP or considered to be more important than financial results determined in accordance with GAAP, nor are they necessarily comparable with non-GAAP measures which may be presented by other companies.

We believe the presentation of net interest income on a FTE basis ensures the comparability of net interest income arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest income per the Consolidated Statements of Comprehensive Income is reconciled to net interest income adjusted to a FTE basis in the next section for the three and nine months ended September 30, 2014 and 2013.

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

Table of Contents

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

RESULTS OF OPERATIONS
Three and Nine Months Ended September 30, 2014 Compared to
Three and Nine Months Ended September 30, 2013
Net Interest Income
Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets and interest-bearing liabilities and changes in interest rates and spreads. Maintaining consistent spreads between interest-earning assets and interest-bearing liabilities is significant to our financial performance because net interest income comprised 76 percent of operating revenue (net interest income plus noninterest income, excluding non-recurring income and expenses) for the three and nine month periods ended September 30, 2014. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our Asset and Liability Committee, or ALCO, in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to maintain an acceptable net interest margin on interest-earning assets.
The interest income on interest-earning assets and the net interest margin are presented on a FTE basis. The FTE basis adjusts for the tax benefit of income on certain tax-exempt loans and securities using the federal statutory tax rate of 35 percent for each period and the dividend-received deduction for equity securities. We believe this measure to be the preferred industry measurement of net interest income that provides a relevant comparison between taxable and non-taxable amounts.
The following table reconciles interest income and interest rates per the Consolidated Statements of Comprehensive Income to net interest income and rates adjusted to a FTE basis for the periods presented:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2014		2013		2014		2013	
Total interest income	$40,605		$38,581		$119,142		$114,977	
Total interest expense	3,076		3,307		9,167		11,438	
Net interest income per consolidated statements of comprehensive income	37,529		35,274		109,975		103,539	
Adjustment to FTE basis	1,373		1,229		4,090		3,570	
Net Interest Income (FTE) (non-GAAP)	$38,902		$36,503		$114,065		$107,109	
Net interest margin	3.38	%	3.38	%	3.40	%	3.38	%
Adjustment to FTE basis	0.12	%	0.12	%	0.12	%	0.12	%
Net Interest Margin (FTE) (non-GAAP)	3.50	%	3.50	%	3.52	%	3.50	%

Income amounts are annualized for rate calculations.

Table of Contents

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

Average Balance Sheet and Net Interest Income Analysis
The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the periods presented:

	Three Months Ended September 30, 2014				Three Months Ended September 30, 2013			
(dollars in thousands)	Average Balance	Interest	Rate		Average Balance	Interest	Rate	
ASSETS								
Loans [1] [2]	$3,755,862	$38,052	4.02	%	$3,476,914	$36,461	4.16	%
Interest-bearing deposits with banks	58,033	33	0.23	%	162,381	110	0.27	%
Taxable investment securities [3]	458,378	2,292	2.00	%	378,678	1,879	1.98	%
Tax-exempt investment securities [2]	129,400	1,482	4.58	%	108,982	1,331	4.88	%
Federal Home Loan Bank and other restricted stock	15,740	119	3.02	%	13,910	29	0.83	%
Total Interest-earning Assets	4,417,413	41,978	3.77	%	4,140,865	39,810	3.82	%
Noninterest-earning assets:								
Cash and due from banks	52,172				51,177			
Premises and equipment, net	36,200				36,978			
Other assets	338,486				350,933			
Less allowance for loan losses	(47,568)				(48,087)			
Total Assets	$4,796,703				$4,531,866			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest-bearing demand	$326,711	$16	0.02	%	$311,369	$19	0.02	%
Money market	308,166	129	0.17	%	323,671	111	0.14	%
Savings	1,035,281	404	0.15	%	1,019,647	396	0.15	%
Certificates of deposit	888,163	1,707	0.76	%	962,492	2,127	0.88	%
CDARS and brokered deposits	249,659	224	0.36	%	88,462	64	0.28	%
Total Interest-bearing deposits	2,807,980	2,480	0.35	%	2,705,641	2,717	0.40	%
Securities sold under repurchase agreements	21,243	1	0.01	%	59,390	14	0.09	%
Short-term borrowings	172,228	135	0.31	%	127,174	91	0.28	%
Long-term borrowings	20,282	152	2.97	%	22,625	172	3.01	%
Junior subordinated debt securities	45,619	308	2.68	%	45,619	313	2.72	%
Total Interest-bearing Liabilities	3,067,352	3,076	0.40	%	2,960,449	3,307	0.44	%
Noninterest-bearing liabilities:								
Noninterest-bearing demand	1,074,564				955,337			
Other liabilities	53,860				67,639			
Shareholders' equity	600,927				548,441			
Total Liabilities and Shareholders' Equity	$4,796,703				$4,531,866			
Net Interest Income [2][3]		$38,902				$36,503		
Net Interest Margin [2] [3]			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 2014 and 2013.
[3] Taxable investment income is adjusted for the dividend-received deduction for equity securities.

