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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
(AMENDMENT NO. \_)

FILED BY THE REGISTRANT

FILED BY A PARTY OTHER THAN THE REGISTRANT

CHECK THE APPROPRIATE BOX:

PRELIMINARY PROXY STATEMENT

CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))

DEFINITIVE PROXY STATEMENT

DEFINITIVE ADDITIONAL MATERIALS

SOLICITING MATERIALS PURSUANT TO RULE 240.14A-11(C) OR RULE 240.14A-12

S&T BANCORP, INC.  
(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

(NAME OF PERSON(S) FILING PROXY STATEMENT, IF OTHER THAN THE REGISTRANT)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

\$125 PER EXCHANGE ACT RULES 0-11(C)(1)(II), 14A-6(I)(1), 14A-6(I)(2) OR ITEM 22(A)(2) OF SCHEDULE 14A.

\$500 PER EACH PARTY TO THE CONTROVERSY PURSUANT TO EXCHANGE ACT RULE 14A-6(I)(3).

FEE COMPUTED ON TABLE BELOW PER EXCHANGE ACT RULES 14A-6(I)(4) AND 0-11.

(1) Title of each class of securities to which transactions applies:

Peoples Bank of Unity Common Stock, par value \$10 per share

(2) Aggregate number of securities to which transactions applies:

115,660 shares of Peoples Bank of Unity Common Stock, par value \$10.00 per share

(3) Per unit price or other underlying value of transactions computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

\$432.92 per share of Peoples Bank of Unity Common Stock (based on the book value per share Peoples Bank of Unity Common Stock on September 30, 1996, in accordance with Exchange Act Rule 0-11(a)(4)).

(4) Proposed maximum aggregate value of transactions:

\$49,030,588

(5) Total fee paid:

\$14,858

FEE PAID PREVIOUSLY WITH PRELIMINARY MATERIALS.

[X] CHECK BOX IF ANY PART OF THE FEE IS OFFSET AS PROVIDED BY EXCHANGE ACT RULE 0-11(A) (2) AND IDENTIFY THE FILING FOR WHICH THE OFFSETTING FEE WAS PAID PREVIOUSLY. IDENTIFY THE PREVIOUS FILING BY REGISTRATION STATEMENT NUMBER, OR THE FORM OF SCHEDULE AND THE DATE OF ITS FILING.

- (1) Amount Previously Paid: \$14,858
- (2) Form, Schedule or Registration Statement No.: Registration Statement of Form S-4 (File No. 333-19575)
- (3) Filing Party: S&T Bancorp, Inc.
- (4) Date Filed: January 10, 1997

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[LETTERHEAD OF S&T BANCORP, INC.]

March 20, 1997

Dear Shareholder:

We are pleased to enclose your Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Shareholders of S&T Bancorp, Inc. ("S&T") to be held on April 21, 1997, at 10:00 a.m., Eastern Standard Time, at the Fifth Street Training Center, located at 355 North Fifth Street, Indiana, Pennsylvania.

At the Annual Meeting, you will be asked to elect four directors of S&T to serve terms expiring in 2000, to approve the appointment of the independent auditors of S&T and to approve an amendment to the Amended and Restated 1992 Incentive Stock Plan (the "Stock Plan") to increase the number of shares of S&T common stock, par value \$2.50 per share ("S&T Common Stock"), subject to the Stock Plan from 600,000 shares to 1,600,000 shares.

You also will be asked to consider and vote on a proposed merger pursuant to an Agreement and Plan of Reorganization and a related Agreement dated November 25, 1996 and Plan of Merger (the "Agreement") whereby Peoples Bank of Unity ("Peoples"), a Pennsylvania chartered bank, will be merged with and into S&T Bank, a Pennsylvania chartered bank and wholly owned subsidiary of S&T (the "Merger"). S&T will issue up to 3,036,075 shares of S&T Common Stock in connection with the Merger. Each share of Peoples common stock, par value \$10.00 per share, outstanding immediately prior to the time of the Merger, except as provided in the Agreement, will by virtue of the Merger be converted into 26.25 shares of S&T Common Stock and cash in lieu of any fractional share.

YOUR BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE PROPOSED MERGER AND THE RELATED ISSUANCE OF SHARES OF S&T COMMON STOCK AND RECOMMENDS A VOTE "FOR" THE MERGER. The Board reached this decision after careful consideration of a number of factors. The enclosed Proxy Statement contains more detailed information concerning the Board's decision and the proposed transaction. We urge you to read the Proxy Statement and to consider this matter carefully.

In order to make sure that your vote is represented at the Annual Meeting, indicate your vote on the enclosed proxy form, sign, date and return it in the enclosed envelope. If you attend the Annual Meeting in person, you may revoke your proxy at the Annual Meeting and vote in person.

Sincerely,

/s/ Robert D. Duggan  
Robert D. Duggan  
Chairman, President and  
Chief Executive Officer

S&T BANCORP, INC.  
800 PHILADELPHIA STREET  
INDIANA, PENNSYLVANIA 15701

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
APRIL 21, 1997

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To the Shareholders of  
S&T Bancorp, Inc.:

Notice is hereby given that the Annual Meeting of Shareholders of S&T Bancorp, Inc. ("S&T") will be held at the Fifth Street Training Center, located at 355 North Fifth Street, Indiana, Pennsylvania 15701, on April 21, 1997 at 10:00 a.m. Eastern Standard Time, for the following purposes:

1. To elect four directors of S&T for terms expiring in 2000;
2. To consider and vote upon the approval of an Agreement and Plan of Reorganization dated November 25, 1996 and related Agreement and Plan of Merger (collectively, the "Agreement") among Peoples Bank of Unity, a Pennsylvania chartered bank ("Peoples"), S&T and S&T Bank, a copy of each of which is included as Appendix A to the accompanying Proxy Statement and incorporated by reference herein, pursuant to which: (i) Peoples will be merged with and into S&T Bank (the "Merger"); (ii) each outstanding share of common stock of Peoples, par value \$10.00 per share, would be converted into a 26.25 shares of common stock of S&T, par value \$2.50 per share ("S&T Common Stock"), determined in accordance with the terms of the Agreement, and cash in lieu of any fractional share; and (iii) S&T would issue up to 3,036,075 shares of S&T Common Stock;
3. To consider the approval of an amendment to the Amended and Restated 1992 Incentive Stock Plan (the "Stock Plan") to increase the number of shares of S&T Common Stock subject to the Stock Plan from 600,000 shares to 1,600,000 shares;
4. To ratify the appointment of Ernst & Young LLP as independent auditors of S&T for calendar year 1997; and
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business on February 28, 1997 are entitled to notice of and to vote at such meeting or any adjournment thereof.

By Order of the Board of Directors,

/s/ James G. Barone  
James G. Barone  
Secretary

Indiana, Pennsylvania  
March 20, 1997

IMPORTANT

YOUR VOTE IS IMPORTANT. IN ORDER TO ASSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, PLEASE MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY AS SOON AS POSSIBLE IN THE ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED FOR MAILING IN THE UNITED STATES.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE FOR THE ELECTION AS DIRECTORS OF THE NOMINEES NAMED HEREIN, TO APPROVE THE AGREEMENT, TO APPROVE THE AMENDMENT TO THE STOCK PLAN, AND FOR THE RATIFICATION OF THE APPOINTMENT OF S&T'S AUDITORS.

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S&T BANCORP, INC.

PROXY STATEMENT  
FOR  
ANNUAL MEETINGS OF SHAREHOLDERS  
TO BE HELD APRIL 21, 1997

-----  
INTRODUCTION

This Proxy Statement is being furnished to shareholders of S&T Bancorp, Inc. ("S&T") in connection with the solicitation of proxies by the Board of Directors of S&T (the "S&T Board") for use at the Annual Meeting of Shareholders, and any adjournments thereof, to be held at the time and place set forth in the accompanying notice ("Annual Meeting"). It is anticipated that the mailing of this Proxy Statement and the enclosed proxy card will commence on or about March 20, 1997.

At the Annual Meeting, shareholders of S&T will be asked to elect four directors of S&T for terms expiring in 2000, to approve an amendment to the

Amended and Restated 1992 Incentive Stock Plan (the "Stock Plan") to increase the number of shares of S&T common stock, par value \$2.50 per share ("S&T Common Stock"), subject to the Stock Plan from 600,000 shares to 1,600,000 shares, and to ratify the appointment of S&T's auditors, Ernst & Young LLP, for 1997.

At the Annual Meeting, shareholders of S&T also will be asked to approve an Agreement and Plan of Reorganization dated November 25, 1996 and a related Agreement and Plan of Merger (collectively, the "Agreement"), providing for the merger (the "Merger") of Peoples with and into S&T Bank, a wholly owned subsidiary of S&T, with S&T Bank as the surviving entity and, the issuance of up to 3,036,075 shares of S&T Common Stock in connection with the Merger. Peoples is a Pennsylvania chartered bank. The Agreement is attached to this Proxy Statement as Appendix A. At the Effective Date (as defined below), each share of common stock of Peoples, par value \$10.00 per share ("Peoples Common Stock"), issued and outstanding immediately prior to the Effective Date will be converted into 26.25 shares of S&T Common Stock, and cash in lieu of any fractional share ("Exchange Ratio"). Peoples may elect to terminate the Agreement if the Average Closing Price (as defined herein) of S&T Common Stock is below a certain level on the Determination Date (as defined herein). See "PROPOSAL II--PROPOSED MERGER--Terms of the Merger."

As of December 31, 1996 there were 115,660 shares of Peoples Common Stock outstanding. There is no established public trading market for Peoples Common Stock, and Peoples is not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The last reported sale (other than intrafamily transfers involving directors) of Peoples Common Stock of which Peoples is aware of the sale price occurred on October 16, 1996 for \$500 per share and involved 10 shares. The closing price per share of S&T Common Stock on the Nasdaq National Market on March 17, 1997 was \$33.75 (which would be equivalent to \$885.94 for the 26.25 shares of S&T Common Stock into which each share of Peoples Common Stock will be converted in the Merger).

In the event that prior to the Effective Date the outstanding shares of S&T Common Stock shall have been increased, decreased or changed into or exchanged for a different number or kind of shares or securities by reorganization, recapitalization, reclassification, stock dividend, stock split or other like changes in S&T's capitalization, all without S&T receiving adequate consideration therefor, then an appropriate and proportionate adjustment shall be made in the number and kind of shares of S&T Common Stock to be thereafter delivered pursuant to the Agreement. For a more complete description of the Agreement and the terms of the Merger, see "PROPOSAL II--PROPOSED MERGER."

ALL SHAREHOLDERS ARE URGED TO READ THIS PROXY STATEMENT CAREFULLY AND IN ITS ENTIRETY.

#### MEETING INFORMATION

##### DATE, PLACE AND TIME

The Annual Meeting of Shareholders of S&T will be held on April 21, 1997 at 10:00 a.m., Eastern Standard Time, at the Fifth Street Training Center, located at 355 North Fifth Street, Indiana, Pennsylvania.

##### RECORD DATE; VOTING RIGHTS

The securities which can be voted at the S&T Annual Meeting consist of shares of S&T Common Stock, with each share entitling its owner to one vote on all matters. Only holders of record of S&T Common Stock at the close of business on February 28, 1997 (the "Record Date") will be entitled to notice of and to vote at the Annual Meeting. There were 2,628 record holders of outstanding S&T Common Stock and 11,092,850 shares of S&T Common Stock outstanding as of the Record Date. The presence, in person or by proxy, of at least a majority of the outstanding shares of S&T Common Stock entitled to vote is necessary to constitute a quorum at the Annual Meeting. S&T intends to count the shares of S&T Common Stock present in person at the Annual Meeting but not voting, and shares of S&T Common Stock for which it has received proxies, but with respect to which holders of shares have abstained on any matter, as present at the Annual Meeting for purposes of determining the presence or absence of a quorum for the transaction of business.

The issuance of the shares of S&T Common Stock in connection with the Merger and the Agreement, election of directors and amendment to the Stock Plan must

be approved by the affirmative vote of the holders of a majority of the shares of S&T Common Stock present at a meeting at which a quorum is present. Abstentions, including broker non-votes, will not be counted as votes cast for approval of the Agreement and related issuance of shares, the election of directors or the amendment to the stock plan and will only have an effect on the obtaining of a quorum. In addition, under the rules of the New York Stock Exchange, (although shares of S&T Common Stock are not listed on such Exchange), brokers who hold shares in street name for customers who are the beneficial owners of such shares are prohibited from giving a proxy to vote shares held for such customers in favor of the approval of the Agreement, the election of directors or the amendment to the stock plan without specific instruction from such customers. Accordingly, the failure of such customers to provide instructions with respect to their shares of S&T Common Stock to their broker will have the effect of such shares not being voted.

#### VOTING AND REVOCATION OF PROXIES

If the appropriate enclosed form of proxy is properly executed and returned to S&T in time to be voted at the Annual Meeting, the shares represented thereby will be voted in accordance with the instructions marked thereon. Executed but unmarked proxies will be voted "FOR" the nominees proposed by the S&T Board and "FOR" the proposals presented in the attached Notice of Annual Meeting of Shareholders. Proxies marked "FOR" the Merger proposal and executed but unmarked proxies will be voted in the discretion of the persons named in the accompanying proxy as to any proposed adjournment of the Annual Meeting. Proxies marked "AGAINST" the Merger proposal will not be voted by such named persons as to any proposed adjournment of the Annual Meeting. Except for procedural matters incident to the conduct of the Annual Meeting, S&T does not know of any matters other than those described in the Notice of Annual Meeting that are to come before the Annual Meeting. If any other matters are properly brought before the Annual Meeting, the persons named in the accompanying proxy will vote the shares represented by the proxies on such matters as determined by a majority of the S&T Board.

The presence of a shareholder at the Annual Meeting will not automatically revoke such shareholder's proxy. However, shareholders may revoke a proxy at any time prior to its exercise by filing with the Secretary of S&T a written notice of revocation, by delivering to S&T a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

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#### SOLICITATION OF PROXIES

In addition to solicitation by mail, proxies may be solicited personally, by telephone or by further correspondence and directors, officers and employees of S&T may solicit proxies from the shareholders of S&T. S&T has retained Corporate Investors Communications, Inc. to assist in the solicitation of proxies. S&T will pay a \$3,500 fee for its services, plus reimbursement for its out-of-pocket costs. Brokerage houses, nominees, fiduciaries and other custodians have been requested to forward proxy materials to beneficial owners of S&T Common Stock and, upon request, will be reimbursed by S&T for the expenses incurred by them. S&T will bear the expenses incurred by it in connection with the solicitation of proxies in the form enclosed herewith.

#### PRINCIPAL BENEFICIAL OWNERS OF S&T COMMON STOCK

As of December 31, 1996, the Trust Department of S&T Bank held, in various fiduciary capacities, 1,471,597 shares of S&T Common Stock. These holdings represent 13.3% of the total outstanding shares. The Trust Department has sole voting power for 881,111 of these shares and no voting power for 590,486 of these shares. It is the intention of management to vote the shares for which it has sole voting power FOR the matters to be acted upon at the Annual Meeting. S&T is not aware of any other person who beneficially owns more than five percent of any class of securities of S&T.

#### BENEFICIAL OWNERSHIP OF S&T COMMON STOCK BY DIRECTORS AND OFFICERS

The following table sets forth, as of December 31, 1996, the amount and percentage of S&T Common Stock beneficially owned by each director, each nominee for director, named Executive Officers of S&T and directors and Executive Officers of S&T as a group.

NUMBER OF SHARES  
OF COMMON STOCK  
BENEFICIALLY OWNED (A)

| DIRECTORS, EXECUTIVE OFFICERS AND NOMINEES*      | NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED (A) |          | PERCENTAGE OF SHARES OF COMMON STOCK OWNED |
|--|---|----------|--|
|  | DIRECT  | INDIRECT |  |
| James G. Barone .....                            | 30,871  |          | .28  |
| Thomas A. Brice .....                            | 33,099  | 19,899   | .48  |
| Forrest L. Brubaker* .....                       | 36,600  |          | .33  |
| James L. Carino .....                            | 74,744  | 19,687   | .85  |
| John J. Delaney* .....                           | 17,920  | 19,116   | .33  |
| Robert D. Duggan .....                           | 92,603  | 4,817    | .88  |
| Thomas W. Garges, Jr. ....                       | 6,447   |          | .06  |
| William J. Gatti .....                           | 14,624  | 1,400    | .14  |
| Herbert L. Hanna .....                           | 70,618  | 65,210   | 1.23                                       |
| Paul B. Johnston .....                           | 10,834  |          | .10  |
| Joseph A. Kirk .....                             | 21,176  | 1,940    | .21  |
| David L. Krieger .....                           | 33,089  |          | .30  |
| Samuel Levy .....                                | 13,806  | 57,554   | .64  |
| James C. Miller .....                            | 61,648  | 2,522    | .58  |
| W. Parker Ruddock* .....                         | 29,280  |          | .26  |
| Bruce W. Salome .....                            | 30,650  |          | .28  |
| Charles A. Spadafora .....                       | 22,364  | 7,780    | .27  |
| Christine J. Toretta* .....                      | 20,860  | 89,958   | 1.00                                       |
| Harold W. Widdowson .....                        | 9,817   |          | .09  |
| Directors and Executive Officers as a group .... | 748,188   | 290,256  | 9.38                                       |

(A) Beneficially owned shares include nonstatutory stock options vesting within 60 days of the date this Proxy Statement is mailed.