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

	Nine Months Ended September 30, 2014				Nine Months Ended September 30, 2013			
(dollars in thousands)	Average Balance	Interest	Rate		Average Balance	Interest	Rate	
ASSETS								
Loans [1] [2]	$3,661,456	$111,928	4.09	%	$3,418,571	$108,651	4.25	%
Interest-bearing deposits with banks	97,666	181	0.25	%	186,248	363	0.26	%
Taxable investment securities [3]	427,731	6,372	1.99	%	366,025	5,609	2.04	%
Tax-exempt investment securities [2]	126,867	4,418	4.64	%	108,556	3,867	4.75	%
Federal Home Loan Bank and other restricted stock	13,970	333	3.18	%	13,582	57	0.56	%
Total Interest-earning Assets	4,327,690	123,232	3.81	%	4,092,982	118,547	3.87	%
Noninterest-earning assets:								
Cash and due from banks	49,713				51,799			
Premises and equipment, net	35,844				37,202			
Other assets	338,872				356,278			
Less allowance for loan losses	(48,023	)			(47,716	)		
Total Assets	$4,704,096				$4,490,545			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest-bearing demand	$317,333	$52	0.02	%	$308,335	$56	0.02	%
Money market	328,561	382	0.16	%	329,830	348	0.14	%
Savings	1,028,469	1,196	0.16	%	998,410	1,342	0.18	%
Certificates of deposit	899,240	5,269	0.78	%	986,061	7,004	0.95	%
CDARS and brokered deposits	223,647	567	0.34	%	61,290	120	0.26	%
Total Interest-bearing deposits	2,797,250	7,466	0.36	%	2,683,926	8,870	0.44	%
Securities sold under repurchase agreements	29,463	2	0.01	%	63,382	61	0.13	%
Short-term borrowings	136,378	313	0.31	%	86,813	169	0.26	%
Long-term borrowings	20,869	471	3.01	%	25,077	580	3.09	%
Junior subordinated debt securities	45,619	915	2.68	%	72,853	1,758	3.23	%
Total Interest-bearing Liabilities	3,029,579	9,167	0.40	%	2,932,051	11,438	0.52	%
Noninterest-bearing liabilities:								
Noninterest-bearing demand	1,031,430				942,610			
Other liabilities	52,704				70,829			
Shareholders' equity	590,383				545,055			
Total Liabilities and Shareholders' Equity	$4,704,096				$4,490,545			
Net Interest Income [2] [3]		$114,065				$107,109		
Net Interest Margin [2] [3]			3.52	%			3.50	%

[1] Nonaccruing loans are included in the daily average loan amounts outstanding.

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

[3] Taxable investment income is adjusted for the dividend-received deduction for equity securities.

Net interest income on a FTE basis increased $2.4 million, or 6.6 percent, for the three months ended September 30, 2014 and $7.0 million, or 6.5 percent, for the nine months ended September 30, 2014 compared to the same periods in 2013. The net interest margin on a FTE basis remained unchanged for the three months ended September 30, 2014 and increased 2 basis points for the nine months ended September 30, 2014 compared to the same periods in 2013. The increase in net interest income is mainly due to interest earning asset growth.

Interest income on a FTE basis increased $2.2 million, or 5.4 percent, and $4.7 million, or 4.0 percent, to $42.0 million and $123.2 million for the three and nine months ended September 30, 2014 compared to the same periods in 2013. The increase in interest income was mainly driven by the $276.5 million and $234.7 million increases in interest-earning assets for the three and nine month periods ended September 30, 2014 compared to the same periods in 2013. The interest-earning asset balance increase is mainly attributable to loan growth. Average loan balances increased by $278.9 million and $242.9 million for the three and nine months ended September 30, 2014 compared to the same periods in 2013 as a result of organic growth, primarily in our commercial loan portfolio. Due to the continued low interest rate environment our rate earned on loans decreased 14 basis points and 16 basis points for the three and nine months ended September 30, 2014 when compared to the three and nine months ended September 30, 2013. Average interest-bearing deposits with banks, which is primarily cash at the Federal Reserve, decreased $104.3 million for the three months and $88.6 million for the nine months ended September 30, 2014 when compared to the same periods in 2013. Average investment securities, including Federal Home Loan Bank, or FHLB, and other restricted stock, increased $101.9 million for the three months and $80.4 million for the nine months ended September 30, 2014 compared to the same periods in 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 5 basis points to 3.77 percent for the three months ended September 30, 2014 and decreased 6 basis points to 3.81 percent for the nine months ended September 30, 2014 as compared to 3.82 percent and 3.87 percent for the same periods in 2013.

Interest expense decreased $0.2 million and $2.3 million to $3.1 million and $9.2 million for the three and nine months ended September 30, 2014 compared to the same periods in 2013. The decrease in interest expense for the three months ended September 30, 2014 is mainly due to a shift in the mix of our interest-bearing liabilities from higher rate certificates of deposit, or CDs, to lower cost deposits and borrowings. In addition to a shift in the mix of our interest-bearing liabilities, the decrease in interest expense for the nine month period ending September 30, 2014 was impacted by the redemption of $45.0 million of subordinated debt during the second quarter of 2013. Total interest-bearing deposits increased $102.3 million and $113.3 million for the three months and nine months ended September 30, 2014 compared to the same periods in 2013. Higher interest-bearing deposits are due to an increase of $161.2 million and $162.4 million in Certificate of Deposit Account Registry Services, or CDARS, One-Way-Buy, or OWB, and brokered deposits and an increase of $15.5 million and $37.8 million in interest-bearing demand, money market and savings balances offset by a decrease in CDs of $74.3 million and $86.8 million for the three and nine month periods ended September 30, 2014 compared to the same periods in 2013. The cost of total interest-bearing deposits was 0.35 percent and 0.36 percent for the three and nine month periods ended September 30, 2014, compared to 0.40 percent and 0.44 percent for the three and nine month periods ended September 30, 2013. The decrease in the cost of interest-bearing deposits was mainly due to the maturity of higher rate CDs being replaced by lower rate deposits. Interest expense on average borrowings remained relatively unchanged over the three month period ended September 30, 2014 and decreased $0.9 million over the nine month period ended September 30, 2014 compared to the same periods in 2013. The $0.9 million decrease over the nine month period was primarily a result of the redemption of $45.0 million of subordinated debt during the second quarter of 2013. Overall, the cost of interest-bearing liabilities decreased 4 basis points and 12 basis points for the three months and nine months ended September 30, 2014 compared to the same periods in 2013.