PROPOSAL I--ELECTION OF DIRECTORS

GENERAL

The bylaws of S&T (the "S&T Bylaws") provide that the number of directors constituting the S&T Board shall consist of not less than twelve nor more than twenty-five. The Articles of Incorporation of S&T provide for the classification of directors into three classes, as nearly equal in number as possible, with approximately one third of the directors elected annually for three year terms. Certain information about the Nominees (Class 1 Directors), whose terms will expire in 1997, and who are presently members of the S&T Board and the S&T Bank Board, is set forth below:

| NAME                               | AGE | PRINCIPAL OCCUPATION DURING PAST 5 YEARS   | DIRECTOR SINCE |
|------------------------------------|-----|--|----------------|
| Forrest L. Brubaker(1)(2).....     | 69  | Retired, Formerly Chairman of the S&T Board and S&T Bank Board                             | 1987           |
| John J. Delaney.....               | 55  | President, Delaney Chevrolet, Buick, Honda   | 1987           |
| W. Parker Ruddock(1)(3).....       | 68  | Judge of the Court of Common Pleas of Indiana County, Pennsylvania                         | 1977           |
| Christine J. Toretta(1)(2)(3)..... | 40  | President, S.W. Jack Drilling Company and Partner, C&N Company, Gas Drillers and Producers | 1984           |

Certain information about the directors whose terms continue (Class 2 and Class 3 Directors), who are directors of S&T and S&T Bank, is set forth below:

CLASS 2 DIRECTORS WHOSE TERMS EXPIRE IN 1998:

| NAME                                      | AGE | PRINCIPAL OCCUPATION DURING PAST 5 YEARS   | DIRECTOR SINCE |
|---|-----|--|----------------|
| Thomas A. Brice(1) (2) (3).....           | 56  | General Manager, Douds, Inc. Retail Home Furnishings                               | 1980           |
| James L. Carino(1) (2)...                 | 64  | President, J.L. Carino Nurseries, Inc.   | 1987           |
| Thomas W. Garges, Jr.(1) (2) (3) (4)..... | 57  | President and Chief Executive Officer, Rochester & Pittsburgh Coal Company         | 1990           |
| Joseph A. Kirk.....                       | 57  | President, Beaver Meadow Creamery, Inc.  | 1993           |
| James C. Miller(1).....                   | 51  | Executive Vice President of S&T, President and Chief Operating Officer of S&T Bank | 1993           |
| Harold W. Widdowson(5)...                 | 69  | Retired, Formerly President and Treasurer, Widdowson's Jewelers, Inc.              | 1980           |

CLASS 3 DIRECTORS WHOSE TERMS EXPIRE IN 1999:

| NAME                       | AGE | PRINCIPAL OCCUPATION DURING PAST 5 YEARS   | DIRECTOR SINCE |
|----------------------------|-----|--|----------------|
| Robert D. Duggan(1) ....   | 64  | Chairman, President and Chief Executive Officer of S&T, Chairman and Chief Executive Officer of S&T Bank | 1981           |
| William J. Gatti.....      | 55  | President and Chief Executive Officer of Gatti Services, Inc.  | 1993           |
| Herbert L. Hanna(1) (2)... | 67  | Physician  | 1986           |
| Paul B. Johnston(5).....   | 70  | Doctor of Dental Surgery   | 1980           |
| Samuel Levy(1) (3).....    | 58  | President, Jefferson Wholesale Grocery   | 1977           |
| Charles A. Spadafora....   | 55  | President, Colonial Motor Mart   | 1987           |

NOTES TO LISTING OF DIRECTORS ON PAGE 4

(1) Members of the Executive Committee of S&T Bank and S&T. This committee, which is appointed annually by the S&T Board, has authority to take action between meetings of the S&T Board with respect to matters which a majority of the committee considers necessary to be addressed prior to the next meeting of the S&T Board. This committee had one meeting during 1996.

(2) Members of the Audit Committee of S&T Bank and S&T. The Audit Committee had three meetings during 1996. The committee supervises the internal audit activities of S&T Bank and also supervises and directs the activities of S&T's independent auditors. Another function of the committee is to recommend the services of a reputable certified public accounting firm to perform the annual audit. The committee receives and reviews reports of auditors and examiners and presents them to the S&T Board with comments and recommendations.

(3) Members of the Compensation and Benefits Committee of S&T Bank and S&T. This committee's function is to recommend to the S&T Board action on compensation and benefit changes brought to it by management. The committee held two meetings during 1996.

(4) Mr. Garges is a director of a company that has a class of securities registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(5) The S&T Bylaws require mandatory director retirement at the Annual Meeting following the 70th birthday of the director. As such, Directors Johnston and Widdowson will retire from the S&T Board at the Annual Meeting. The S&T Board currently anticipates that it will increase the size of the S&T Board by one member at the Annual Meeting with the addition of 3 directors pursuant to terms of the Agreement with Peoples.

The S&T Board does not have a nominating committee.

During 1996, the S&T Board held fifteen meetings. All directors, except Director Brubaker, attended at least 75% of the meetings of the S&T Board and committees.

S&T BOARD FEES

Non-employee members of the S&T Board are compensated at the rate of \$3,000 per year plus \$600 per meeting attended, effective January 1, 1997. Directors are paid \$150 to \$200 for attendance at S&T Board committee meetings.

In December 1996, each member of the S&T Board who was not an employee of S&T was granted an option to acquire up to 2,500 shares of S&T Common Stock at an exercise price of \$30.88 per share.

RETIREMENT PLAN

The S&T Bank Retirement Plan ("Retirement Plan") covers all eligible employees and provides a monthly retirement income for employees and their spouses.

The following table shows the estimated annual benefit payable upon a normal retirement date to persons in specified remuneration and years of service classifications for the Retirement Plan. This benefit is payable in addition to social security and is calculated based upon the participant's average annual regular earnings for the highest five consecutive years in the last ten years ("Average Covered Compensation").

| AVERAGE COVERED<br>COMPENSATION | ANNUAL BENEFIT UPON RETIREMENT WITH YEARS OF SERVICE INDICATED |          |           |           |           |           |
|---------------------------------|--|----------|-----------|-----------|-----------|-----------|
|                                 | 10   | 15       | 20        | 25        | 30        | 35        |
| \$ 50,000.....                  | \$ 6,035   | \$ 9,052 | \$ 12,070 | \$ 15,087 | \$ 18,104 | \$ 21,122 |
| 75,000.....                     | 9,785  | 14,677   | 19,570    | 24,462    | 29,534    | 34,247    |
| 100,000.....                    | 13,535   | 20,302   | 27,070    | 33,837    | 40,604    | 47,372    |
| 150,000.....                    | 21,035   | 31,552   | 42,070    | 52,587    | 63,104    | 73,622    |
| 200,000.....                    | 28,535   | 42,802   | 57,070    | 71,337    | 85,604    | 99,872    |
| 250,000.....                    | 36,035   | 54,052   | 72,070    | 90,087    | 108,104   | 126,122   |
| 300,000.....                    | 43,535   | 65,302   | 87,070    | 108,837   | 130,604   | 152,372   |

As of December 31, 1996, completed years of credited service and Average Covered Compensation for Executive Officers is as follows:

|                     | YEARS OF<br>CREDITED<br>SERVICE | AVERAGE<br>COVERED<br>COMPENSATION |
|---------------------|---------------------------------|------------------------------------|
| R.D. Duggan(1)..... | 16                              | \$309,411                          |
| J.C. Miller.....    | 25                              | 197,046                            |
| D.L. Krieger.....   | 12                              | 139,454                            |
| J.G. Barone.....    | 4                               | 124,721                            |
| B.W. Salome.....    | 5                               | 128,220                            |

(1) See also "--Agreements with Executive Officers" for discussion of additional retirement arrangements for Mr. Duggan.

S&T Bank also maintains a Profit Sharing/Employee Stock Ownership Plan ("ESOP") with 401(k) provisions in which all employees may participate with elective salary deferrals. On December 30, 1988, the ESOP acquired 280,000 shares of S&T Common Stock which are being allocated to employee accounts over a seven to ten year period. In 1996, S&T Bank made monthly matching contributions equal to 50% of the employees' 401(k) contributions, up to 3% of the eligible participants' compensation. In addition, a 6% year end contribution was made by S&T Bank. Year end contributions are based on the performance of S&T, indexed to earnings per share, and are expected to range from 2% to 6%.

Effective January 1, 1994, federal tax laws lowered the amount of annual compensation that may be considered in calculating benefits payable from qualified retirement plans to \$150,000 (subject to index adjustments in future years). In addition, 401(k) contributions by employees are restricted by "highly compensated employee" formulas. In order that S&T Bank officers not lose benefits they would normally have been entitled to receive, non-qualified plans were approved to accumulate the benefits which would have accrued in the Retirement Plan and Profit Sharing/ESOP Plan were it not for the impact of the eligible compensation restrictions.

Other benefits generally provided to all officers and full-time employees include a medical reimbursement plan, a dental plan, a vision care plan, a long-term disability income plan and life insurance. No outside director is provided these benefits.

REMUNERATION OF EXECUTIVE OFFICERS

The following table provides information concerning remuneration of the five highest compensated Executive Officers during 1996.

| NAME                                     | YEAR | ANNUAL COMPENSATION |          |                               | LONG TERM COMPENSATION |                            |
|--|------|---------------------|----------|-------------------------------|------------------------|----------------------------|
|  |      | SALARY              | BONUS    | OTHER ANNUAL COMPENSATION (A) | OPTIONS SARS (B)       | ALL OTHER COMPENSATION (C) |
| R.D. Duggan.....                         | 1996 | \$374,000           | --       | \$16,540                      | 21,000                 | \$33,972                   |
| Chairman, President,<br>Chief            | 1995 | 340,000             | --       | 16,299                        | 21,000                 | 27,200                     |
| Executive Officer and<br>Director        | 1994 | 317,301             | --       | 15,688                        | 18,000                 | 25,384                     |
| J.C. Miller.....                         | 1996 | 233,000             | --       | 10,905                        | 15,000                 | 21,165                     |
| Executive Vice President<br>and Director | 1995 | 215,000             | --       | 9,491                         | 15,000                 | 17,200                     |
|  | 1994 | 200,301             | --       | 8,879                         | 12,000                 | 16,024                     |
| D.L. Krieger.....                        | 1996 | 145,000             | \$25,000 | 8,365                         | 10,000                 | 15,442                     |
| Vice President                           | 1995 | 130,000             | 20,000   | 8,021                         | 10,000                 | 9,000                      |
|  | 1994 | 118,865             | 20,000   | 7,337                         | 6,000                  | 8,320                      |
| J.G. Barone.....                         | 1996 | 139,800             | 10,000   | 6,974                         | 10,000                 | 13,163                     |
| Secretary and Treasurer                  | 1995 | 127,800             | 10,000   | 6,762                         | 10,000                 | 10,728                     |
|  | 1994 | 112,500             | 10,000   | 6,126                         | 6,000                  | 9,800                      |
| B.W. Salome.....                         | 1996 | 130,000             | 10,000   | 8,585                         | 10,000                 | 12,708                     |
| Vice President                           | 1995 | 123,500             | 10,000   | 8,626                         | 10,000                 | 10,794                     |
|  | 1994 | 116,500             | 10,000   | 7,708                         | 6,000                  | 10,120                     |

NOTES TO COMPENSATION TABLE

A. Other Annual Compensation includes expenses related to providing life, disability and health insurance, any personal use of S&T cars and reimbursement of any taxes incurred from relocation payments.

B. The Stock Plan that was approved by the S&T Board on December 21, 1992 and approved by the shareholders on April 19, 1993 and an Amendment and Restatement of the Stock Plan was approved by the S&T Board on October 17, 1994 and approved by shareholders on April 17, 1995. Stock option grants were at exercise prices of \$19.00, \$26.25 and \$30.88 per share in 1994, 1995 and 1996, respectively. Options granted to other Executive Officers as a group were 32,000 shares in 1994, 36,000 shares in 1995 and 38,000 shares in 1996.

C. Includes contributions by S&T Bank to the 401(k)/Thrift Plan and to non-qualified benefit plans that were established in order that Executive Officers not lose benefits which would normally have accrued in qualified plans prior to the change in tax laws on January 1, 1994 that lowered the compensation calculation base to \$150,000 and added limitations related to highly compensated employees.

AGREEMENTS WITH EXECUTIVE OFFICERS

In 1985, S&T entered into an employment agreement with its Chairman, President and Chief Executive Officer, Robert D. Duggan, originally effective until December 31, 1995 and since extended to be effective until December 31,

1997, in consideration of a base salary of not less than \$150,000 per year. In return, Mr. Duggan agreed that, for so long as he is receiving any payment under this agreement, he will not engage in or have a financial interest in any business competing with S&T. The employment agreement entered into by S&T and Robert D. Duggan also provides that if Mr. Duggan's employment is terminated due to disability or retirement, he or his spouse shall receive annually, for ten years, a supplemental disability or supplemental retirement benefit

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in an amount sufficient to provide fifty percent (50%) of the average annual base salary he received during the last three consecutive years of his active employment with S&T. On October 17, 1994, the employment agreement was amended and restated to extend the term until December 31, 1997 and extend the length of the disability or supplemental retirement payout period from 10 years to the actual number of whole years Mr. Duggan has been employed by S&T since December 15, 1980. The retirement arrangement of the employment agreement is unfunded.

In December, 1994, S&T entered into change in control agreements with the five highest compensated Executive Officers of S&T: Messrs. Duggan, Miller, Salome, Barone and Krieger. Each agreement provides that if the executive is terminated within one year following the occurrence of certain "changes in control" of S&T or of S&T Bank (as defined in each agreement) that were not preapproved by the S&T Board, or if the executive voluntarily terminates his employment with S&T under certain specified circumstances following a change in control, the Executive Officer will be entitled to receive a lump-sum cash payment based on the executive's salary immediately preceding the change in control and to receive certain continuing S&T employee benefits. In the case of Messrs. Duggan or Miller, the lump sum cash payment would equal three times his annual base salary immediately preceding the change in control; for each of the other Executive Officers, the cash payment would equal his annual base salary immediately preceding the change in control.

#### BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Executive compensation decisions are made by the five member Compensation and Benefits Committee (the "Committee") of the S&T Board. Each member of the Committee is a non-employee director. All decisions relating to the compensation of Executive Officers are reviewed by the S&T Board, except for decisions about awards under the Stock Plan, which must be made solely by the Committee in order for the grants or awards under such plans to satisfy Rule 16b-3 under the Exchange Act. The report set forth below is submitted by Directors Levy (Chairman), Brice, Garges, Ruddock and Toretta, in their capacity as Committee members, addressing S&T's compensation policies for 1996 as they affected Mr. Duggan, Chairman, President and Chief Executive Officer, and the four other highest compensated Executive Officers of S&T in 1996 (collectively "Senior Executives").

The Committee, in its executive compensation decisions, considered overall corporate performance as well as individual initiative and achievements. The policy of the Committee is to provide competitive levels of compensation that integrate pay with S&T's performance goals, reward exceptional performance and assist S&T in attracting and retaining qualified executives. Targeted levels of compensation are set at levels that the Committee believes to be consistent with others in the industry that have similar responsibilities, with the Senior Executives' actual compensation packages increasingly being weighted toward programs contingent upon S&T's level of long term (three years or greater) performance. As a result, the Senior Executives' actual compensation levels in any particular year may be above or below those of S&T's competitors, depending on S&T's performance. The Committee typically examines salaries and performance levels of a group of twelve to fifteen Pennsylvania peer banks as well as the SNL Securities Bank Performance Report and the SNL Executive Compensation Review for Commercial Banks.

The Committee continues to endorse the position that stock ownership by management and stock-based performance compensation arrangements are beneficial in aligning management's and shareholders' interests. The Stock Plan is considered to be an important element in designing the compensation packages of S&T's Senior Executives.

The Committee's general approach in setting the Chief Executive Officer's annual compensation is to seek to be competitive with compensation paid to other chief executive officers, with a similar scope of responsibilities, by other companies in the industry based upon long term performance. The Committee

typically compares chief executive officer salary levels and performance against the same twelve to fifteen Pennsylvania peer banks discussed above. The Committee has also reviewed salary information compiled by both regional and national benefits consultants for comparison purposes.