Table of Contents

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

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

	Three Months Ended September 30, 2014 Compared to September 30, 2013			Nine Months Ended September 30, 2014 Compared to September 30, 2013		
(dollars in thousands)	Volume [4]	Rate [4]	Net	Volume [4]	Rate [4]	Net
Interest earned on:						
Loans [1] [2]	$2,925	$(1,334)	$1,591	$7,719	$(4,442)	$3,277
Interest-bearing deposits with banks	(71)	(6)	(77)	(173)	(9)	(182)
Taxable investment securities [3]	395	18	413	946	(183)	763
Tax-exempt investment securities [2]	249	(98)	151	652	(101)	551
Federal Home Loan Bank and other restricted stock	4	86	90	2	274	276
Total Interest-earning Assets	3,502	(1,334)	2,168	9,146	(4,461)	4,685
Interest paid on:						
Interest-bearing demand	1	(4)	(3)	2	(6)	(4)
Money market	(5)	23	18	(1)	35	34
Savings	6	2	8	40	(186)	(146)
Certificates of deposit	(164)	(256)	(420)	(617)	(1,118)	(1,735)
CDARS and brokered deposits	116	44	160	318	129	447
Securities sold under repurchase agreements	(9)	(4)	(13)	(33)	(26)	(59)
Short-term borrowings	32	12	44	96	48	144
Long-term borrowings	(18)	(2)	(20)	(97)	(12)	(109)
Junior subordinated debt securities	—	(5)	(5)	(657)	(186)	(843)
Total Interest-bearing Liabilities	(41)	(190)	(231)	(949)	(1,322)	(2,271)
Net Change in Net Interest Income	$3,543	$(1,144)	$2,399	$10,095	$(3,139)	$6,956

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

Provision for Loan Losses

The provision for loan losses is the adjustment to the allowance for loan losses, or ALL, after considering loan charge-offs and recoveries to bring the ALL to a level determined to be appropriate in management's judgment to absorb probable losses inherent in the loan portfolio. The provision for loan losses decreased $1.9 million from $3.4 million to $1.5 million for the three months ended September 30, 2014 and decreased $6.1 million from $6.7 million to $0.6 million for the nine months ended September 30, 2014 compared to the same periods in 2013. We continue to experience favorable asset quality trends with decreases in loan charge-offs, nonaccrual loans, special mention and substandard loans and the delinquency status of our loan portfolio. Net loan charge-offs decreased $0.8 million to $0.7 million for the three months ended September 30, 2014 compared to a net charge-off of $1.5 million for the three months ended September 30, 2013 and improved $5.8 million to a net recovery of $0.5 million for the nine months ended September 30, 2014 compared to a net charge-off of $5.3 million for the nine months ended September 30, 2013. Nonaccrual loans decreased 63 percent to $13.5 million at September 30, 2014 compared to $36.4 million at

September 30, 2013. Total special mention and substandard commercial loans have decreased $67.5 million, or 34 percent, over the last twelve months to $130.9 million at September 30, 2014. The ALL was 1.24 percent of total loans at September 30, 2014 compared to 1.37 percent at September 30, 2013. Refer to “Allowance for Loan Losses” in the MD&A of this report for additional information.

50

Table of Contents

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

Noninterest Income

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
Securities gains, net	$—	$3	$(3)	(100.0)%	$41	$5	$36	NM
Debit and credit card fees	2,909	2,764	145	5.2	8,135	8,365	(230)	(2.7)
Service charges on deposit accounts	2,799	2,801	(2)	(0.1)	7,882	7,744	138	1.8
Wealth management fees	2,756	2,747	9	0.3	8,548	8,143	405	5.0
Insurance fees	1,722	1,738	(16)	(0.9)	4,824	5,156	(332)	(6.4)
Mortgage banking	270	265	5	1.9	666	1,658	(992)	(59.8)
Gain on sale of merchant card servicing business	—	—	—	—	—	3,093	(3,093)	(100.0)
Other	1,475	2,224	(749)	(33.7)	5,022	6,051	(1,029)	(17.0)
Total Noninterest Income	$11,931	$12,542	$(611)	(4.9)%	$35,118	$40,215	$(5,097)	(12.7)%

NM- percentage not meaningful
Noninterest income decreased $0.6 million, or 4.9 percent, and $5.1 million, or 12.7 percent, to $11.9 million and $35.1 million for the three and nine month periods ended September 30, 2014 compared to the same periods in 2013. The decrease related to other noninterest income for both periods. Additional decreases in the nine month period ended September 30, 2014 related to the sale of our merchant card servicing business, declines in fees from mortgage banking, debit and credit cards and insurance offset by an increase in wealth management fees.
The decrease in other noninterest income of $0.7 million and $1.0 million for the three and nine month periods ended September 30, 2014, as compared to the same periods in 2013, was primarily due to a decrease in fees related to interest rate swaps with our commercial customers, consumer loan fees and letters of credit.
During the first quarter of 2013, we sold our merchant card servicing business for $4.8 million and paid deconversion and termination fees of $1.7 million to the merchant processor resulting in a net gain of $3.1 million. In conjunction with the sale of the merchant card servicing business, we entered into a marketing and sales alliance agreement with the purchaser, providing transition fees, royalties and referral revenue. Income from the marketing and sales alliance agreement is included in debit and credit card fees. The decrease in debit and credit card fees for the nine month period ended September 30, 2014 primarily relates to transition fees that we received during the first five months after the sale of the merchant card servicing business that did not recur during 2014, combined with the timing of referral revenue. Mortgage banking income decreased $1.0 million for the nine month period ended September 30, 2014 compared to the same period in 2013. The decrease in mortgage banking income relates to the increase in mortgage rates that occurred in the second quarter of 2013, resulting in a decrease in the volume of loans originated for sale in the secondary market and less favorable pricing on loan sales. During the nine months ended September 30, 2014, we sold 50 percent fewer mortgages with $27.9 million in loan sales compared to $56.0 million during the same period in 2013. Insurance fees decreased $0.3 million for the nine month period ended September 30, 2014 compared to the same period in 2013 due to increased competition.
Wealth management fees increased $0.4 million for the nine month period ended September 30, 2014, as compared to the same period in 2013, due to higher assets under management, new business development efforts and certain fee

increases.