Mr. Duggan's cash compensation for 1996 increased over the 1995 level by 10%. In setting Mr. Duggan's compensation, the Committee considered S&T's current year and long term performance against both local competition and a national peer group of companies in the same business.

Particular emphasis was placed upon S&T's success in meeting its earnings per share, return on equity and asset quality goals in 1996 as well as the assessment of Mr. Duggan's individual performance. The Committee also considered Mr. Duggan's leadership in promoting the long term strategic growth of S&T.

In December 1996, the Committee granted Mr. Duggan nonstatutory stock options for 21,000 shares of S&T Common Stock with an exercise price equal to the market price on the date of the grant.

These options are exercisable after six months and within ten years of the date of the grant. The Committee believes that this award together with last year's award of 21,000 shares will encourage long term performance and promote management retention. In addition to the options, Mr. Duggan currently owns 24,420 shares of S&T Common Stock. This significant interest in S&T's Common Stock is considered to be beneficial to the common interests of shareholders and management.

Submitted by the Compensation and Benefits Committee of the S&T Bancorp, Inc. Board of Directors:

Samuel Levy (Chairman); Thomas Brice; Thomas Garges; Parker Ruddock; Christine Toretti

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN  
AMONG S&T BANCORP, INC.,  
S&P 500 INDEX AND KBW 50 INDEX (A)

PERFORMANCE GRAPH APPEARS HERE

| Measurement Period<br>(Fiscal Year Covered) | S&T<br>BANCORP, INC. | S&P<br>500 INDEX | KBW<br>50<br>INDEX (A) |
|---|----------------------|------------------|------------------------|
| Measurement Pt-12/31/1991                   | \$100.00             | \$100.00         | \$100.00               |
| FYE 12/31/1992                              | \$166.00             | \$108.00         | \$127.00               |
| FYE 12/31/1993                              | \$220.00             | \$118.00         | \$135.00               |
| FYE 12/31/1994                              | \$258.00             | \$120.00         | \$128.00               |
| FYE 12/31/1995                              | \$396.00             | \$165.00         | \$204.00               |
| FYE 12/31/1996                              | \$411.00             | \$203.00         | \$289.00               |

(A) The Keefe, Bruyette & Woods, Inc. (KBW) 50 is made up of fifty of the nation's largest banking companies, including all money center and most regional banks.

STOCK OPTION PLAN ANTICIPATED BENEFITS

The following table is presented to show proposed benefits to the Chief Executive Officer and the four most highly compensated Executive Officers. The potential realizable value is calculated assuming annual increases to the total return (market value appreciation plus dividends) of S&T Common Stock of 5% and 10%.

| OPTIONS<br>GRANTED<br>1996 | % OF<br>TOTAL<br>GRANTED | EXERCISE<br>PRICE | EXPIRATION<br>DATE | POTENTIAL REALIZABLE<br>VALUE AT ASSUMED<br>ANNUAL RATES OF STOCK<br>PRICE APPRECIATION FOR<br>OPTION TERM |            |           |
|----------------------------|--------------------------|-------------------|--------------------|--|------------|-----------|
|                            |                          |                   |                    | 5%   | 10%        |           |
| R.D. Duggan.....           | 21,000                   | 13%               | \$ 30.88           | 12/16/06   | \$ 407,763 | 1,033,588 |
| J.C. Miller.....           | 15,000                   | 9                 | 30.88              | 12/16/06   | 291,259    | 738,277   |
| D.L. Krieger.....          | 10,000                   | 6                 | 30.88              | 12/16/06   | 194,173    | 492,185   |
| J.G. Barone.....           | 10,000                   | 6                 | 30.88              | 12/16/06   | 194,173    | 492,185   |
| B.W. Salome.....           | 10,000                   | 6                 | 30.88              | 12/16/06   | 194,173    | 492,185   |

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The table below shows information about option holdings for Executive Officers at year end on an aggregate basis.

AGGREGATED OPTIONS/SAR EXERCISED IN LAST FISCAL YEAR  
AND FISCAL YEAR-END OPTIONS/SAR VALUES (A)

|                   | NUMBER OF UNEXERCISED<br>OPTIONS/SARS AT<br>FISCAL YEAR-END (B) |               | VALUE OF UNEXERCISED<br>IN-THE-MONEY<br>OPTIONS/SARS AT<br>FISCAL YEAR-END (B) |                   |
|-------------------|---|---------------|--|-------------------|
|                   | EXERCISABLE   | UNEXERCISABLE | EXERCISABLE  | UNEXERCISABLE (C) |
| R.D. Duggan.....  | 73,000  | 21,000        | \$822,920  | --                |
| J.C. Miller.....  | 45,000  | 15,000        | 473,220  | --                |
| D.L. Krieger..... | 26,000  | 10,000        | 264,980  | --                |
| J.G. Barone.....  | 26,000  | 10,000        | 264,980  | --                |
| B.W. Salome.....  | 26,000  | 10,000        | 264,980  | --                |

(A) No stock options were exercised in 1996.

(B) The numbers set forth in these columns represent nonstatutory stock options. There have been no SARs issued pursuant to the Stock Plan.

(C) No unexercisable options were in the money at fiscal year end 1996.

TRANSACTIONS WITH MANAGEMENT AND OTHERS

S&T Bank has made and expects to make in the future, extensions of credit in the ordinary course of business to certain directors and officers. These loans are made on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the same time for comparable transactions with others. Such loans did not involve more than normal risk of collectibility or present unfavorable features.

On October 1, 1986, S&T Bank entered into an agreement to lease, from Director Toretti and her husband as trustees under an irrevocable trust, a building and land which is used as S&T Bank's North Fourth Street branch and operations center. The terms of the agreement provide for payment of \$10,000 per month for the first five years and options to renew for four, five year terms with rent for each option term to be the rent from the previous term, plus five percent. On October 1, 1996, S&T Bank exercised its second option at \$11,025 per month.

On August 1, 1992, S&T Bank entered into an agreement to lease from S.W. Jack Drilling Company, controlled by Director Toretti, a building used for the S&T Bank Trust Department and other executive offices. The terms of the agreement provide for monthly payments of \$6,500 for three years and the option to lease additional space on the second floor with additional successive terms of three years each, with rent for each renewal option to be the rent from the previous term plus five percent. On July 1, 1993, S&T Bank exercised the option for the

second floor space at the S.W. Jack Building. On August 1, 1995, S&T bank exercised the first renewal option with a new, combined monthly rent of \$14,543.

On January 31, 1992, S&T Bank entered into a limited partnership arrangement with RCL Partners, Inc. for the construction of thirty apartments in Indiana, Pennsylvania targeted for senior citizens. Total investment by S&T Bank was \$1,761,766 and entitled S&T Bank to certain tax credits, tax depreciation benefits and a share of cash flows under the Internal Revenue Service Section 42 program. Director Delaney (and affiliated parties) and Director Gatti (and affiliated parties) each hold a one third interest in RCL Partners, Inc.

During 1996, S&T Bank made payments for purchase of goods and services from companies owned or controlled by Director Delaney, Director Brice and Director Spadafora for \$105,681, \$174,657 and \$87,688, respectively.

#### CERTAIN BUSINESS RELATIONSHIPS

During 1996, S&T Bank acquired automobile loans on a third party basis from companies owned by Director Delaney and from companies owned by Director Spadafora. These loans were acquired on substantially the same terms as those prevailing at the same time for comparable transactions with others.

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#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Regulations require the disclosure of any related party transactions with members of the Compensation Committee. During 1996, S&T Bank made payments of \$174,657 to a company owned by Director Brice for the purchase of furniture and other equipment, and payments of \$329,935 to Director Torretti, and affiliates, for the lease of operations, branch and administrative facilities. S&T Bank has made and expects to make in the future, extensions of credit in the ordinary course of business to members of the Compensation Committee. These loans are made on substantially the same terms, including interest rates, collateral and repayment terms, as those prevailing at the same time for comparable transactions with others. Such loans did not involve more than normal risk of collectibility or present unfavorable features.

#### COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Section 16(a) of the Exchange Act requires S&T's directors and Executive Officers, and persons who own more than ten percent of S&T's stock, to report to the Securities and Exchange Commission ("SEC") certain of their transactions with respect to S&T's stock. The SEC reporting rules require that changes in beneficial ownership generally be reported on Form 4 within ten days of the month in which the change occurs, except certain types of changes may be reported on a Form 5 within 45 days of the end of the year in which the change occurs. During 1996, all directors and Executive Officers timely filed all required reports of changes in beneficial ownership.

#### PROPOSAL II--PROPOSED MERGER

This section of the Proxy Statement describes material aspects of the Merger. The following description does not purport to be complete and is qualified in its entirety by reference to the Agreement and Plan of Reorganization and the Agreement and Plan of Merger, which are attached as Appendix A to this Proxy Statement and are incorporated herein by reference. All shareholders are urged to read the Agreement carefully and in its entirety.

#### BACKGROUND OF AND REASONS FOR THE MERGER; RECOMMENDATION OF THE S&T BOARD

S&T has a long and successful history of providing community banking services in its core markets of Indiana, Jefferson and Clearfield Counties of Pennsylvania. In 1991, S&T purchased Vanguard Savings Bank and four offices of Atlantic Financial Federal from the Resolution Trust Corporation. The acquisition of these offices provided S&T with a presence in three new counties of Western Pennsylvania--Allegheny, Armstrong and Westmoreland. The acquisition of these offices represented a strategic move for S&T that provided access to new markets that possess greater population and are experiencing faster economic growth than are S&T's historic core markets.

In connection with S&T's entry into the Allegheny, Armstrong and Westmoreland County markets in 1991, S&T began emphasizing as a business expansion strategy

the development of commercial relationships in Westmoreland and Allegheny Counties. Based on the success of these efforts, and the increasingly competitive environment in which S&T operates, S&T's Board and management concluded that further geographic expansion of the S&T franchise into these new more heavily populated markets represented an important opportunity for enhancing shareholder value. Consequently, at the direction of the S&T Board, one major strategic goal which has been pursued by management of S&T has been to identify and develop relationships with banks and thrifts in the Allegheny, Armstrong and Westmoreland County markets that would be desirable merger partners for S&T in the future. Independent community banks and thrifts have, especially in suburban and urban markets, operated in an increasingly more competitive environment in recent years. Like S&T, these small community financial institutions face increasing competition from the metropolitan and larger regional banks as well as from many non-banking organizations that are seeking to capture the traditional customer base of community financial institutions. Often, because of concerns about future management, financial and technological resources to effectively compete in this increasingly challenging environment, smaller community institutions will consider

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acquisition by, or merger with, a larger community bank such as S&T Bank, the most effective means to maximize shareholder value and to continue to provide quality community banking services in their communities.

The process of identifying potential merger candidates undertaken by S&T management was focused on those institutions in Allegheny, Armstrong and Westmoreland Counties that had a history of strong profitability and solid asset quality, as well as office locations which would complement the existing office locations of S&T Bank and expand its presence in these markets. S&T management identified Peoples as a desirable merger partner because of its excellent reputation within the Allegheny County market as well as its strong financial performance over many years. At the June 1995 S&T Board meeting, the Directors discussed Peoples and the reasons it would be a desirable merger partner for S&T.

From June 1995 to June 1996, S&T management participated from time to time in discussions with the directors and management of Peoples regarding the possibility of a business combination transaction with Peoples. In June 1996, Peoples advised S&T that it had retained Danielson Associates, Inc. to assist it in evaluating its strategic options.

On July 8, 1996, the S&T Board held a special meeting to discuss Peoples and to consider authorizing management to make a proposal to acquire Peoples. In addition to the Directors and members of management, representatives from S&T's financial advisor, McDonald & Company Securities, Inc. ("McDonald & Company"), and S&T's independent auditors, Ernst & Young LLP, participated in the meeting. The S&T Board considered the financial position and results of operations of Peoples and the extent to which Peoples' office locations in the Allegheny County market would represent a valuable expansion of S&T's existing franchise in this market. McDonald & Company reviewed with the S&T Board several possible proposals for the terms of an acquisition of Peoples as well as the potential impact of each such proposal on earnings per share of S&T Common Stock. The S&T Board concluded that the acquisition of Peoples would allow S&T to increase its profitability, broaden its customer base and diversify its asset base. S&T would be able to provide customers of Peoples with technology and services not presently available to them. In addition, the S&T Board concluded that, if agreement could be reached with Peoples consistent with the contemplated economic terms, the consolidation with S&T would be expected to generate sufficient economic synergies to offset any dilution within a reasonable period. The S&T Board authorized S&T management to make a proposal to Peoples for a merger between S&T and Peoples.

Thereafter, S&T management submitted an acquisition proposal to Peoples, and representatives of Peoples and S&T participated in several negotiation sessions regarding the terms of the proposed merger. At a meeting on August 19, 1996, S&T's management updated the S&T Board on the progress of the negotiations with Peoples and, on the basis of management's report, the S&T Board authorized management to negotiate a definitive agreement with Peoples.

Thereafter, representatives of S&T and Peoples subsequently commenced negotiations and due diligence. However, before these negotiations were concluded, members of the Board of Directors of Peoples (the "Peoples Board") informed S&T in mid-September 1996 that the Peoples Board had recently been

apprised of allegations that the then Chief Executive Officer had been involved in initiating and concealing certain fraudulent loan transactions and the then Chief Operating Officer had participated in concealing such fraudulent loan transactions. S&T withdrew its proposed merger offer and the parties agreed that negotiations regarding the proposed merger should be suspended pending the completion of an investigation of these allegations, and quantification of any financial exposure by Peoples' accounting and legal advisors. Subsequently, the employment of Peoples' Chief Executive Officer and Peoples' Chief Operating Officer was terminated. Peoples has recorded a pre-tax loss of \$405,000 in its financial statements due to the alleged fraudulent transactions.

The above-referenced investigation was completed in early November 1996, and Peoples made a copy of the report related thereto available to S&T's management and S&T's advisors. S&T and its advisors reviewed the report and discussed the transactions addressed therein with Peoples and Peoples' advisors. After such review and discussions, S&T concluded that negotiations regarding the merger should be resumed, and such discussions were resumed in early November 1996, culminating in the approval by the S&T Board and by the Peoples Board of the Agreement that was announced on November 26, 1996.

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In reaching its decision to approve the Agreement, the S&T Board considered that the Merger would enhance and increase the competitiveness of its community banking franchise in Allegheny County and that S&T shareholders should realize the benefits of such an acquisition.

In reaching its determination to approve the Merger, the S&T Board consulted with S&T management, as well as its financial and legal advisors, and considered the factors described above and the following additional factors, which together constitute the material factors considered by the S&T Board in approving the Agreement:

(i) S&T's business, operations, financial condition, earnings, and acquisition strategy, including the desirability of achieving an expanded market presence in Allegheny County in Western Pennsylvania;

(ii) the current and prospective economic, regulatory and competitive climate facing community banking institutions, including without limitation the consolidation currently underway in the banking industry and competition from larger institutions and from nonbank providers of financial services;

(iii) the presentations by S&T management and McDonald & Company as to (a) the business, operations, asset quality, earnings and financial condition of Peoples, and (b) the competitive position of Peoples;

(iv) the anticipated cost savings, revenue enhancements and other economic synergies available to the combined institution;

(v) the common philosophies and cultures of S&T and Peoples, particularly with respect to customer satisfaction, efficiency and credit quality;

(vi) the Exchange Ratio in the Merger from a number of valuation perspectives, as presented by McDonald & Company and the November 25, 1996 opinion of McDonald & Company that, as of such date, the Exchange Ratio was fair to S&T from a financial point of view (see "--Opinion of Financial Advisor");

(vii) the terms of the Agreement, including the termination fee provisions thereof; the regulatory and shareholder approval processes; the treatment of the Merger as a pooling-of-interests for financial accounting purposes; and the nature of the Merger as a tax-free reorganization for federal income tax purposes (see "--Certain Federal Income Tax Consequences" and "--Accounting Treatment"); and

(viii) the impact of certain restructuring charges on S&T's earnings, and the fact that the transaction is expected to be accretive to S&T's earnings within twelve months after its closing.

The foregoing discussion of the information and factors considered by the S&T Board is not intended to be exhaustive but includes all material factors considered by the S&T Board. The S&T Board considered a number of factors

which, taken in totality, led to the determination by the S&T Board that the Merger is in the best interests of S&T and its shareholders, customers and communities served. In reaching its determinations to approve and recommend the Agreement, the S&T Board did not assign relative or specific weights to the foregoing factors, and individual directors may have given differing weights to different factors. After deliberating with respect to the Merger and the other transactions contemplated by the Agreement, considering, among other things, the matters discussed above and the opinion of McDonald & Company referred to above, the S&T Board, by unanimous vote of all directors, approved the Agreement as being in the best interests of S&T and its shareholders and directed that the Agreement be submitted to a vote of the holders of S&T Common Stock at the Annual Meeting.