Table of Contents

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

Noninterest Expense

	Three Months Ended September 30,				Nine Months Ended September 30,			
(dollars in thousands)	2014	2013	$ Change	% Change	2014	2013	$ Change	% Change
Salaries and employee benefits [1]	$14,823	$14,910	$(87)	(0.6)%	$45,971	$45,646	$325	0.7%
Data processing [1]	2,152	2,137	15	0.7	6,466	6,180	286	4.6
Net occupancy [1]	2,004	1,910	94	4.9	6,218	6,032	186	3.1
Furniture and equipment	1,308	1,084	224	20.7	3,856	3,623	233	6.4
Marketing	757	607	150	24.7	2,335	2,088	247	11.8
Other Taxes	839	1,039	(200)	(19.2)	2,363	2,953	(590)	(20.0)
Professional services and legal [1]	950	996	(46)	(4.6)	2,488	3,139	(651)	(20.7)
FDIC insurance	607	629	(22)	(3.5)	1,817	2,112	(295)	(14.0)
Other noninterest expense [1]	5,000	4,631	369	8.0	16,005	15,334	671	4.4
Merger related expense		—	—	—	—	838	(838)	(100.0)
Total Noninterest Expense	$28,440	$27,943	$497	1.8%	$87,519	$87,945	$(426)	(0.5)%

[1] Excludes one-time merger related expense for 2013.

Noninterest expense increased $0.5 million to $28.4 million for the three months ended September 30, 2014. This increase was attributable to increases in furniture and equipment, marketing and other noninterest expenses offset by a decrease in other taxes.
Furniture and equipment expenses increased $0.2 million primarily due to purchases of furniture and equipment for newly opened locations during the quarter. Increased marketing expenses of $0.2 million were incurred resulting from the timing of our various promotional programs.
Other noninterest expense increased $0.4 million due to the reversal of a contingent liability for an IRS proposed penalty in 2013. The contingent liability was assumed with the acquisition of Mainline Bancorp in 2012 and was reversed when we received notice during 2013 that the IRS had waived the $0.5 million penalty. The decrease in other taxes of $0.2 million was primarily related to legislative changes that have resulted in a reduction in Pennsylvania share tax expense.
Noninterest expense decreased $0.4 million to $87.5 million for the nine months ended September 30, 2014. This decrease was attributable to no merger related expenses in 2014, and decreases in professional services and legal expenses, FDIC insurance and other taxes offset by increases in salaries and employee benefits, data processing, furniture and equipment, marketing and other noninterest expenses.
The $0.8 million of merger related expense recognized in the nine months ended September 30, 2013 related primarily to the data processing system conversion of Gateway Bank. Although the Gateway Bank acquisition occurred in August 2012, the merger with S&T Bank and the system conversion was completed on February 8, 2013.
Professional services and legal expense decreased $0.7 million primarily due to additional external accounting and consulting charges that were incurred in 2013 while the decrease in other taxes of $0.6 million was primarily related

to legislative changes that have resulted in a reduction in Pennsylvania share tax expense.
FDIC insurance charges are based in part on our financial ratios which have improved, resulting in a decrease in expense of $0.3 million.
Salaries and employee benefits expense increased $0.3 million primarily due to an increase in incentive expense offset by a decrease in pension expense. Incentive expense increased $1.8 million due to strong performance in 2014. Offsetting this increase to incentive expense was a reduction in our pension expense of $1.6 million due to a decrease in our pension liability primarily resulting from a change in actuarial assumptions.
Data processing increased $0.3 million primarily due to the implementation of a new teller platform and software that strengthens the authentication of our customers that use our online banking product. Furniture and equipment expenses increased $0.2 million primarily due to purchases of furniture and equipment for newly opened locations. Increased marketing expenses of $0.2 million were incurred resulting from the timing of our various promotional programs.

Table of Contents

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

Other noninterest expense increased $0.7 million primarily related to the reversal of a contingent liability for an IRS proposed penalty in 2013. The contingent liability was assumed with the acquisition of Mainline Bancorp in 2012 and was reversed when we received notice during 2013 that the IRS had waived the $0.5 million penalty.

Provision for Income Taxes
The provision for income taxes increased $0.7 million to $4.9 million for the three month period and increased $3.2 million to $13.6 million for the nine month period ended September 30, 2014 compared to a provision of $4.2 million and $10.4 million for the same periods in 2013. The increases to the provision for income taxes for the three and nine month periods ended September 30, 2014 were primarily due to increases of $3.1 million for the three month period and $7.9 million for the nine month period in pre-tax income. The effective tax rate for the nine months ended September 30, 2014 increased to 23.8 percent compared to 21.2 percent for the same period in 2013. The increase in our effective tax rate was primarily due to increases in projected pre-tax income.

Financial Condition
September 30, 2014
Total assets increased by 8.2 percent to $4.9 billion at September 30, 2014 compared to $4.5 billion at December 31, 2013. Loan growth was strong, resulting in an increase to total portfolio loans of $235.0 million, or 6.6 percent, compared to December 31, 2013. Our commercial loan portfolio grew by $227.6 million, or 8.8 percent, to $2.8 billion and our consumer loan portfolio grew by $7.3 million, or 0.8 percent, to $979.7 million at September 30, 2014. Securities increased $106.2 million, or 20.9 percent, compared to December 31, 2013. Our deposit base increased $228.8 million, or 6.2 percent, with total deposits of $3.9 billion at September 30, 2014 compared to $3.7 billion at December 31, 2013. Demand deposits increased $108.7 million, or 8.3 percent, compared to December 31, 2013. Savings deposits also increased $53.4 million, or 5.4 percent, compared to December 31, 2013. While certificates of deposit decreased by $21.6 million, our CDARS OWB, and brokered CDs increased by $74.2 million during the nine month period ended September 30, 2014 compared to December 31, 2013. Borrowings increased by $112.5 million to $353.7 million at September 30, 2014 compared to $241.3 million at December 31, 2013. The short-term borrowing increase of $125.0 million was utilized as a source of funds to support our asset growth during the first nine months of 2014. Total shareholder's equity increased by $34.6 million, or 6.1 percent, during the nine months ended September 30, 2014 compared to December 31, 2013. The increase was primarily due to net income of $43.4 million and an increase to accumulated other comprehensive income of $5.5 million primarily resulting from higher market values on our available-for-sale securities offset by $14.9 million in dividends.