ACCORDINGLY, THE S&T BOARD UNANIMOUSLY RECOMMENDS THAT PROPOSAL II, THE AGREEMENT AND THE MERGER AND THE ISSUANCE OF SHARES IN CONNECTION THEREWITH, BE ADOPTED AND APPROVED BY ALL SHAREHOLDERS OF S&T.

TERMS OF THE MERGER

In accordance with the terms of the Agreement, on the Effective Date, Peoples shall be merged with and into S&T Bank pursuant to the provisions of, and with the effect provided in, Sections 1601-1607 of the Pennsylvania Banking Code with S&T Bank as the surviving entity. Also on the Effective Date, each share of

Peoples Common Stock outstanding immediately prior to the Effective Date (except as provided in the Agreement) shall by virtue of the Merger be converted into 26.25 shares of S&T Common Stock. A holder of Peoples Common Stock who would otherwise be entitled to receive a fractional share of S&T Common Stock by reason of the Merger, will receive cash in lieu thereof. Any cash payment shall be in an amount equal to such fraction multiplied by the reported last sale price of S&T Common Stock on the Nasdaq National Market (as reported by The Wall Street Journal or other authoritative source) on the last trading day preceding the Effective Date.

In the event that prior to the Effective Date the outstanding shares of S&T Common Stock shall have been increased, decreased, or changed into or exchanged for a different number or kind of shares or securities by reorganization, recapitalization, reclassification, stock dividend, stock split, or other like changes in S&T's capitalization, all without S&T receiving consideration therefor, then an appropriate and proportionate adjustment shall be made in the number and kind of shares of S&T Common Stock to be delivered to holders of Peoples Common Stock.

The Agreement provides that Peoples may elect to terminate the Agreement, if the Peoples Board so determines by a majority vote, at any time during the three-day period commencing two days after the fifth trading day immediately preceding the planned Effective Date (the "Determination Date"), if either:

(i) both of the following conditions are satisfied: (x) the average of the daily last sale prices of S&T Common Stock as reported on the Nasdaq National Market for the twenty consecutive full trading days on which shares of S&T Common Stock are traded prior to and including the Determination Date (the "Average Closing Price") shall be less than \$24.88 and (y) the SNL All Bank Index (the "Index Value") on the Determination Date shall be greater than 231.70 (i.e., 80% of the value of the Index Value on November 25, 1996, the date the Agreement was executed); or

(ii) the Average Closing Price of shares of S&T Common Stock shall be less than \$23.325.

The following table illustrates Peoples' termination rights based on variations in the Average Closing Price.

| AVERAGE CLOSING PRICE<br>OF S&T COMMON STOCK<br>----- | PEOPLES TERMINATION RIGHTS<br>-----     |
|---|---|
| Below \$23.325  | Peoples has absolute right to terminate |

|                  |   |
|------------------|---|
| \$23.325-\$24.88 | Agreement. (Index Value is irrelevant).<br>Peoples may terminate Agreement only if Index Value is greater than 231.70 |
| Above \$24.88    | Peoples may not terminate the Agreement.<br>(Index Value is irrelevant.)  |

If Peoples elects to exercise its termination right pursuant to the immediately preceding paragraphs, it shall give prompt written notice to S&T, which notice shall specify which of clauses (i) or (ii) is applicable (or if both are applicable, which clause is being invoked); provided that such notice of election to terminate may be withdrawn at any time within the aforementioned three-day period.

Assuming the planned Effective Date was March 24, the Determination Date would have been March 17, 1997. Using this assumed Determination Date, the Average Closing Price of shares of S&T Common Stock would have been \$35.20 and the Index Value was 315.124. Under such circumstances, Peoples would not have had the right to terminate the Agreement, even though the Index Value was above 231.70, because the Average Closing Price would have been above \$24.88.

#### OPINION OF FINANCIAL ADVISOR

S&T has retained McDonald & Company as its financial advisor in connection with the Merger and requested that McDonald & Company render its opinion with respect to the fairness, from a financial point of view, of the Exchange Ratio to the holders of S&T Common Stock. McDonald & Company rendered its oral opinion to the S&T Board on November 25, 1996, which it subsequently confirmed in writing, that as of the date of such opinion, the Exchange Ratio pursuant to the Merger was fair, from a financial point of view, to the holders of S&T Common Stock.

The full text of the opinion of McDonald & Company, updated as of the date of this Proxy Statement, which sets forth certain assumptions made, matters considered and limitations on the reviews undertaken, is attached as Appendix B to this Proxy Statement, and should be read in its entirety. The summary of the opinion of McDonald & Company set forth in this Proxy Statement is qualified in its entirety by reference to the opinion. McDonald & Company's opinion should not be construed by holders of S&T Common Stock as a recommendation as to how such holders should vote at the Annual Meeting.

In arriving at its opinion, McDonald & Company reviewed, among other things, the Agreement together with exhibits and schedules thereto, certain publicly available information relating to the business, financial condition and operations of S&T and Peoples as well as certain other non-public information, primarily financial in nature, furnished to it by S&T and Peoples relating to the respective businesses, earnings, assets, financial forecasts and prospects. McDonald & Company also held discussions with members of senior management of S&T and Peoples concerning their respective businesses, assets, financial forecasts and prospects. McDonald & Company also reviewed certain publicly available information concerning the trading of, and the trading market for, S&T Common Stock and Peoples Common Stock and certain publicly available information concerning comparable companies and transactions, all as more fully set forth in McDonald & Company's opinion.

McDonald & Company was not engaged to and did not conduct a physical inspection of any of the assets, properties or facilities of either S&T or Peoples, and was not engaged to conduct and has not made, obtained or been furnished with any independent evaluation or appraisal of any such assets, properties or facilities or any of the liabilities of S&T or Peoples. McDonald & Company has assumed and relied, without independent investigation, upon the accuracy and completeness of the financial and other information provided to it or publicly available, has relied upon the representations and warranties of S&T and Peoples contained in the Agreement, and has not independently attempted to verify any such information. McDonald & Company has also assumed that all of the conditions to the Merger as set forth in the Agreement would be consummated on a timely basis in the manner contemplated by the Agreement. No limitations were imposed by S&T upon McDonald & Company with respect to the scope of its investigation nor were any specific instructions given to McDonald & Company in connection with its opinion.

In connection with rendering its opinion dated November 25, 1996, McDonald & Company considered a variety of financial analyses, which are summarized below. McDonald & Company believes that its analyses must be considered as a whole and that selecting portions of such analyses and of the factors considered by McDonald & Company without considering all such analyses and factors may create an incomplete view of the analytical process underlying McDonald & Company's opinion. In its analyses, McDonald & Company made numerous assumptions with respect to industry performance, business and economic conditions, and other matters. Any estimates contained in McDonald & Company's analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than such estimates.

The following is a summary of selected analyses considered by McDonald & Company in connection with McDonald & Company's opinion dated November 25, 1996:

Comparison with Selected Companies. McDonald & Company compared the financial performance and stock market valuation of S&T with corresponding data for the following selected companies: Arrow Financial Corporation, CBT Corporation, Farmers Capital Bank Corp., Financial Trust Corp., First Financial Bancorp, First

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Merchants Corp., Harleysville National Corp., Irwin Financial Corporation, Keystone Heritage Group, Inc., National City Bancshares, Inc., Omega Financial Corporation, Park National Corporation, Shoreline Financial Corp., Southwest National Corporation, Tompkins County Trustco, Inc., United Bankshares, Inc. and WesBanco, Inc. The companies listed above were selected based on the following criteria: banks headquartered in Indiana, Kentucky, Michigan, Maryland, New York, Ohio, Pennsylvania, or West Virginia; having total assets of between \$500 million and \$2.5 billion; having an equity to assets ratio greater than 9.00%; and having a return on average assets greater than 1.30%. In addition, McDonald & Company compared such data of Peoples with corresponding data for the following selected companies: Cardinal Bancorp, Commercial National Financial Corp., First of Long Island Corp., First Merchants Corp., Heritage Bancorp, Inc., Penn Woods Bancorp, Inc., Premier Financial Bancorp, Inc., Royal Bancshares of PA Inc., Security Banc Corporation and Shore Bancshares, Incorporated. The companies listed above were selected based on the following criteria: banks headquartered in Indiana, Kentucky, Michigan, Maryland, New York, Ohio, Pennsylvania, or West Virginia; having total assets of between \$100 million and \$750 million; having an equity to assets ratio greater than 11.50%; and having a return on average assets greater than 1.40%. At the time, none of the companies listed above had announced a merger transaction or disclosed a possible interest in pursuing a possible merger transaction which would have significantly affected its stock market valuation.

Contribution Analysis. McDonald & Company analyzed the contribution of each of Peoples and S&T to, among other things, the shareholders' equity and after-tax net income of the pro forma combined company. This analysis showed that, among other factors, Peoples would have contributed 16.5%, 22.5%, and 18.3% of the assets, shareholders' equity, and net income of the pro forma combined company as of and for the twelve months ended September 30, 1996, respectively. This compared with a proposed ownership of 21.5% of the combined company to be held by holders of Peoples Common Stock.

Pro Forma Merger Analyses. McDonald & Company analyzed the changes in per share amount of earnings, book value and indicated dividend represented by one share of S&T Common Stock after the Merger. The analysis was performed on the basis of financial information for both companies as of and for the years ended December 31, 1994 and December 31, 1995, and as of and for the twelve months ended September 30, 1996. The analysis indicated, among other things, that exchanging one share of Peoples Common Stock at the Exchange Ratio for shares of S&T Common Stock on a pro forma basis would have resulted in a 3.4% decrease in earnings per share for each share of S&T Common Stock for the twelve months ended September 30, 1996 (assuming no cost savings relating to the Merger), a 1.2% increase in book value per share for each share of S&T Common Stock as of September 30, 1996, and no change in dividends per share of S&T Common Stock based on S&T's indicated annual dividend rate as of November 25, 1996.

Analysis of Selected Merger Transactions. McDonald & Company reviewed five groups of selected pending and completed bank merger transactions involving (i) selling banks headquartered in Pennsylvania, New York, Maryland, West Virginia,

Ohio, Indiana or Michigan; (ii) selling banks having total assets of between \$200 million and \$400 million; (iii) selling banks having an equity to assets ratio greater than 14%; (iv) selling banks having a return on average assets ratio of between 1.50% and 2.50%; and (v) selling banks having nonperforming assets as a percent of total assets of between 0.50% and 1.00%. McDonald & Company reviewed the ratios of the offer value to stated book value and tangible book value, the multiple of the last twelve months earnings of the acquired company, and the ratio of the offer value to assets in each such transaction and computed median ratios and multiples for each group. The calculations yielded ranges of median ratios of price to stated book value of 168% to 206%. Median ratios of price to tangible book value ranged from 168% to 215%. Median multiples of earnings among the five groups ranged from 13.8x to 22.0x. Median ratios of offer value to assets ranged from 17.5% to 29.5%. Applying the median of the medians for each of these four ratios to Peoples' actual per share financial data as of September 30, 1996 showed an imputed reference range of \$675 to \$825 per share of Peoples Common Stock. Accordingly, the Exchange Ratio of 26.25 equated to a per share value within the range of values implied in the above analysis.

NO COMPANY OR TRANSACTION USED IN THE ABOVE ANALYSES AS A COMPARISON IS IDENTICAL TO S&T, PEOPLES OR THE MERGER. ACCORDINGLY, AN ANALYSIS OF THE RESULTS OF THE FOREGOING NECESSARILY INVOLVES COMPLEX

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CONSIDERATIONS AND JUDGMENTS CONCERNING THE DIFFERENCES IN FINANCIAL AND OPERATING CHARACTERISTICS OF THE COMPANIES AND OTHER FACTORS THAT COULD AFFECT THE PUBLIC TRADING VALUES OR ACQUISITION VALUES OF THE COMPANIES TO WHICH THEY ARE BEING COMPARED. MATHEMATICAL ANALYSIS (SUCH AS DETERMINING THE MEAN OR MEDIAN) IS NOT, IN ITSELF, A MEANINGFUL METHOD OF USING COMPARABLE COMPANY OR COMPARABLE TRANSACTION DATA.

Discounted Cash Flow Analysis. Using a discounted cash flow analysis, McDonald & Company estimated the present value of the future streams of after-tax cash flows that Peoples could produce over a five year period from 1997 through 2001, under various assumptions, based upon S&T's and Peoples' management forecasts. McDonald & Company then estimated the terminal value of Peoples after the five year period by applying an estimated perpetual growth rate of 5.0% to the terminal year's projected after-tax cash flow and then applied to this multiples ranging from 11.5x to 13.5x. The five year cash flow streams and terminal values were then discounted to present values using different discount rates of between 12.0% and 14.0%, which were chosen to reflect different assumptions regarding the required rates of return of prospective buyers of Peoples. On the basis of such varying assumptions, this discounted cash flow analysis indicated a reference range of \$810 to \$986 per share of Peoples Common Stock. Accordingly, the Exchange Ratio of 26.25 equated to a per share value within the range of values implied in the above analysis. This analysis was based upon S&T's and Peoples' management forecasts including variations and assumptions made by McDonald & Company which included adjustments to reflect the anticipated effects of potential merger-related cost savings estimated by S&T. S&T's and Peoples' management forecasts are based upon many factors and assumptions, many of which are beyond the control of S&T or Peoples.

Other Analysis. In addition to performing the analyses summarized above. McDonald & Company also considered its analysis of the general market for bank and thrift mergers, Peoples' relative share of the deposit market that it serves and the general economic conditions and prospects of those markets.

In performing its analyses, McDonald & Company made numerous assumptions with respect to industry performance, general business and economic conditions and other matters. The analyses performed by McDonald & Company are not necessarily indicative of actual values, which may be significantly more or less favorable than the values suggested by such analyses. Such analyses were prepared solely as part of McDonald & Company's opinion. The term "fair from a financial point of view" is a standard phrase contained in investment banker fairness opinions and refers to the fact that McDonald & Company's opinion as to the fairness of the Exchange Ratio is addressed solely to the financial attributes of the Exchange Ratio. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold. In addition, as described above, McDonald & Company's fairness opinion and presentation to the S&T Board of Directors were one of many factors taken into consideration by the S&T Board in making its determination to approve the Agreement. Consequently, the McDonald & Company analyses described above should not be viewed as

determinative of the S&T Board's conclusions with respect to the value of Peoples or of the decision of the S&T Board to agree to the Exchange Ratio.

McDonald & Company's opinion is based on economic and market conditions and other circumstances existing on, and information made available as of, the date of such opinion. In addition, the opinion does not address S&T's underlying business decision to effect the Merger or any other terms of the Merger. McDonald & Company is not rendering any opinion as to the value of S&T Common Stock or Peoples Common Stock at the Effective Date.

In connection with its opinion dated as of the date of this Proxy Statement, McDonald & Company performed procedures to update certain of its analyses and reviewed the assumptions on which such analyses were based and the factors considered therewith.

McDonald & Company, as part of its investment banking business, is customarily engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. McDonald & Company has extensive experience with the valuation of financial institutions.

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The S&T Board selected McDonald & Company as its financial advisor because of McDonald & Company's industry expertise with respect to financial institutions and because of McDonald & Company's industry experience in transactions similar to the Merger. McDonald & Company is not affiliated with either S&T or Peoples.

In the ordinary course of business, McDonald & Company makes a market in S&T Common Stock and may trade the securities of Peoples and S&T for its own account and for the accounts of its customers. Accordingly, at any time McDonald & Company may hold a long or short position in such securities. In addition, McDonald & Company has provided investment banking services to S&T in the past and may provide such services to S&T in the future.

For its services as financial advisor, S&T has paid McDonald & Company a retainer of \$25,000 and a fee of \$40,000 upon the rendering of McDonald & Company's November 25, 1996 fairness opinion. Additional fees equal to approximately \$135,000 will be payable to McDonald & Company upon consummation of the Merger. S&T has also agreed to reimburse McDonald & Company for its reasonable out-of-pocket expenses and to indemnify McDonald & Company against certain liabilities, including certain liabilities under federal securities laws.

#### REPRESENTATIONS AND WARRANTIES; CONDITIONS TO THE MERGER; WAIVER

The Agreement contains representations and warranties by Peoples and S&T regarding various customary legal, regulatory, financial and business matters. Except as otherwise provided in the Agreement, these representations and warranties will not survive the Effective Date.

The obligations of S&T and Peoples to consummate the Merger are conditioned upon, among other things: (i) the taking of all necessary corporate action with respect to the Agreement and the Merger; (ii) the absence of orders prohibiting the Merger; (iii) the receipt of all necessary regulatory approvals and the expiration of all applicable waiting periods, without any condition or requirement that causes either the S&T Board or the Peoples Board to abandon the Merger; (iv) the effectiveness under the Securities Act of 1933, as amended (the "Securities Act"), of a registration statement covering the issuance of S&T Common Stock in connection with the Merger ("Registration Statement") and the absence of any proceeding by the SEC to suspend such effectiveness; (v) the approval for listing on the Nasdaq National Market, subject to official notice of issuance, of the shares of S&T Common Stock to be issued in the Merger; (vi) the receipt of the tax opinion described under "--Certain Federal Income Tax Consequences;" (vii) the receipt of all necessary permits and authorizations; (viii) the receipt by S&T of an opinion letter from Ernst & Young LLP to the effect that the Merger will qualify for pooling-of-interests accounting treatment under Accounting Principles Board Opinion No. 16 ("APB No. 16"); (ix) the receipt by Peoples of an opinion of Danielson Associates Inc. dated as of the date of the Proxy Statement/Prospectus delivered to shareholders of Peoples in connection with the Merger, that the consideration to be received by Peoples' shareholders is fair from a financial point of view; and (x) the receipt of other customary closing documents.

All corporate actions required to be taken by S&T and Peoples, except the approval by their respective shareholders, in connection with the Agreement and the Merger have been taken. The Merger was approved by the Federal Deposit Insurance Corporation (the "FDIC") and the Commonwealth of Pennsylvania Department of Banking (the "PADB") on February 12, 1997, and S&T and Peoples are aware of no other required regulatory approvals. The Registration Statement was declared effective by the Commission on March 19, 1997. Peoples has received an opinion from Danielson Associates dated the date of this Proxy Statement/Prospectus that the consideration to be received by Peoples' shareholders is fair from a financial point of view. Whether the other conditions to closing will be satisfied or waived cannot be known with certainty until the Effective Date.

Except with respect to any required shareholder or regulatory approval, substantially all of the conditions to consummation of the Merger may be waived at any time by the party for whose benefit they operate, in a writing signed by both parties, and the Agreement may be amended or supplemented at any time by written agreement

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of the parties, except that any such waiver or amendment executed after approval of the Agreement by Peoples and S&T shareholders which modifies the amount or form of consideration to be delivered to Peoples shareholders pursuant to the Agreement requires the further approval of S&T shareholders in the case of any increase in consideration or further approval of the Peoples shareholders in the case of any decrease in consideration.

#### REGULATORY APPROVALS

The Merger is subject to certain regulatory approvals, as set forth below. To the extent that the following information describes statutes and regulations, it is qualified in its entirety by reference to those particular statutes and regulations.

The Merger is subject to the approval of the PADB under Sections 1601-1607 of the Pennsylvania Banking Code, which, among other things, authorizes the merger of two Pennsylvania chartered banks, such as S&T Bank and Peoples, provided that, among other things, the plan of merger adequately protects the interests of the depositors, other creditors and shareholders, and the merger is determined by the PADB to be consistent with adequate and sound banking practices and in the public interest on the basis of the financial history and condition of the parties, their future prospects, the character of the resulting institution's management, the potential effect of the merger on competition and the convenience and needs of the areas primarily to be served by the resulting institution.

The Merger also is subject to approval of the FDIC under the Section 18(c) of the Federal Deposit Insurance Act, as amended (the "Bank Merger Act"). In considering an application under the Bank Merger Act, the FDIC must consider the financial and managerial resources and future prospects of the existing and proposed institution and the convenience and needs of the communities to be served. Further, the FDIC may not approve the Merger if it would result in a monopoly, if it would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States, if the effect of the Merger in any section of the country may be substantially to lessen competition or to tend to create a monopoly, or if it would be in any other manner in restraint of trade, unless the FDIC finds that the anticompetitive effects of the Merger are clearly outweighed in the public interest by the probable effect of such Merger in meeting the convenience and needs of the communities to be served. In addition, the FDIC must take into account the record of performance of the existing and proposed institution under the Community Reinvestment Act in meeting the credit needs of the entire community, including low- and moderate-income neighborhoods, served by such institution. Applicable FDIC regulations and Pennsylvania law require publication of notice of the application for approval of the Merger and an opportunity for the public to comment on the application in writing and to request a hearing.

The Bank Merger Act requires that any bank merger, including the Merger, may not be consummated until the thirtieth day after approval by the FDIC, during which time the U.S. Department of Justice ("DOJ") could challenge the Merger on antitrust grounds; provided, however, that the FDIC may shorten the thirty day

waiting period to fifteen days in the event the FDIC has not received any adverse comments from the DOJ concerning the competitive effects of the proposed transaction.

The FDIC and PADB applications were approved on February 12, 1997. Such approvals were not conditioned upon matters that would cause the S&T Board or the Peoples Board to abandon the Merger. There can be no assurance that the DOJ or the Pennsylvania Attorney General will not challenge the Merger or, if such a challenge is made, as to the results thereof.

S&T and Peoples are not aware of any other governmental approvals or actions that are required for consummation of the Merger, except as described above. Should any other approval or action be required, it is contemplated presently that such approval or action would be sought. There can be no assurance that any such approval or action, if needed, could be obtained, would not delay consummation of the Merger or would not be conditioned in a manner that would cause S&T or Peoples to abandon the Merger.

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#### BUSINESS PENDING THE MERGER

Under the terms of the Agreement, the S&T Board and the Peoples Board are required to submit and recommend the Agreement to their shareholders, subject to its Board of Directors' fiduciary duties, to apply for all necessary regulatory approvals and to use their best efforts, and cause their subsidiaries to use their best efforts, to take or cause to be taken all action necessary to permit consummation of the Merger at the earliest possible date, including obtaining necessary consents and permits. Also under the Agreement, the parties agree not to take, or not to fail to take, actions that would substantially impair the prospects of completing the Merger or that would adversely affect the qualification of the Merger for pooling-of-interests accounting treatment or as a reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code").

Peoples is also required to use its best efforts to preserve intact its properties, business and relationships with customers, employees and other persons. In addition, without S&T's prior consent or as otherwise provided in the Agreement, Peoples may not carry on its business other than in the usual, regular and ordinary course, declare or pay any dividends or other distributions on capital stock (except that prior to the Effective Date Peoples may declare dividends in an amount equal to the per share dividend in respect of S&T Common Stock declared by S&T multiplied by the Exchange Ratio in order to conform to S&T's dividend policy), increase compensation or fringe benefits of directors, officers or employees beyond customary limits, or take certain other actions.

Peoples has also agreed in the Agreement, subject to certain exceptions, that it will not authorize or permit any of its officers, directors or agents to solicit, encourage or initiate inquiries or proposals relating to its acquisition or purchase other than as contemplated in the Agreement, and that S&T will be notified upon receipt by Peoples of such an inquiry or proposal.

#### EFFECTIVE DATE OF THE MERGER; TERMINATION

In the event that all conditions to the Merger have been satisfied or waived, the Effective Date shall be at the time and on the date specified in the certificate of merger pursuant to applicable provisions of Pennsylvania law, subject to the rights of the parties to terminate the Agreement as set forth herein. The transactions contemplated by this Proxy Statement shall be consummated at a closing to be held at such location as the parties may agree, on the first business day following satisfaction of the conditions to consummation of the Merger set forth in Article 5 of the Agreement or such later date within 30 days thereafter as reasonably may be specified by S&T (the "Closing Date"), with the Merger to be consummated after such intermediate steps as S&T reasonably may specify.

S&T and Peoples each anticipates that the Merger will be consummated in the first half of 1997. However, consummation could be delayed as a result of delays in obtaining the necessary governmental and regulatory approvals or if any other condition to consummation of the Merger is not satisfied. There can be no assurances as to if or when such approvals will be obtained or that the Merger will be consummated. See "--Regulatory Approvals."

The Agreement may be terminated, whether before or after approval of the Merger by the shareholders of S&T and Peoples, as follows: (i) at any time on or prior to the Effective Date, by the mutual consent in writing of the parties thereto; (ii) at any time on or prior to the Closing Date, by S&T in writing, if Peoples has, or by Peoples in writing, if S&T has, in any material respect, breached (a) any covenant or agreement contained therein or (b) any representation or warranty contained therein if the failure of any such representation and warranty to be true and correct has, or is reasonably likely to have, a material adverse effect upon S&T or Peoples, and in either case if such breach has not been cured by the earlier of 30 days after the date on which written notice of such breach is given to the party committing such breach or the Closing Date; (iii) on the Closing Date, by either party in writing, if any of the conditions precedent with respect to such party's obligations have not been satisfied or fulfilled; (iv) at any time, by either party in writing, if the applications for prior approval to the FDIC and the PADB have been denied, and the time period for appeals and requests for reconsideration has run; (v) at any

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time, by either party in writing, if the shareholders of S&T or Peoples do not approve the transactions contemplated at the annual or special meetings duly called for that purpose; (vi) at any time, by either party in writing, if such party determines in good faith that any condition precedent to such party's obligations to consummate the Merger is or would be impossible to satisfy, provided that the terminating party has given the other party written notice with respect thereto at least 10 days prior to such termination and has given the other party a reasonable opportunity to discuss the matter with a view to achieving a mutually acceptable resolution; or (vii) by either party in writing, if the Closing Date has not occurred by the close of business on September 30, 1997.

In addition, under certain circumstances Peoples may elect to terminate the Agreement if the Average Closing Price of S&T Common Stock is below a certain level on the Determination Date. See "--Terms of Merger."

The Agreement provides that Peoples is required to pay liquidated damages in the amount of \$1,600,000 (the "Fee") to S&T (1) if S&T terminates the Agreement due to Peoples' knowing and intentional misrepresentation or knowing and intentional breach of warranty or breach of any covenant or agreement, and within nine months from the date of termination a Competing Transaction (as defined below) is consummated or Peoples shall have entered into an agreement or an agreement in principle which if consummated would constitute a Competing Transaction or (2) if Peoples terminates the Agreement because the Merger is not approved by the requisite vote of the Peoples shareholders and within nine months from the date of termination (other than a termination by reason of the Average Closing Price failing to exceed a certain level) a Competing Transaction is consummated or Peoples shall have entered into an agreement which if consummated would constitute a Competing Transaction. In the event that S&T is entitled to the Fee, Peoples shall also pay S&T interest at the rate of 6% per year on any amounts that are not paid when due, plus all costs and expenses in connection with or arising out of the enforcement of the obligation of Peoples to pay the Fee or such interest. A Competing Transaction is defined in the Agreement as one of the following involving Peoples (other than the transactions contemplated by the Agreement): (a) any merger, consolidation, share exchange for a controlling interest, business combination or other similar transaction; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 15% or more of the assets of Peoples in a single transaction or series of transactions to the same person, entity or group; or (c) any public announcement by Peoples of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

#### MANAGEMENT AND OPERATIONS AFTER THE MERGER

On the Effective Date, Peoples will be merged with and into S&T Bank with S&T Bank as the surviving bank. On such Effective Date, the S&T Board (whose members historically also serve on the Board of Directors of S&T Bank) shall consist of those persons serving as Directors of S&T immediately prior to the Effective Date together with three directors to be designated by Peoples. The Peoples Board has selected Ruth M. Grant, Frank W. Jones, and Myles D. Sampson to become directors of S&T in accordance with the Agreement. S&T has agreed to take all necessary action immediately prior to the Effective Date to elect those three persons selected by Peoples to serve as members of the S&T Board.

The management of S&T and S&T Bank will continue unaffected by the Merger.

#### CERTAIN FEDERAL INCOME TAX CONSEQUENCES

Arnold & Porter, special counsel to S&T, has opined, based on facts, representations, and assumptions provided to it by S&T and Peoples, which information is consistent with the state of facts that S&T and Peoples believe will be existing as of the Effective Date, that for federal income tax purposes the Merger will constitute a reorganization within the meaning of Section 368(a) of the Code. Moreover, the issuance of S&T Common Stock and cash in lieu of fractional share interests as consideration in the Merger will not result in recognition of gain or loss by S&T or S&T Bank for federal income tax purposes.

Arnold & Porter's opinion is based on laws, regulations, rulings and judicial decisions as they exist as of the date of the opinion. These authorities are all subject to change and such change may be made with retroactive

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effect. Arnold & Porter cannot give any assurance that, after any such change, its opinion would not be different, and will not undertake any responsibility to update or supplement its opinion.

#### ACCOUNTING TREATMENT

It is a condition precedent to the obligations of S&T and S&T Bank to consummate the Merger that S&T shall have received an opinion letter, dated as of the Effective Date, from Ernst & Young LLP to the effect that the Merger will qualify for pooling-of-interests accounting treatment under APB No. 16; except that such condition shall be deemed to have been waived by S&T to the extent that it takes any action or causes any conditions to occur, without the written consent of Peoples, which constitute the sole reason for Ernst & Young LLP being unable to render such opinion. See "--Representations and Warranties; Conditions to the Merger; Waiver." In order to account for a business combination as a pooling-of-interests transaction, specific criteria must be met. The criteria for use of the pooling-of-interests accounting method relate to the attributes of the combining entities before the combination, the manner of combining the enterprises and the absence of certain plans or transactions following the combination. Under the pooling-of-interests method of accounting, the historical basis of the assets, liabilities and shareholders' equity of S&T and Peoples will be combined at the Effective Date and carried forward at their previously recorded amounts and no goodwill will be created. Revenue and expenses of S&T and Peoples will be combined at historically recorded amounts.

In order for the pooling method to apply, affiliates of S&T and Peoples cannot reduce their holdings of S&T Common Stock or Peoples Common Stock (or S&T Common Stock received in the Merger) for a period generally beginning 30 days prior to the Effective Date and ending upon the publication of at least 30 days of post-Merger combined operations of S&T and Peoples. The pooling-of-interests method of accounting may not be used if more than 10% of the outstanding shares of Peoples Common Stock exercise their dissenters' rights, reduced by the amount of tainted shares as defined by APB No. 16. The current number of S&T tainted shares is equal to approximately 6% of the number of shares of S&T Common Stock to be issued in the Merger, so pooling-of-interests accounting treatment may not be available for the Merger if the holders of as few as 4% of the outstanding shares of Peoples Common Stock exercise dissenters' rights with respect to the Merger. Peoples and S&T have agreed that they will not take, or to the best of their respective abilities cause or permit to be taken, any action that would adversely affect the qualification of the Merger for pooling-of-interests accounting treatment. In the event either S&T or Peoples has taken any action that would adversely affect such qualification, each party will take such action as the other party may reasonably request to cure such effect to the extent curable without a material adverse effect on either of the parties. All unaudited pro forma financial information contained in this Proxy Statement has been prepared using the pooling-of-interests method to account for the Merger. See "--Pro Forma Combined Financial Information."

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#### MARKETS AND MARKET PRICES

S&T Common Stock is listed and traded on the Nasdaq National Market under the

symbol "STBA." As of December 31, 1996, there were 2,606 holders of record of S&T Common Stock, and 11,074,941 outstanding shares of S&T Common Stock. Peoples Common Stock is neither traded nor listed on any national securities exchange and there is no established public trading market for Peoples Common Stock. The following table sets forth high and low sales prices for S&T Common Stock as quoted on the Nasdaq National Market as adjusted for stock splits and stock dividends. The table below also sets forth the cash dividends declared by S&T for the periods indicated.

| QUARTER ENDED<br>-----                          | HIGH<br>----- | LOW<br>----- | DIVIDENDS<br>----- |
|---|---------------|--------------|--------------------|
| March 31, 1997<br>(through March 17, 1997)..... | \$36 3/4      | \$29 3/4     | \$.25              |
| December 31, 1996.....                          | 31 3/4        | 30           | .25                |
| September 30, 1996.....                         | 31 3/4        | 29 5/8       | .24                |
| June 30, 1996.....                              | 31 1/4        | 29 1/2       | .24                |
| March 31, 1996.....                             | 30 3/4        | 28           | .21                |
| December 31, 1995.....                          | 30 1/2        | 24 1/2       | .21                |
| September 30, 1995.....                         | 25 1/4        | 23           | .18                |
| June 30, 1995.....                              | 23 3/4        | 19 1/2       | .18                |
| March 31, 1995.....                             | 20 1/4        | 19 1/2       | .17                |
| December 31, 1994.....                          | 21 1/4        | 19           | .17                |
| September 30, 1994.....                         | 21 1/4        | 18 5/8       | .15                |
| June 30, 1994.....                              | 19 3/4        | 18 3/4       | .15                |
| March 31, 1994.....                             | 19 5/8        | 17 3/8       | .14                |

There is no established public trading market for Peoples Common Stock. Occasionally, individuals sell and buy shares of the Peoples Common Stock in privately negotiated transactions. Peoples acts as its own transfer agent and keeps its own stock transfer ledger. The lowest and highest prices per share known by the management of Peoples since January 1, 1994 were \$200 and \$535 per share (adjusted for a five for one stock split), respectively. The last known trade prior to the public announcement of the Agreement on November 25, 1996, as to which the management of Peoples is aware of the sales price, occurred on October 16, 1996, for \$500 per share and involved 10 shares.