Securities Activity

(dollars in thousands)	September 30, 2014	December 31, 2013	$ Change
U.S. Treasury securities	$14,803	$—	$14,803
Obligations of U.S. government corporations and agencies	263,406	234,751	28,655
Collateralized mortgage obligations of U.S. government corporations and agencies	111,053	63,774	47,279
Residential mortgage-backed securities of U.S. government corporations and agencies	44,581	48,669	(4,088)
Commercial mortgage-backed securities of U.S. government corporations and agencies	39,380	39,052	328
Obligations of states and political subdivisions	133,945	114,264	19,681

Debt Securities Available-for-Sale	607,168	500,510	106,658
Marketable equity securities	8,489	8,915	(426)
Total Securities Available-for-Sale	$615,657	$509,425	$106,232

We invest in various securities in order to provide a source of liquidity, to satisfy various pledging requirements, increase net interest income and as a tool of the ALCO to reposition the balance sheet for interest rate risk purposes. Securities are subject to market risk that could negatively affect the level of liquidity available to us. Security purchases are subject to investment policies approved annually by our Board of Directors and administered through ALCO and our treasury function.

53

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

The securities portfolio increased $106.2 million, or 20.9 percent, from December 31, 2013. The increase is primarily due to the investment of cash into higher yielding assets.
On a quarterly basis, management evaluates the securities portfolio for other than temporary impairment, or OTTI. The bond portfolio had a net unrealized gain of $5.9 million at September 30, 2014 compared to a net unrealized loss of $2.3 million at December 31, 2013. Net unrealized gains at September 30, 2014 included $9.0 million of unrealized gains offset by $3.1 million of unrealized losses. Net unrealized losses at December 31, 2013 included unrealized gains of $5.5 million offset by $7.8 million of unrealized losses. The changes in unrealized gains and losses during the nine months ended September 30, 2014 was a result of the changing interest rate environment during the period and is not related to the underlying credit quality of the bond portfolio. All debt securities are determined to be investment grade and are paying principal and interest according to the contractual terms of the security. There were no unrealized losses on marketable equity securities as of September 30, 2014. During the three and nine months ended September 30, 2014, no OTTI was recorded. We do not intend to sell and it is not more likely than not that we will be required to sell any of the securities in an unrealized loss position before recovery of their amortized cost.
Loan Composition

	September 30, 2014			December 31, 2013		
(dollars in thousands)	Amount	% of Loans		Amount	% of Loans	
Commercial						
Commercial real estate	$1,691,649	44.5	%	$1,607,756	45.1	%
Commercial and industrial	946,366	24.9	%	842,449	23.6	%
Construction	183,509	4.8	%	143,675	4.0	%
Total Commercial Loans	2,821,524	74.2	%	2,593,880	72.7	%
Consumer						
Residential mortgage	491,404	12.9	%	487,092	13.7	%
Home equity	418,659	11.0	%	414,195	11.6	%
Installment and other consumer	66,607	1.8	%	67,883	1.9	%
Construction	2,995	0.1	%	3,149	0.1	%
Total Consumer Loans	979,665	25.8	%	972,319	27.3	%
Total Portfolio Loans	3,801,189	100.0	%	3,566,199	100.0	%
Loans Held for Sale	3,126			2,136		
Total Loans	$3,804,315			$3,568,335		

Our loan portfolio represents the most significant source of interest income for us. The risk that borrowers will be unable to pay such obligations is inherent in the loan portfolio. Conditions such as the overall economic climate can significantly impact a borrower's ability to pay. Total portfolio loans increased $235.0 million, or 6.6 percent, since December 31, 2013 to $3.8 billion at September 30, 2014 primarily due to organic loan growth in our commercial loan portfolios. The increase in loans can be attributed to the execution of our strategic initiative to grow our loan portfolio by adding seasoned lenders to our staff and our expansion through two LPO's in Ohio. Our expansion into new markets continued in the second quarter of 2014 with the opening of a branch in State College, Pennsylvania on June 18, 2014.
Total commercial loans have increased $227.6 million, or 8.8 percent, from December 31, 2013 with growth in all portfolios. C&I loans increased $103.9 million, or 12.3 percent, due to new loan originations and increased line utilization. CRE loans increased $83.9 million, or 5.2 percent, due to improved loan demand. Commercial construction loans increased $39.8 million, or 27.7 percent, due to an increase in activity and seasonality.
Residential mortgages increased $4.3 million, or 0.9 percent, from December 31, 2013 to September 30, 2014. Residential mortgage lending continues to be a strategic focus through a centralized mortgage origination department, ongoing product redesign, secondary market activities and the utilization of commission compensated originators.

Management believes that continued adherence to our conservative mortgage lending policies for portfolio loans will be as important in a growing economy as it was during the downturn in recent years. At the end of the second quarter of 2014, we returned to selling all of our mortgage loan production priced for sale into the secondary market. Previously, we had been only selling 30 year mortgages. The rationale for these sales is to mitigate interest-rate risk associated with holding lower rate, long-term residential mortgages in the loan portfolio, generate fee revenue from sales and servicing and maintain the primary customer relationship. During the nine months ended September 30, 2014, we sold 50 percent fewer mortgages with $27.9 million in loan sales compared to $56.0 million during the same period in 2013. We have experienced a decrease in the volume of loan sales from

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

the prior year due to an increase in interest rates in mid-2013 which caused a significant decline in mortgage refinancings. As of September 30, 2014, we serviced $322.5 million of secondary market mortgage loans sold to Fannie Mae.

Allowance for Loan Losses

We maintain an ALL at a level determined to be adequate in management's judgment to absorb estimated probable credit losses inherent within the loan portfolio as of the balance sheet date. Determination of an adequate ALL is subjective, as it requires estimations of the occurrence of future events, as well as the timing of such events, and it may be subject to significant changes from period to period. The methodology for determining the ALL has two main components: 1) evaluation and impairment tests of individual loans, and 2) evaluation of certain groups of homogeneous loans with similar risk characteristics.

An inherent risk to the loan portfolio as a whole is the condition of the local economy. In addition, each loan segment carries with it risks specific to the segment. The following is a discussion of the key risks by portfolio segment that management assesses in preparing the ALL.