Peoples has historically declared and paid cash dividends semi-annually. Cash dividends of \$7.70 and \$7.00 per share were paid in 1995 and 1994, respectively. A cash dividend of \$6.00 per share was paid in 1996 prior to the announcement of the Merger. The Agreement provides that Peoples may conform to the S&T dividend policy subsequent to the execution of the Agreement. In accordance with the Agreement, the Peoples Board declared in December 1996 a dividend of \$6.56 per share of Peoples Common Stock which was paid in January 1997.

The following table shows the closing sale price for S&T Common Stock on November 22, 1996, the trading date immediately preceding the date on which the Merger was announced, and on March 17, 1997, and the Peoples equivalent at such dates.

Market value per common share:

| DATE<br>----           | S&T<br>COMMON STOCK | PEOPLES<br>EQUIVALENT<br>PER SHARE (1) |
|------------------------|---------------------|--|
| ----                   | -----               | -----                                  |
| November 22, 1996..... | \$31.00             | \$813.75                               |
| March 17, 1997.....    | \$33.75             | \$885.94                               |

(1) The equivalent market value per share of Peoples Common Stock represents the closing price of S&T Common Stock on the dates reported multiplied by an Exchange Ratio of 26.25. See "--Terms of the Merger."

No assurance can be given as to what the market price of S&T Common Stock will be if and when the Merger is consummated. Because the Exchange Ratio is fixed and because the market price of S&T Common Stock is subject to fluctuation, the value of the shares of S&T Common Stock that holders of Peoples Common Stock will receive in the Merger may increase or decrease prior to and following the Merger.

COMPARATIVE PER SHARE DATA

The following tables set forth at the dates and for the periods indicated (i) historical per share data for S&T Common Stock and Peoples Common Stock, (ii) pro forma combined per share data for S&T Common Stock with Peoples, and (iii) equivalent per share data for Peoples Common Stock reflecting consummation of the Merger. The S&T pro forma data with Peoples represents the effect of the Merger on a share of S&T Common Stock. The Peoples equivalent pro forma data represents the S&T pro forma data with Peoples multiplied by 26.25 and reflects the effect of the Merger on a share of Peoples Common Stock.

The information is derived from the historical financial statements of S&T, including the related notes thereto, incorporated by reference in this Proxy Statement, and the historical financial statements of Peoples, including the related notes thereto, appearing elsewhere herein, and the pro forma combined financial information giving effect to the Merger, appearing elsewhere herein, and should be read in conjunction with such information. The pro forma data is presented for comparative purposes only and is not necessarily indicative of the combined financial position or results of operations that would have been realized had the Merger been consummated during the periods or as of the dates for which the pro forma data is presented or which will be attained in the future. The pro forma per share data gives effect to the Merger but does not reflect anticipated expenses and nonrecurring charges which may result from the Merger, nor does it reflect potential savings or revenue enhancements which may result from the Merger. See "AVAILABLE INFORMATION; DOCUMENTS INCORPORATED BY REFERENCE" and "--Pro Forma Combined Financial Information."

| DATE                                | PRO FORMA  |             |                           |                        |
|-------------------------------------|------------|-------------|---------------------------|------------------------|
|                                     | HISTORICAL |             | S&T                       |                        |
|                                     | S&T        | PEOPLES (1) | COMBINED WITH PEOPLES (2) | PEOPLES EQUIVALENT (3) |
| EARNINGS PER COMMON SHARE           |            |             |                           |                        |
| Year Ended                          |            |             |                           |                        |
| December 31, 1996.....              | \$ 2.10    | \$ 43.16    | \$ 2.00                   | \$52.50                |
| December 31, 1995.....              | 1.82       | 37.81       | 1.74                      | 45.68                  |
| December 31, 1994.....              | 1.63       | 39.15       | 1.60                      | 42.00                  |
| DIVIDENDS DECLARED PER COMMON SHARE |            |             |                           |                        |
| Year Ended                          |            |             |                           |                        |
| December 31, 1996.....              | \$ .94     | \$ 12.56    | --                        | \$24.68                |
| December 31, 1995.....              | .74        | 7.70        | --                        | 19.42                  |
| December 31, 1994.....              | .61        | 7.00        | --                        | 16.01                  |
| BOOK VALUE PER COMMON SHARE         |            |             |                           |                        |
| At December 31, 1996.....           | \$15.92    | \$430.94    | \$16.02                   | \$420.53               |
| At December 31, 1995.....           | 14.85      | 407.29      | 14.99                     | 393.49                 |

- (1) Peoples' Historical Earnings Per Common Share and Dividends Declared Per Common Share have been restated to reflect a five for one stock split distributed on August 4, 1995.
- (2) The pro forma per share data gives effect to the Merger but does not reflect anticipated expenses and nonrecurring and restructuring charges which may result from the Merger, nor does it reflect potential savings or revenue enhancements which may result from the Merger.
- (3) The equivalent pro forma per share data for Peoples represents the pro forma data for S&T multiplied by an Exchange Ratio of 26.25, except that the Peoples equivalent dividend data represent the S&T historical dividend data multiplied by the Exchange Ratio of 26.25.

SELECTED FINANCIAL DATA

The following tables set forth certain unaudited historical and selected pro forma financial data ("selected financial data") for S&T and Peoples. Certain of the historical selected financial data for the five years in the period ended December 31, 1996 are derived from the audited financial statements of S&T. Certain of the selected financial data for the four years in the period ended December 31, 1996 are derived from the audited financial statements of Peoples and certain of the selected financial data for the year ended December 31, 1992 are derived from unaudited financial statements of Peoples. This summary should be read in connection with the financial statements included elsewhere in this Proxy Statement and the financial statements and other financial information included in documents incorporated herein by reference. See "AVAILABLE INFORMATION; DOCUMENTS INCORPORATED BY REFERENCE" and "INDEX TO FINANCIAL INFORMATION OF PEOPLES BANK OF UNITY."

The pro forma selected financial data were developed giving effect to the Merger on a pooling-of-interests accounting basis. For a description of the pooling-of-interests accounting basis with respect to the Merger and the related effects on the historical financial statements of S&T and Peoples, see "--Accounting Treatment." The pro forma combined financial information is presented for informational purposes only and may not be indicative of the combined financial position or results of operations that actually would have occurred had the Merger been consummated during the periods or as of the dates indicated, or which will be attained in the future. See "--Comparative Per Share Data" and "--Pro Forma Combined Financial Information."

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S&T BANCORP, INC.  
SELECTED HISTORICAL FINANCIAL DATA  
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

|  | YEAR ENDED DECEMBER 31, |             |             |             |             |
|--|-------------------------|-------------|-------------|-------------|-------------|
|  | 1996                    | 1995        | 1994        | 1993        | 1992        |
| <b>INCOME STATEMENT:</b>                                 |                         |             |             |             |             |
| Interest income.....                                     | \$ 111,431              | \$107,017   | \$ 92,654   | \$ 86,923   | \$ 89,056   |
| Interest expense.....                                    | 51,544                  | 49,998      | 39,346      | 36,965      | 43,099      |
| Net interest income.....                                 | 59,887                  | 57,019      | 53,308      | 49,958      | 45,957      |
| Provision for loan losses.....                           | 4,300                   | 3,800       | 3,500       | 3,600       | 5,778       |
| Net interest income after provision for loan losses..... | 55,587                  | 53,219      | 49,808      | 46,358      | 40,179      |
| Noninterest income.....                                  | 11,194                  | 8,309       | 6,914       | 6,571       | 6,362       |
| Noninterest expense.....                                 | 35,511                  | 33,523      | 31,595      | 30,768      | 27,374      |
| Income before income taxes.....                          | 31,270                  | 28,005      | 25,127      | 22,161      | 19,167      |
| Applicable income taxes.....                             | 8,021                   | 7,536       | 6,683       | 5,818       | 4,886       |
| Net income.....  | \$ 23,249               | \$ 20,469   | \$ 18,444   | \$ 16,343   | \$ 14,281   |
| <b>PER SHARE DATA:</b>                                   |                         |             |             |             |             |
| Net income.....  | \$ 2.10                 | \$ 1.82     | \$ 1.63     | \$ 1.45     | \$ 1.28     |
| Dividends declared.....                                  | 0.94                    | 0.74        | 0.61        | 0.50        | 0.40        |
| Book value.....  | 15.92                   | 14.85       | 12.57       | 10.75       | 9.73        |
| <b>BALANCE SHEET TOTALS</b>                              |                         |             |             |             |             |
| (PERIOD END):  |                         |             |             |             |             |
| Total assets.....  | \$1,495,945             | \$1,400,702 | \$1,293,737 | \$1,194,037 | \$1,106,755 |
| Securities.....  | 381,945                 | 350,340     | 306,124     | 339,129     | 355,197     |
| Net loans.....   | 1,029,085               | 960,881     | 910,077     | 783,229     | 679,960     |
| Total deposits.....                                      | 1,032,274               | 979,625     | 903,240     | 898,258     | 899,597     |
| Securities sold under repurchase agreements..            | 114,205                 | 122,794     | 169,871     | 127,731     | 85,013      |
| Other liabilities.....                                   | 173,190                 | 131,336     | 79,039      | 46,955      | 13,199      |
| Total shareholders' equity.....                          | 176,276                 | 166,947     | 141,587     | 121,093     | 108,946     |
| <b>SELECTED RATIOS:</b>                                  |                         |             |             |             |             |

FINANCIAL PERFORMANCE

|  |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|
| Return on average as-sets.....                     | 1.63%  | 1.54%  | 1.49%  | 1.43%  | 1.32%  |
| Return on average equi-ty.....                     | 13.75% | 13.21% | 13.03% | 14.14% | 13.77% |
| CAPITAL  |        |        |        |        |        |
| Tier I risk based capi-tal.....                    | 13.08% | 13.73% | 13.05% | 14.08% | 15.38% |
| Total risk based capi-tal.....                     | 14.33% | 14.98% | 14.30% | 15.33% | 16.63% |
| Leverage.....                                      | 10.28% | 10.38% | 10.21% | 9.95%  | 9.70%  |
| Average equity to aver-age assets.....             | 11.87% | 11.54% | 11.44% | 10.14% | 9.55%  |
| Dividend payout ratio...                           | 42.90% | 38.43% | 34.85% | 32.28% | 29.35% |
| LOAN QUALITY                                       |        |        |        |        |        |
| Allowance as a percent of loans.....               | 1.63%  | 1.63%  | 1.55%  | 1.69%  | 1.74%  |
| Allowance as a percent of nonperforming loans..... | 206%   | 560%   | 746%   | 481%   | 335%   |
| Nonperforming loans to total loans.....            | 0.79%  | 0.29%  | 0.21%  | 0.35%  | 0.52%  |

PEOPLES BANK OF UNITY  
 SELECTED HISTORICAL FINANCIAL DATA  
 (IN THOUSANDS, EXCEPT FOR PER SHARE DATA)

YEAR ENDED DECEMBER 31,

|   | 1996      | 1995      | 1994      | 1993      | 1992      |
|---|-----------|-----------|-----------|-----------|-----------|
| INCOME STATEMENT:                                     |           |           |           |           |           |
| Interest income.....                                  | \$ 21,011 | \$ 20,003 | \$ 19,905 | \$ 20,224 | \$ 18,533 |
| Interest expense.....                                 | 7,045     | 7,679     | 7,297     | 7,479     | 7,843     |
| Net interest income.....                              | 13,966    | 12,324    | 12,608    | 12,745    | 10,690    |
| Provision for loan losses...                          | 875       | 420       | 100       | 65        | 110       |
| Net interest income after provision for loan losses.. | 13,091    | 11,904    | 12,508    | 12,680    | 10,580    |
| Noninterest income.....                               | 803       | 838       | 697       | 565       | 550       |
| Noninterest expense.....                              | 6,887     | 6,753     | 7,084     | 6,361     | 5,520     |
| Income before income taxes..                          | 7,007     | 5,989     | 6,121     | 6,884     | 5,610     |
| Applicable income taxes.....                          | 2,015     | 1,616     | 1,593     | 1,813     | 1,375     |
| Net income.....                                       | \$ 4,992  | \$ 4,373  | \$ 4,528  | \$ 5,071  | \$ 4,235  |
| PER SHARE DATA:                                       |           |           |           |           |           |
| Net income.....                                       | \$ 43.16  | \$ 37.81  | \$ 39.15  | \$ 43.84  | \$ 36.62  |
| Dividends declared.....                               | 12.56     | 7.70      | 7.00      | 5.80      | 5.60      |
| Book value.....                                       | 430.94    | 407.29    | 356.64    | 320.74    | 282.69    |
| BALANCE SHEET TOTALS (PERIOD END):                    |           |           |           |           |           |
| Total assets.....                                     | \$291,100 | \$289,026 | \$286,515 | \$293,491 | \$259,919 |
| Securities.....                                       | 118,116   | 141,896   | 160,751   | 170,831   | 161,723   |
| Net loans.....  | 152,322   | 125,436   | 101,088   | 93,732    | 80,275    |
| Total deposits.....                                   | 238,093   | 236,922   | 239,331   | 253,668   | 225,125   |
| Other liabilities.....                                | 3,165     | 4,997     | 5,935     | 2,726     | 2,098     |
| Total shareholders' equity..                          | 49,842    | 47,107    | 41,249    | 37,097    | 32,696    |
| SELECTED RATIOS:                                      |           |           |           |           |           |
| FINANCIAL PERFORMANCE                                 |           |           |           |           |           |
| Return on average assets....                          | 1.74%     | 1.54%     | 1.58%     | 1.83%     | 1.80%     |
| Return on average equity....                          | 10.39%    | 10.04%    | 11.50%    | 14.60%    | 13.74%    |
| CAPITAL   |           |           |           |           |           |
| Tier I risk based capital...                          | 30.90%    | 30.58%    | 32.41%    | 31.12%    | 31.48%    |
| Total risk based capital....                          | 31.99%    | 31.36%    | 33.07%    | 31.76%    | 32.20%    |
| Leverage.....   | 16.65%    | 15.56%    | 14.20%    | 13.39%    | 13.91%    |
| Average equity to average                             |           |           |           |           |           |

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| assets.....   | 16.72% | 15.30% | 13.70% | 12.54% | 13.12% |
| Dividend payout ratio.....                            | 29.11% | 20.38% | 17.89% | 13.23% | 15.30% |
| LOAN QUALITY  |        |        |        |        |        |
| Allowance as a percent of<br>loans.....               | 1.09%  | 0.89%  | 0.82%  | 0.81%  | 0.93%  |
| Allowance as a percent of<br>nonperforming loans..... | 84.81% | 59.19% | 42.49% | 74.20% | 49.87% |
| Nonperforming loans to total<br>loans.....            | 1.29%  | 1.50%  | 1.93%  | 1.09%  | 1.87%  |

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S&T BANCORP, INC. SELECTED PRO FORMA COMBINED FINANCIAL DATA (IN THOUSANDS,  
EXCEPT FOR PER SHARE DATA) (UNAUDITED)

|  | YEAR ENDED DECEMBER 31, |             |             |             |             |
|--|-------------------------|-------------|-------------|-------------|-------------|
|  | 1996                    | 1995        | 1994        | 1993        | 1992        |
| INCOME STATEMENT:  |                         |             |             |             |             |
| Interest income.....   | \$ 132,442              | \$ 127,020  | \$ 112,559  | \$ 107,147  | \$ 107,589  |
| Interest expense.....  | 58,589                  | 57,677      | 46,643      | 44,444      | 50,942      |
| Net interest income.....                                       | 73,853                  | 69,343      | 65,916      | 62,703      | 56,647      |
| Provision for loan losses.....                                 | 5,175                   | 4,220       | 3,600       | 3,665       | 5,888       |
| Net interest income<br>after provision for<br>loan losses..... | 68,678                  | 65,123      | 62,316      | 59,038      | 50,759      |
| Noninterest income.....  | 11,997                  | 9,147       | 7,611       | 7,136       | 6,912       |
| Noninterest expense.....                                       | 42,398                  | 40,276      | 38,679      | 37,129      | 32,894      |
| Income before income<br>taxes.....                             | 38,277                  | 33,994      | 31,248      | 29,045      | 24,777      |
| Applicable income<br>taxes.....                                | 10,036                  | 9,152       | 8,276       | 7,631       | 6,261       |
| Net income.....  | \$ 28,241               | \$ 24,842   | \$ 22,972   | \$ 21,414   | \$ 18,516   |
| PER SHARE DATA:  |                         |             |             |             |             |
| Net income.....  | \$ 2.00                 | \$ 1.74     | \$ 1.60     | \$ 1.50     | \$ 1.30     |
| Book value.....  | 16.02                   | 14.99       | 12.78       | 11.07       | 9.95        |
| BALANCE SHEET TOTALS<br>(PERIOD END):                          |                         |             |             |             |             |
| Total assets.....  | \$1,787,045             | \$1,689,728 | \$1,580,252 | \$1,487,528 | \$1,366,674 |
| Securities.....  | 500,061                 | 492,236     | 466,875     | 509,960     | 516,920     |
| Net loans.....   | 1,181,407               | 1,086,317   | 1,011,165   | 876,961     | 760,235     |
| Total deposits.....  | 1,270,367               | 1,216,547   | 1,142,571   | 1,151,926   | 1,124,722   |
| Securities sold under<br>repurchase agreements..               | 114,205                 | 122,794     | 169,871     | 127,731     | 85,013      |
| Other liabilities.....   | 176,355                 | 136,333     | 84,974      | 49,681      | 15,297      |
| Total shareholders'<br>equity.....                             | 226,118                 | 214,054     | 182,836     | 158,190     | 141,642     |
| SELECTED RATIOS:   |                         |             |             |             |             |
| FINANCIAL PERFORMANCE  |                         |             |             |             |             |
| Return on average<br>assets.....                               | 1.65%                   | 1.53%       | 1.51%       | 1.51%       | 1.40%       |
| Return on average<br>equity.....                               | 13.01%                  | 12.51%      | 12.70%      | 14.25%      | 13.76%      |
| CAPITAL  |                         |             |             |             |             |
| Tier I risk based<br>capital.....                              | 15.16%                  | 15.76%      | 15.20%      | 16.17%      | 17.46%      |
| Total risk based<br>capital.....                               | 16.39%                  | 16.96%      | 16.38%      | 17.34%      | 18.64%      |
| Leverage.....  | 11.31%                  | 11.26%      | 10.94%      | 10.59%      | 10.36%      |
| Average equity to<br>average assets.....                       | 12.68%                  | 12.20%      | 11.86%      | 10.61%      | 10.19%      |
| Dividend payout ratio...                                       | 40.46%                  | 35.25%      | 31.50%      | 27.77%      | 26.13%      |
| LOAN QUALITY   |                         |             |             |             |             |
| Allowance as a percent<br>of loans.....                        | 1.56%                   | 1.55%       | 1.48%       | 1.60%       | 1.65%       |

|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Allowance as a percent<br>of nonperforming<br>loans..... | 182%  | 359%  | 390%  | 406%  | 284%  |
| Nonperforming loans to<br>total loans.....               | 0.86% | 0.43% | 0.38% | 0.39% | 0.58% |

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PRO FORMA COMBINED FINANCIAL INFORMATION

The following tables set forth selected unaudited pro forma financial data reflecting the Merger.