CRE loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as hotels, strip malls and apartments. Individual project cash flows, as well as global cash flows, are generally the sources of repayment for these loans. Besides cash flow risks, CRE loans have collateral risk and risks based upon the business prospects of the lessee, if the project is not owner occupied.

C&I loans are made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. Cash flow from the operations of the company is the primary source of repayment for these loans and the cash flow depends not only on the economy as a whole, but also on the health of the company's industry.

Commercial construction loans are made to finance construction of buildings or other structures, as well as to finance the acquisition and development of raw land for various purposes. During the construction phase, a number of factors can result in delays and cost overruns. While the risk is generally confined to the construction and absorption periods, if there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or the value of the property securing the loan may not have sufficient value in a liquidation to cover the outstanding principal. There are also various risks depending on the type of project and the experience and resources of the developer.

Consumer real estate loans are secured by 1-4 family residences, including purchase money mortgages, first and second lien home equity loans and home equity lines of credit. The primary source of repayment for these loans is the income and assets of the borrower. The unemployment rate, as well as the state of the local housing market, can have a significant impact on the risk determination since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

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

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

55

Table of Contents

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

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

	September 30, 2014					
	Allowance for Loan Losses			Portfolio Loans		
(dollars in thousands)	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Commercial real estate	$—	$ 19,977	$19,977	$21,028	$ 1,670,621	$1,691,649
Commercial and industrial	—	13,898	13,898	9,643	936,723	946,366
Commercial construction	—	5,178	5,178	8,143	175,366	183,509
Consumer real estate	45	6,718	6,763	7,045	906,013	913,058
Other consumer	10	1,490	1,500	133	66,474	66,607
Total	$55	$ 47,261	$47,316	$45,992	$ 3,755,197	$3,801,189

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

	September 30, 2014		December 31, 2013	
Ratio of net charge-offs to average loans outstanding	(0.01	)%*	0.25	%
Allowance for loan losses as a percentage of total loans	1.24	%	1.30	%
Allowance for loan losses to nonperforming loans	350	%	206	%

* Annualized

The ALL was $47.3 million, or 1.24 percent, of total portfolio loans at September 30, 2014 compared to $46.3 million, or 1.30 percent, of total portfolio loans at December 31, 2013. Overall, the total ALL and the composition of the ALL remained relatively unchanged from December 31, 2013. Impaired loans decreased $6.9 million from December 31, 2013, primarily as a result of loan pay downs. New impaired loan formation has been low during 2014 at only $4.6 million. The reserve for loans collectively evaluated for impairment did not change significantly at September 30, 2014 compared to December 31, 2013.

Our asset quality continued to improve during the nine months ended September 30, 2014 with net recoveries, decreases in nonperforming loans and decreases in special mention and substandard loans. We had gross loan charge-offs of $5.5 million offset by loan recoveries of $6.0 million resulting in net recoveries of $0.5 million for the nine months ended September 30, 2014. Included in the $5.9 million of recoveries was a $2.5 million recovery for one loan in our C&I loan portfolio. Nonperforming loans decreased $8.9 million, or 40 percent, to $13.5 million at September 30, 2014 compared to $22.5 million at December 31, 2013. Commercial special mention and substandard loans decreased by $32.1 million, or 20 percent, to $130.9 million at September 30, 2014 from $163.0 million at December 31, 2013.

During the nine months ended September 30, 2014, we sold a $3.5 million package of smaller commercial loans, $3.2 million of which were on nonaccrual status, resulting in a charge-off of $1.3 million. We also sold two C&I loans totaling $4.8 million which resulted in a charge-off of $1.5 million.

We determine loans to be impaired when based upon current information and events, it is probable that we will be unable to collect all principal and interest payments due according to the original contractual terms of the loan agreement. Our methodology for evaluating whether a loan is impaired includes risk-rating credits on an individual basis and consideration of the borrower’s overall financial condition, payment history and available cash resources. In measuring impairment, we primarily look to the value of the collateral, but may use discounted cash flows or other market data. We may consider the existence of guarantees and the financial strength of the guarantors involved. Guarantees may be considered as a source of repayment; however, absent a verifiable payment capacity, a guarantee alone would not be sufficient to avoid classifying the loan as impaired.

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

TDRs can be returned to accruing status if the following criteria are met: 1) the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and 2) there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring. All TDRs are considered to be impaired loans and will be reported as impaired loans for their remaining lives, unless the restructuring agreement specifies an interest rate equal to or greater than the rate that would be accepted at the time of the restructuring for a new loan with comparable risk and we fully 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. 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 September 30, 2014, we had $42.2 million in total TDRs, including $37.3 million that were accruing and $4.9 million that were in nonaccrual. For the nine months ended September 30, 2014, we had $3.3 million of new TDRs, the most significant of which was a Commercial Construction TDR for $1.0 million which had a maturity date extension and 24 loans totaling $1.1 million related to bankruptcy filings that were not reaffirmed resulting in discharged debt. During the nine months ended September 30, 2014, we returned ten TDRs to accrual status for $2.0 million, including one loan for $1.3 million upon a detailed credit evaluation supporting that we fully expect collection of the contractual amounts due and that the borrower had six months of satisfactory payment performance.

The charge-off policy for commercial loans requires that loans and other obligations that are not collectible be promptly charged-off when the loss becomes probable, regardless of the delinquency status of the loan. We may elect

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

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

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

57

Table of Contents

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

Our allowance for lending-related commitments is computed using a methodology similar to that used to determine the ALL. Amounts are added to the allowance for lending-related commitments by a charge to current earnings through noninterest expense. The balance in the allowance for lending-related commitments was relatively unchanged at approximately $2.7 million at September 30, 2014 as compared to $2.9 million at December 31, 2013. The allowance for lending-related commitments is included in other liabilities in the Consolidated Balance Sheets.
Nonperforming assets consist of nonaccrual loans, nonaccrual TDRs and OREO. The following summarizes nonperforming assets for the dates presented:

(dollars in thousands)	September 30, 2014	December 31, 2013	$ Change
Nonaccrual Loans			
Commercial real estate	$4,276	$6,852	$(2,576)
Commercial and industrial	983	1,412	(429)
Commercial construction	21	34	(13)
Residential mortgage	1,762	1,982	(220)
Home equity	1,512	2,073	(561)
Installment and other consumer	19	34	(15)
Consumer construction	—	—	—
Total Nonaccrual Loans	8,573	12,387	(3,814)
Nonaccrual Troubled Debt Restructurings			
Commercial real estate	898	3,898	(3,000)
Commercial and industrial	1,443	1,884	(441)
Commercial construction	1,868	2,708	(840)
Residential mortgage	486	1,356	(870)
Home equity	223	218	5
Installment and other consumer	11	3	8
Total Nonaccrual Troubled Debt Restructurings	4,929	10,067	(5,138)
Total Nonaccrual Loans	13,502	22,454	(8,952)
OREO	200	410	(210)
Total Nonperforming Assets	$13,702	$22,864	$(9,162)

Asset Quality Ratios:		
Nonperforming loans as a percent of total loans	0.35%	0.63%
Nonperforming assets as a percent of total loans plus OREO	0.36%	0.64%

Our policy is to place loans in all categories in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due. There were no loans 90 days or more past due and still accruing at September 30, 2014 or December 31, 2013.
Nonperforming assets decreased $9.2 million, or 40 percent to $13.7 million at September 30, 2014 compared to $22.9 million at December 31, 2013. The decline in nonperforming assets is primarily the result of the sale of $3.2 million of nonaccrual loans, $6.6 million in nonperforming loan pay downs, $1.6 million of loan charge-offs and $3.4 million of loans returning to accrual status. New nonperforming loans were $6.0 million for the nine months ended September 30, 2014. The new formation primarily consists of smaller loans of less than $0.5 million.

Table of Contents

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

Deposits

(dollars in thousands)	September 30, 2014	December 31, 2013	$ Change
Noninterest-bearing demand	$1,077,505	$992,779	$84,726
Interest-bearing demand	336,720	312,790	23,930
Money market	295,559	281,403	14,156
Savings	1,048,175	994,805	53,370
Certificates of deposit	901,193	922,753	(21,560)
CDARS OWB and brokered CDs	241,949	167,778	74,171
Total Deposits	$3,901,101	$3,672,308	$228,793

Deposits are our primary source of funds. We believe that our deposit base is stable and that we have the ability to attract new deposits, mitigating a funding dependency on other more volatile sources. Total deposits increased $228.8 million at September 30, 2014 compared to December 31, 2013.
Overall, our customer deposits increased by $154.6 million and our CDARS OWB and brokered CDs increased by $74.2 million from December 31, 2013. Customer savings deposits, primarily public funds, increased $53.4 million, or 5.4 percent, compared to December 31, 2013 while non-interest bearing deposits, primarily from business customers, increased $84.7 million or 8.5 percent over the same period. The CDARS, OWB and brokered CDs increased as a result of utilizing this type of funding source to support the strong asset growth during the first nine months of 2014.
Borrowings

(dollars in thousands)	September 30, 2014	December 31, 2013	$ Change
Securities sold under repurchase agreements, retail	$23,084	$33,847	$(10,763)
Short-term borrowings	265,000	140,000	125,000
Long-term borrowings	20,042	21,810	(1,768)
Junior subordinated debt securities	45,619	45,619	—
Total Borrowings	$353,745	$241,276	$112,469

Borrowings are an additional source of funding for us. Total borrowings increased by $112.5 million from December 31, 2013. The short-term borrowing increase of $125.0 million was utilized as a source of funds to support our asset growth activity during the first nine months of 2014.
Information pertaining to short-term borrowings is summarized in the tables below for the nine and twelve month periods ended September 30, 2014 and December 31, 2013.

	Securities Sold Under Repurchase Agreements	
(dollars in thousands)	September 30, 2014	December 31, 2013
Balance at the period end	$23,084	$33,847
Average balance during the period	29,463	54,057
Average interest rate during the period	0.01%	0.12%
Maximum month-end balance during the period	$40,983	$83,766
Average interest rate at the period end	0.01%	0.01%

	Short-Term Borrowings	
(dollars in thousands)	September 30, 2014	December 31, 2013
Balance at the period end	$265,000	$140,000
Average balance during the period	136,378	101,973

Average interest rate during the period	0.31	%	0.27	%
Maximum month-end balance during the period	$265,000		$175,000	
Average interest rate at the period end	0.29	%	0.30	%

59

Table of Contents

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

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

	Long-Term Borrowings			
(dollars in thousands)	September 30, 2014		December 31, 2013	
Balance at the period end	$20,042		$21,810	
Average balance during the period	20,869		24,312	
Average interest rate during the period	2.97	%	3.07	%
Maximum month-end balance during the period	$21,616		$28,913	
Average interest rate at the period end	2.97	%	3.01	%

	Junior Subordinated Debt Securities			
(dollars in thousands)	September 30, 2014		December 31, 2013	
Balance at the period end	$45,619		$45,619	
Average balance during the period	45,619		65,989	
Average interest rate during the period	2.68	%	3.14	%
Maximum month-end balance during the period	$45,619		$90,619	
Average interest rate at the period end	2.69	%	2.70	%

Liquidity and Capital Resources

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

Our primary funding and liquidity source is a stable customer deposit base. We believe S&T Bank has the ability to retain existing and attract new deposits, mitigating any funding dependency on other more volatile sources. Refer to the Deposits Section of this Part I, Item 2, MD&A, for additional discussion on deposits. Although deposits are the primary source of funds, we have identified various funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. These funding sources include borrowing availability at the FHLB, Federal Funds lines with other financial institutions and access to the brokered certificates of deposit market including CDARS.