The pro forma information has been prepared assuming that People's shareholders will receive in the Merger 3,036,075 shares of S&T Common Stock for 115,660 shares of Peoples Common Stock outstanding, or an Exchange Ratio of 26.25 shares of S&T Common Stock for each share of Peoples Common Stock. The pro forma financial information included in this Proxy Statement/Prospectus is presented for illustrative purposes only. Such pro forma financial information does not necessarily reflect what the actual results of S&T would be following completion of the Merger.

PRO FORMA COMBINED CONDENSED BALANCE SHEETS AS OF DECEMBER 31, 1996 AND 1995.

The following unaudited pro forma combined condensed balance sheet information reflects (i) the historical consolidated balance sheets of S&T and Peoples as of December 31, 1996 and 1995 and (ii) the pro forma combined condensed balance sheet of S&T as of such dates, after giving effect to the Merger. The pro forma information has been prepared assuming that People's shareholders will receive in the Merger 3,036,075 shares of S&T Common Stock for 115,660 shares of Peoples Common Stock outstanding, or an Exchange Ratio of 26.25 shares of S&T Common Stock for each share of Peoples Common Stock. The Merger has been reflected as a pooling-of-interest effective as of December 31, 1996 and 1995. See "--Accounting Treatment." The unaudited information should be read in conjunction with the historical consolidated financial statements of S&T and Peoples, including the notes thereto, incorporated by reference or included in this Proxy Statement/Prospectus. See "AVAILABLE INFORMATION; DOCUMENTS INCORPORATED BY REFERENCE" and "INDEX TO FINANCIAL INFORMATION OF PEOPLES BANK OF UNITY."

PRO FORMA COMBINED CONDENSED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994.

The following unaudited pro forma combined condensed statements of income reflect the historical consolidated statements of income of S&T and Peoples, as indicated below, for each period presented and the pro forma combined condensed statements of income of S&T, after giving effect to the Merger. The pro forma information has been prepared assuming that People's shareholders will receive in the Merger 3,036,075 shares of S&T Common Stock for 115,660 shares of Peoples Common Stock outstanding, or an Exchange Ratio of 26.25 shares of S&T Common Stock for each share of Peoples Common Stock. The Merger has been reflected as a pooling-of-interests. See "--Accounting Treatment." The pro forma combined condensed statements of income for the years ended December 31, 1996, 1995 and 1994 were prepared on the assumption that the Merger had been effected as of January 1, 1996, 1995 and 1994, respectively. The unaudited information should be read in conjunction with the historical consolidated financial statements of S&T and Peoples, including the notes thereto, incorporated by reference in this Proxy Statement/Prospectus. See "AVAILABLE INFORMATION; CERTAIN DOCUMENTS INCORPORATED BY REFERENCE" and "INDEX TO FINANCIAL INFORMATION OF PEOPLES BANK OF UNITY."

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S&T BANCORP, INC.  
PRO FORMA COMBINED BALANCE SHEET  
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)  
(UNAUDITED)

DECEMBER 31, 1996

|   | DECEMBER 31, 1996  |                  |                       |
|---|--------------------|------------------|-----------------------|
|   | S&T BANCORP        | PEOPLES          | PRO FORMA<br>COMBINED |
| <b>ASSETS</b>   |                    |                  |                       |
| Securities.....                                       | \$ 381,945         | \$118,116        | \$ 500,061            |
| Net loans.....  | 1,029,085          | 152,322          | 1,181,407             |
| Other assets.....                                     | 84,915             | 20,662           | 105,577               |
| <b>TOTAL ASSETS.....</b>                              | <b>\$1,495,945</b> | <b>\$291,100</b> | <b>\$1,787,045</b>    |
| <b>LIABILITIES</b>                                    |                    |                  |                       |
| Total deposits.....                                   | \$1,032,274        | \$238,093        | \$1,270,367           |
| Securities sold under repurchase agreements.....      | 114,205            |                  | 114,205               |
| Other liabilities.....                                | 173,190            | 3,165            | 176,355               |
| <b>TOTAL LIABILITIES.....</b>                         | <b>1,319,669</b>   | <b>241,258</b>   | <b>1,560,927</b>      |
| <b>SHAREHOLDERS' EQUITY</b>                           |                    |                  |                       |
| Common stock and Additional paid-in-capital.....      | 41,485             | 14,701           | 56,186                |
| Retained earnings.....                                | 124,847            | 33,135           | 157,982               |
| Other equity.....                                     | 9,944              | 2,006            | 11,950                |
| <b>TOTAL SHAREHOLDERS' EQUITY.....</b>                | <b>176,276</b>     | <b>49,842</b>    | <b>226,118</b>        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY....</b> | <b>\$1,495,945</b> | <b>\$291,100</b> | <b>\$1,787,045</b>    |
| <b>BOOK VALUE PER SHARE.....</b>                      | <b>\$ 15.92</b>    | <b>\$ 430.94</b> | <b>\$ 16.02</b>       |
| <b>SHARES OUTSTANDING.....</b>                        | <b>11,075</b>      | <b>116</b>       | <b>14,111</b>         |

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S&T BANCORP, INC.  
PRO FORMA COMBINED BALANCE SHEET  
(IN THOUSANDS, EXCEPT FOR PER SHARE DATA)  
(UNAUDITED)

DECEMBER 31, 1995

|   | DECEMBER 31, 1995  |                  |                       |
|---|--------------------|------------------|-----------------------|
|   | S&T BANCORP        | PEOPLES          | PRO FORMA<br>COMBINED |
| <b>ASSETS</b>   |                    |                  |                       |
| Securities.....                                       | \$ 350,340         | \$141,896        | \$ 492,236            |
| Net loans.....  | 960,881            | 125,436          | 1,086,317             |
| Other assets.....                                     | 89,481             | 21,694           | 111,175               |
| <b>TOTAL ASSETS.....</b>                              | <b>\$1,400,702</b> | <b>\$289,026</b> | <b>\$1,689,728</b>    |
| <b>LIABILITIES</b>                                    |                    |                  |                       |
| Total deposits.....                                   | \$ 979,625         | \$236,922        | \$1,216,547           |
| Securities sold under repurchase agreements.....      | 122,794            |                  | 122,794               |
| Other liabilities.....                                | 131,336            | 4,997            | 136,333               |
| <b>TOTAL LIABILITIES.....</b>                         | <b>1,233,755</b>   | <b>241,919</b>   | <b>1,475,674</b>      |
| <b>SHAREHOLDERS' EQUITY</b>                           |                    |                  |                       |
| Common stock and Additional paid-in-capital.....      | 40,561             | 14,701           | 55,262                |
| Retained earnings.....                                | 111,980            | 29,596           | 141,576               |
| Other equity.....                                     | 14,406             | 2,810            | 17,216                |
| <b>TOTAL SHAREHOLDERS' EQUITY.....</b>                | <b>166,947</b>     | <b>47,107</b>    | <b>214,054</b>        |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY....</b> | <b>\$1,400,702</b> | <b>\$289,026</b> | <b>\$1,689,728</b>    |
| <b>BOOK VALUE PER SHARE.....</b>                      | <b>\$ 14.85</b>    | <b>\$ 407.29</b> | <b>\$ 14.99</b>       |
| <b>SHARES OUTSTANDING.....</b>                        | <b>11,243</b>      | <b>116</b>       | <b>14,279</b>         |

S&T BANCORP, INC.  
 PRO FORMA COMBINED INCOME STATEMENT  
 (IN THOUSANDS, EXCEPT FOR PER SHARE DATA)  
 (UNAUDITED)

DECEMBER 31, 1996

|   | S&T BANCORP | PEOPLES  | PRO FORMA<br>COMBINED |
|---|-------------|----------|-----------------------|
| Interest income.....  | \$111,431   | \$21,011 | \$132,442             |
| Interest expense.....                                       | 51,544      | 7,045    | 58,589                |
| Net interest income.....                                    | 59,887      | 13,966   | 73,853                |
| Provision for loan losses.....                              | 4,300       | 875      | 5,175                 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN<br>LOSSES..... | 55,587      | 13,091   | 68,678                |
| Noninterest income.....                                     | 11,194      | 803      | 11,997                |
| Noninterest expense.....                                    | 35,511      | 6,887    | 42,398                |
| INCOME BEFORE INCOME TAXES.....                             | 31,270      | 7,007    | 38,277                |
| Applicable income taxes.....                                | 8,021       | 2,015    | 10,036                |
| NET INCOME.....   | \$ 23,249   | \$ 4,992 | \$ 28,241             |
| PER SHARE DATA:   |             |          |                       |
| Net Income.....   | \$ 2.10     | \$ 43.16 | \$ 2.00               |
| Shares Outstanding.....                                     | 11,073      | 116      | 14,111                |

DECEMBER 31, 1995

|   | S&T BANCORP | PEOPLES  | PRO FORMA<br>COMBINED |
|---|-------------|----------|-----------------------|
| Interest income.....  | \$107,017   | \$20,003 | \$127,020             |
| Interest expense.....                                       | 49,998      | 7,679    | 57,677                |
| NET INTEREST INCOME.....                                    | 57,019      | 12,324   | 69,343                |
| Provision for loan losses.....                              | 3,800       | 420      | 4,220                 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN<br>LOSSES..... | 53,219      | 11,904   | 65,123                |
| Noninterest income.....                                     | 8,309       | 838      | 9,147                 |
| Noninterest expense.....                                    | 33,523      | 6,753    | 40,276                |
| INCOME BEFORE INCOME TAXES.....                             | 28,005      | 5,989    | 33,994                |
| Applicable income taxes.....                                | 7,536       | 1,616    | 9,152                 |
| NET INCOME.....   | \$ 20,469   | \$ 4,373 | \$ 24,842             |
| PER SHARE DATA:   |             |          |                       |
| Net Income.....   | \$ 1.82     | \$ 37.81 | \$ 1.74               |
| Shares Outstanding.....                                     | 11,243      | 116      | 14,280                |

DECEMBER 31, 1994

|                       | S&T BANCORP | PEOPLES  | PRO FORMA<br>COMBINED |
|-----------------------|-------------|----------|-----------------------|
| Interest income.....  | \$ 92,654   | \$19,905 | \$112,559             |
| Interest expense..... | 39,346      | 7,297    | 46,643                |

|   |           |          |           |
|---|-----------|----------|-----------|
| NET INTEREST INCOME.....                                    | 53,308    | 12,608   | 65,916    |
| Provision for loan losses.....                              | 3,500     | 100      | 3,600     |
| -----   |           |          |           |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN<br>LOSSES..... | 49,808    | 12,508   | 62,316    |
| Noninterest income.....                                     | 6,914     | 697      | 7,611     |
| Noninterest expense.....                                    | 31,595    | 7,084    | 38,679    |
| -----   |           |          |           |
| INCOME BEFORE INCOME TAXES.....                             | 25,127    | 6,121    | 31,248    |
| Applicable income taxes.....                                | 6,683     | 1,593    | 8,276     |
| -----   |           |          |           |
| NET INCOME.....   | \$ 18,444 | \$ 4,528 | \$ 22,972 |
| =====   |           |          |           |
| PER SHARE DATA:   |           |          |           |
| Net Income.....   | \$ 1.63   | \$ 39.15 | \$ 1.60   |
| =====   |           |          |           |
| Shares Outstanding.....                                     | 11,284    | 116      | 14,320    |
| =====   |           |          |           |

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#### CERTAIN INFORMATION REGARDING PEOPLES

Peoples was organized as a Pennsylvania-chartered bank in 1918. Peoples deposits are insured by the FDIC under the Bank Insurance Fund. Peoples is not a member of the Federal Reserve System. As of December 31, 1996, Peoples reported assets of \$291 million, deposit liabilities of \$238 million and shareholders' equity of \$50 million.

Peoples is a commercial bank that provides loan and deposit services to individuals and small to medium sized businesses located primarily in Allegheny and Westmoreland Counties. Among its services, Peoples accepts time, demand and savings deposits and makes secured and unsecured commercial, real estate and consumer loans. Peoples business is not cyclical in nature and is not dependent upon any single customer or small group of customers for deposits or loans. Peoples competes with commercial banks, such as S&T Bank, thrifts, local credit unions, and other financial institutions, as well as with major regional banking and financial institutions. As of December 31, 1996, Peoples had 93 full-time employees and 21 part-time employees.

The principal executive offices of Peoples are located at 7660 Saltsburg Road, Pittsburgh, Pennsylvania 15239-3700. Peoples' telephone number is (412) 795-3200. Peoples also has offices located in Unity, Penn Hills, East Oakmont, Monroeville and Holiday Park, Pennsylvania. Peoples owns the land and buildings at all these sites, except at the Holiday Park office.

#### PROPOSAL III--AMENDMENT TO THE AMENDED AND RESTATED 1992 INCENTIVE STOCK PLAN

At the Annual Meeting, stockholders will consider an amendment to the Stock Plan to increase the number of shares of S&T Common Stock issuable under the Stock Plan from 600,000 shares to 1,600,000 shares. A copy of the Stock Plan is attached to this Proxy Statement as Appendix C. Each stockholder is urged to review the Stock Plan in its entirety. The following summary is a brief description of the significant provisions of the Stock Plan and does not purport to be a complete statement of the terms and conditions of the Stock Plan.

The S&T Board believes that the ability to make grants under the Stock Plan has enhanced S&T's ability to attract and retain qualified employees. Under the Stock Plan, S&T may grant incentive stock options and nonstatutory stock options. The Stock Plan is administered by a committee of the S&T Board (the "Committee") meeting the standards of Rule 16b-3(c)(2)(i) under the Exchange Act, or any similar successor rule, appointed by the Board of Directors to administer the Stock Plan.

The Plan, as adopted on April 19, 1993, provided that up to 600,000 shares of S&T Common Stock could be issued under the Stock Plan.

As of December 31, 1996, the Committee had awarded options to purchase 582,000 shares of S&T Common Stock issuable under the Stock Plan.

#### DESCRIPTION OF THE STOCK PLAN

The Stock Plan is administered by a Committee appointed by the S&T Board. Unless otherwise determined by the Board, the Compensation Committee of the Board shall comprise the Committee. The Committee determines, among other things, which officers and key employees receive an option or options under the Stock Plan, the type of option to be granted, the number of shares subject to each option, the rate of option exercisability, and, subject to certain other provisions to be discussed below, the option price and duration of the option.