An important component of S&T's ability to effectively respond to potential liquidity stress events is maintaining a cushion of highly liquid assets. Highly liquid assets are those that can be converted to cash quickly, with little or no loss in value, to meet financial obligations. ALCO policy guidelines define a ratio of highly liquid assets to total assets by graduated risk tolerance levels of minimal, moderate and high. At September 30, 2014 S&T Bank had $381.6 million in highly liquid assets, which consisted of $91.9 million in interest-bearing deposits with banks, $286.6 million in unpledged securities and $3.1 million in loans held for sale. The highly liquid assets to total assets resulted in an asset liquidity ratio of 7.8 percent at September 30, 2014. Also, at September 30, 2014, we had a remaining borrowing availability of $1.3 billion with the FHLB of Pittsburgh. In addition, we have access to $60.0 million in Federal Funds lines with other financial institutions. Refer to Part I, Note 8 Borrowings and Part I, Item 2, MD&A, for more details on FHLB borrowings. S&T Bank is considered to be a well capitalized bank according to regulatory

guidance, therefore access to brokered CDs is not restricted.

60

Table of Contents

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

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

(dollars in thousands)	Adequately Capitalized [1]		Well-Capitalized [2]		September 30, 2014			December 31, 2013		
					Amount	Ratio		Amount	Ratio	
S&T Bancorp, Inc.										
Tier 1 leverage	4.00	%	5.00	%	$455,815	9.88	%	$426,234	9.75	%
Tier 1 capital to risk-weighted assets	4.00	%	6.00	%	455,815	12.35	%	426,234	12.37	%
Total capital to risk-weighted assets	8.00	%	10.00	%	527,417	14.29	%	494,986	14.36	%
S&T Bank										
Tier 1 leverage	4.00	%	5.00	%	$416,090	9.06	%	$389,584	8.95	%
Tier 1 capital to risk-weighted assets	4.00	%	6.00	%	416,090	11.33	%	389,584	11.36	%
Total capital to risk-weighted assets	8.00	%	10.00	%	487,075	13.26	%	457,540	13.35	%

[1] For an institution to qualify as "adequately capitalized" under regulatory guidelines, Tier 1 leverage, Tier 1 risk-based capital and total risk-based capital ratios must be at least 4 percent, 4 percent and 8 percent. At September 30, 2014, we exceeded those requirements.
[2] For an institution to qualify as "well capitalized" under regulatory guidelines, Tier 1 leverage, Tier 1 risk-based capital and total risk-based capital ratios must be at least 5 percent, 6 percent and 10 percent. At September 30, 2014, we exceeded those requirements.

In July of 2013, the U.S. federal banking agencies issued a joint final rule that implements the Basel III capital standards effective January 1, 2015 with a phase-in period ending January 1, 2019. The final rule establishes the minimum capital levels required under the Dodd-Frank Act, permanently grandfathers trust preferred securities issued before May 19, 2010 and increases the capital required for certain categories of assets. We have evaluated the impact of the Basel III final capital rule and anticipate that our regulatory capital ratios will continue to exceed the well-capitalized minimum requirements.
In October 2012, we filed a shelf registration statement on Form S-3 under the Securities Act of 1933 as amended, with the Securities and Exchange Commission, or SEC, for the issuance of up to $300 million of a variety of securities including debt and capital securities, preferred and common stock and warrants. We may use the proceeds from the sale of securities for general corporate purposes, which could include investments at the holding company level, investing in, or extending credit to subsidiaries, possible acquisitions and stock repurchases. As of September 30, 2014 we had not issued any securities pursuant to the shelf registration statement.
Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Market risk is defined as the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect a financial institution's earnings or capital. For most financial institutions, including S&T, market risk primarily reflects exposures to changes in interest rates. Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes affect capital by changing the net present value of a bank's future cash flows, and the cash flows themselves, as rates change. Accepting this risk is a normal part of banking and can be an important source of profitability and shareholder value. However, excessive interest rate risk can threaten a bank's earnings, capital, liquidity and solvency. Our sensitivity to changes in interest rate movements is continually monitored by ALCO. ALCO monitors and manages market risk through rate shock analyses, economic value of equity, or EVE, analysis and by performing stress tests in order to mitigate earnings and market value fluctuations due to changes in interest rates.

61

Table of Contents

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

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

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

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

	September 30, 2014		December 31, 2013	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
+300	7.1	(1.0)	7.6	(6.1)
+200	4.3	1.8	5.3	(2.1)
+100	1.9	2.3	2.3	—
-100	(3.5)	(11.8)	(3.4)	(10.8)

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

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

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

Item 4. CONTROLS AND PROCEDURES

62

Table of Contents

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of S&T's Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of S&T's disclosure controls and procedures as of September 30, 2014. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to S&T's management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2014, there were no changes made to S&T's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that materially affected, or are reasonably likely to materially affect, S&T's internal control over financial reporting.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

PART II
OTHER INFORMATION
Item 1. Legal Proceedings
None
Item 1A. Risk Factors
There have been no material changes to the risk factors that we have previously disclosed in Item 1A – “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the SEC on February 21, 2014.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None
Item 3. Defaults Upon Senior Securities
None
Item 4. Mine Safety Disclosures
Not Applicable
Item 5. Other Information
None
Item 6. Exhibits

31.1	Rule 13a-14(a) Certification of the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of the Chief Financial Officer.
32	Rule 13a-14(b) Certification of the Chief Executive Officer and Chief Financial Officer.
101	The following financial information from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2014 is formatted in eXtensible Business Reporting Language (XBRL): (i) Unaudited Consolidated Balance Sheet at September 30, 2014 and Audited Consolidated Balance Sheet at December 31, 2013, (ii) Unaudited Consolidated Statements of Comprehensive Income for the Three Months and Nine Months ended September 30, 2014 and 2013, (iii) Unaudited Consolidated Statements of Changes in Shareholders’ Equity for the Nine Months ended September 30, 2014 and 2013, (iv) Unaudited Consolidated Statements of Cash Flows for the Nine Months ended September 30, 2014 and 2013 and (v) Notes to Unaudited Consolidated Financial Statements.

Table of Contents

S&T BANCORP, INC. AND SUBSIDIARIES

SIGNATURES

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

	S&T Bancorp, Inc. (Registrant)
Date: November 5, 2014	/s/ Mark Kochvar Mark Kochvar Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer and Duly Authorized Signatory)