Options granted under the Stock Plan may be either "incentive stock options" within the meaning of Section 422 of the Code, or nonstatutory stock options, and entitle the optionee, upon exercise, to purchase shares of S&T Common Stock from S&T at a specified exercise price per share. Options granted under the Stock Plan must have a per share exercise price of no less than the fair market value of a share of S&T Common Stock on the date of the grant. The fair market value as of a particular date generally means the last reported price of a share of S&T Common Stock on the Nasdaq National Market.

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The Committee is authorized to grant nonstatutory stock options and incentive stock options to employees. Nonstatutory stock options also may be granted to outside directors, but only in accordance with the provisions set forth in the Stock Plan, attached hereto as Appendix C.

All agreements granting options to employees shall contain a statement that the option is intended to be either (i) a nonstatutory stock option or (ii) an incentive stock option.

The option period for options granted to employees shall be determined by the Committee and specifically set forth in the Agreement, provided, however, that an option shall not be exercisable before six months from the date of grant (except that this limitation need not apply in the event of the death or disability of the optionee within the six-month period) or after ten years from the date of grant.

All incentive stock options granted under the Stock Plan shall comply with the provisions of the Code governing incentive stock options and with all other applicable rules and regulations.

The maximum number of shares of S&T Common Stock with respect to which options may be granted to any employee under the Stock Plan during its term is 200,000 shares. In no event shall the option price of an option be less than the fair market value of a share of S&T Common Stock on the date of grant.

All other terms of options granted under the Stock Plan shall be determined by the Committee in its sole discretion.

#### CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

In general, an optionee will not recognized income at the time of the grant or exercise of an incentive stock option. However, the difference between the exercise price and the fair market value of the S&T Common Stock on the date of exercise is an adjustment item for purposes of the alternative minimum tax. If an optionee does not exercise an incentive stock option within certain specified periods after termination of employment, an incentive stock option will be treated for tax purposes as a nonstatutory stock option, as described below.

In general, an optionee will not recognize income at the time of grant of a nonstatutory stock option. At the time of exercise of a nonstatutory stock option an optionee will generally recognize income equal to the excess of the fair market value of the shares of S&T Common Stock purchased over the aggregate exercise price paid for the shares. S&T is entitled to a deduction equal to the amount of ordinary income an optionee recognizes.

In general, gain or loss from the sale or exchange of shares acquired upon exercise of an incentive stock option will be taxed as capital gain or loss. However, if certain holding period requirements with respect to the shares acquired upon exercise of an incentive stock option are not satisfied, an optionee will be required to recognize ordinary income at the time of disposition. Any gain recognized on disposition in excess of the ordinary income resulting therefrom will be capital gain and any loss recognized will

be a capital loss.

If an optionee recognizes ordinary income upon exercise of an incentive stock option or as a result of a disposition of shares prior to the expiration of the applicable holding periods, S&T will be entitled to a deduction in the same amount.

The rules governing the tax treatment of options and the receipt of shares in connection with the exercise of such options are quite technical, so that the above description of tax consequences is necessarily general in nature and does not purport to be complete. Moreover, statutory provisions are subject to change, as are their interpretations, and their application may vary in individual circumstances. Finally, the tax consequences under applicable state law may not be the same as under the federal income tax laws.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE AMENDMENT TO THE STOCK PLAN.

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#### PROPOSAL IV -- RATIFICATION OF INDEPENDENT AUDITORS

The S&T Board has selected Ernst & Young LLP, independent public accountants, as the auditors for S&T for the year ending December 31, 1997. At the Annual Meeting, shareholders will vote upon a proposal to ratify the selection of the firm as auditors.

The financial statements of S&T and its subsidiaries for the years ended December 31, 1996, 1995, and 1994 were audited by Ernst & Young LLP. Other services rendered during 1996 by Ernst & Young included tax preparation and tax planning and consultations and services to S&T in connection with filings with the SEC pursuant to Section 12 of the Exchange Act. It is expected that representatives of Ernst & Young LLP will be present at the Annual Meeting and that they will have an opportunity to make statements if they so desire and will be available to respond to appropriate questions.

An affirmative vote of a majority of the shares of common stock of S&T represented in person or by proxy at the Annual Meeting is necessary for ratification of the appointment of Ernst & Young LLP as auditors. The S&T Board recommends that you vote "FOR" ratifying the selection of Ernst & Young LLP. No determination has been made as to what action the S&T Board would take if the shareholders do not ratify the appointment.

THE S&T BOARD RECOMMENDS A VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS AUDITORS.

#### AVAILABLE INFORMATION; DOCUMENTS INCORPORATED BY REFERENCE

S&T is subject to the informational requirements of the Exchange Act and, in accordance therewith, S&T files reports and other information with the SEC. Such reports, proxy statements and other information filed by S&T can be inspected and copied at the SEC's public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549, and the SEC's regional offices located at: 7 World Trade Center (13th floor), New York, New York 10006 and Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained at prescribed rates by writing to the SEC, Public Reference Section, Washington, D.C. 20549. Copies of documents filed by S&T with the SEC may also be accessed electronically by means of the SEC's home page on the Internet at "<http://www.sec.gov>." Reports, proxy statements and other information filed by S&T can also be inspected at the offices of the Nasdaq National Market, 1735 K Street, N.W., Washington, D.C. 20006-1500, on which S&T Common Stock is traded.

THIS PROXY STATEMENT INCORPORATES BY REFERENCE DOCUMENTS WHICH ARE NOT PRESENTED HEREIN OR DELIVERED HERewith. DOCUMENTS RELATING TO S&T (OTHER THAN CERTAIN EXHIBITS TO SUCH DOCUMENTS) ARE AVAILABLE WITHOUT CHARGE UPON WRITTEN OR ORAL REQUEST TO ROBERT E. ROUT, CHIEF FINANCIAL OFFICER, S&T BANCORP, INC., 800 PHILADELPHIA STREET, INDIANA, PENNSYLVANIA 15701. TELEPHONE REQUESTS MAY BE DIRECTED TO (412) 349-2900. ANY REQUESTED DOCUMENT WILL BE SENT BY FIRST CLASS MAIL OR OTHER EQUALLY PROMPT MEANS WITHIN ONE BUSINESS DAY AFTER RECEIPT OF SUCH REQUEST. IN ORDER TO ENSURE TIMELY DELIVERY OF THE DOCUMENTS, ANY REQUEST SHOULD BE MADE BY APRIL 14, 1997.

The following documents filed by S&T with the SEC are incorporated herein by reference: (i) Annual Report on Form 10-K for the year ended December 31, 1996; and (ii) the description of S&T Common Stock contained in S&T's registration statement pursuant to Section 12 of the Exchange Act, and any amendment or report filed for the purpose of updating such description.

All documents filed by S&T pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act subsequent to the date hereof until the date of the Annual Meeting shall be deemed to be incorporated herein by reference and to be a part hereof from the date of such filing. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this

Proxy Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Proxy Statement.

SHAREHOLDER PROPOSALS

Any proposal which a shareholder of S&T intends to present at the 1998 Annual Meeting of Shareholders of S&T must be received in writing by the Secretary of S&T at S&T's main office, 800 Philadelphia Street, Indiana, Pennsylvania, on or before November 19, 1997. If such proposal is in compliance with all of the requirements of Rule 14a-8 under the Exchange Act the proposal will be included in S&T's proxy statement and proxy form relating to such meeting.

OTHER MATTERS

Management knows of no other matters to be brought before Annual Meeting. However, should any other matter requiring a vote of the shareholders properly come before the meeting, the persons named in the enclosed proxy will vote the shares represented by the proxies on such matter as determined by a majority of the S&T Board.

By Order of the Board of Directors,  
  
/s/ James G. Barone  
James G. Barone  
Secretary

UPON WRITTEN REQUEST TO THE SECRETARY OF S&T, 800 PHILADELPHIA STREET, INDIANA, PENNSYLVANIA 15701, BY ANY SHAREHOLDER WHOSE PROXY IS SOLICITED HEREBY, S&T WILL FURNISH A COPY OF ITS 1996 ANNUAL REPORT ON FORM 10-K TO THE SEC, TOGETHER WITH FINANCIAL STATEMENTS AND SCHEDULES THERETO, WITHOUT CHARGE TO THE SHAREHOLDER REQUESTING SAME.

March 20, 1997

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Stockholders  
Peoples Bank of Unity

We have audited the accompanying balance sheet of Peoples Bank of Unity as of December 31, 1996 and 1995, and the related statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Peoples Bank of Unity as of December 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As explained in the notes to the financial statements, effective January 1, 1995, the Bank changed its method of accounting for the impairment of loans and related allowance for loan losses, and effective January 1, 1994, changed its method of accounting for investment securities.

/s/ S. R. Snodgrass, A.C.

Wexford, PA  
February 10, 1997

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PEOPLES BANK OF UNITY

BALANCE SHEET

|  | DECEMBER 31,           |                    |
|--|------------------------|--------------------|
|  | 1996                   | 1995<br>(RESTATED) |
|  | -----                  |                    |
|  | (DOLLARS IN THOUSANDS) |                    |
| ASSETS   |                        |                    |
| Cash and due from banks.....   | \$ 7,391               | \$ 6,625           |
| Federal funds sold.....  | 6,465                  | 7,340              |
| Securities:  |                        |                    |
| Available for sale.....  | 96,021                 | 117,513            |
| Held to maturity (approximate market value of<br>\$22,400 and \$24,878)..... | 22,095                 | 24,383             |
|  | -----                  | -----              |
|  | 118,116                | 141,896            |
| Loans (net of allowance for loan losses of \$1,686 and<br>\$1,127).....      | 152,322                | 125,436            |

|  |            |            |
|--|------------|------------|
| Premises and equipment.....  | 4,112      | 4,481      |
| Accrued interest receivable.....   | 2,158      | 2,764      |
| Other assets.....  | 536        | 484        |
|  | -----      | -----      |
| TOTAL ASSETS.....  | \$ 291,100 | \$ 289,026 |
|  | =====      | =====      |
| LIABILITIES  |            |            |
| Deposits:  |            |            |
| Noninterest-bearing.....   | \$ 43,502  | \$ 39,711  |
| Interest-bearing.....  | 194,591    | 197,211    |
|  | -----      | -----      |
| Total deposits.....  | 238,093    | 236,922    |
| Commitment to purchase investment securities.....                                    | --         | 2,011      |
| Obligation under capital lease.....  | 225        | 520        |
| Accrued interest payable.....  | 1,064      | 1,083      |
| Other liabilities.....   | 1,876      | 1,383      |
|  | -----      | -----      |
| TOTAL LIABILITIES.....   | 241,258    | 241,919    |
|  | -----      | -----      |
| STOCKHOLDERS' EQUITY   |            |            |
| Common stock, par value \$10; 115,660 shares authorized, issued and outstanding..... | 1,157      | 1,157      |
| Additional paid in capital.....  | 13,544     | 13,544     |
| Retained earnings.....   | 33,135     | 29,596     |
| Net unrealized gain on securities.....   | 2,006      | 2,810      |
|  | -----      | -----      |
| TOTAL STOCKHOLDERS' EQUITY.....  | 49,842     | 47,107     |
|  | -----      | -----      |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....                                      | \$ 291,100 | \$ 289,026 |
|  | =====      | =====      |

See accompanying notes to the financial statements.

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PEOPLES BANK OF UNITY

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31,

|   | 1996  | 1995<br>(RESTATED) | 1994<br>(RESTATED) |
|---|---|--------------------|--------------------|
|   | -----   |                    |                    |
|   | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA) |                    |                    |
| INTEREST INCOME                                       |   |                    |                    |
| Loans, including fees.....                            | \$ 12,317                                     | \$ 10,073          | \$ 8,781           |
| Federal funds sold.....                               | 221   | 356                | 218                |
| Investment securities:                                |   |                    |                    |
| Taxable.....  | 7,283   | 8,256              | 9,351              |
| Tax exempt.....                                       | 1,190   | 1,318              | 1,555              |
|   | -----   | -----              | -----              |
| Total interest income....                             | 21,011  | 20,003             | 19,905             |
|   | -----   | -----              | -----              |
| INTEREST EXPENSE                                      |   |                    |                    |
| Deposits.....   | 6,995   | 7,591              | 7,269              |
| Obligation under capital lease.....                   | 50  | 88                 | 28                 |
|   | -----   | -----              | -----              |
| Total interest expense...                             | 7,045   | 7,679              | 7,297              |
|   | -----   | -----              | -----              |
| NET INTEREST INCOME.....                              | 13,966  | 12,324             | 12,608             |
| Provision for loan losses...                          | 875   | 420                | 100                |
|   | -----   | -----              | -----              |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES.. | 13,091  | 11,904             | 12,508             |
|   | -----   | -----              | -----              |
| NONINTEREST INCOME                                    |   |                    |                    |
| Service charges on deposit accounts.....              | 426   | 397                | 377                |

|   |          |          |          |
|---|----------|----------|----------|
| Security gains (losses),<br>net.....        | 55       | 121      | (3)      |
| Other.....                                  | 322      | 320      | 323      |
|   | -----    | -----    | -----    |
| Total noninterest in-<br>come.....          | 803      | 838      | 697      |
|   | -----    | -----    | -----    |
| NONINTEREST EXPENSE                         |          |          |          |
| Salaries and employee bene-<br>fits.....    | 3,198    | 3,085    | 3,379    |
| Occupancy, net.....                         | 549      | 479      | 518      |
| Furniture and equipment....                 | 669      | 663      | 513      |
| Data processing.....                        | 359      | 454      | 720      |
| FDIC assessment.....                        | 2        | 279      | 559      |
| Professional fees.....                      | 531      | 66       | 52       |
| Other taxes.....                            | 285      | 253      | 238      |
| Loss from fraudulent trans-<br>actions..... | --       | 405      | --       |
| Other.....                                  | 1,294    | 1,069    | 1,105    |
|   | -----    | -----    | -----    |
| Total noninterest ex-<br>pense.....         | 6,887    | 6,753    | 7,084    |
|   | -----    | -----    | -----    |
| INCOME BEFORE INCOME TAXES..                | 7,007    | 5,989    | 6,121    |
| Income taxes.....                           | 2,015    | 1,616    | 1,593    |
|   | -----    | -----    | -----    |
| NET INCOME.....                             | \$ 4,992 | \$ 4,373 | \$ 4,528 |
|   | =====    | =====    | =====    |
| EARNINGS PER SHARE.....                     | \$ 43.16 | \$ 37.81 | \$ 39.15 |
| AVERAGE SHARES OUTSTANDING..                | 115,660  | 115,660  | 115,660  |

See accompanying notes to the financial statements.

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PEOPLES BANK OF UNITY

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

|   | ADDITIONAL                                    |          | NET      |            | TOTAL         |
|---|---|----------|----------|------------|---------------|
|   | COMMON  | PAID IN  | RETAINED | UNREALIZED | STOCKHOLDERS' |
|   | STOCK   | CAPITAL  | EARNINGS | GAIN ON    | EQUITY        |
|   |   |          |          | SECURITIES |               |
|   |   |          |          |            |               |
|   | (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA) |          |          |            |               |
| Balance, December 31,<br>1993.....                | \$1,157                                       | \$13,544 | \$22,396 | \$ --      | \$37,097      |
| Initial net unrealized<br>gain on securities..... |   |          |          | 914        | 914           |
| Net income, as restated..                         |   |          | 4,528    |            | 4,528         |
| Dividends (\$7.00 per<br>share).....              |   |          | (810)    |            | (810)         |
| Net unrealized loss on<br>securities.....         |   |          |          | (480)      | (480)         |
|   | -----   | -----    | -----    | -----      | -----         |
| Balance, December 31,<br>1994.....                | 1,157   | 13,544   | 26,114   | 434        | 41,249        |
| Net income, as restated..                         |   |          | 4,373    |            | 4,373         |
| Dividends (\$7.70 per<br>share).....              |   |          | (891)    |            | (891)         |
| Net unrealized gain on<br>securities.....         |   |          |          | 2,376      | 2,376         |
|   | -----   | -----    | -----    | -----      | -----         |
| Balance, December 31,<br>1995.....                | 1,157   | 13,544   | 29,596   | 2,810      | 47,107        |
| Net income.....                                   |   |          | 4,992    |            | 4,992         |
| Dividends (\$12.56 per<br>share).....             |   |          | (1,453)  |            | (1,453)       |
| Net unrealized loss on<br>securities.....         |   |          |          | (804)      | (804)         |

|                       |         |          |          |         |          |
|-----------------------|---------|----------|----------|---------|----------|
| Balance, December 31, | -----   | -----    | -----    | -----   | -----    |
| 1996.....             | \$1,157 | \$13,544 | \$33,135 | \$2,006 | \$49,842 |
|                       | =====   | =====    | =====    | =====   | =====    |

See accompanying notes to the financial statements.

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PEOPLES BANK OF UNITY  
STATEMENT OF CASH FLOWS

|   | YEAR ENDED DECEMBER 31, |                    |                    |
|---|-------------------------|--------------------|--------------------|
|   | 1996                    | 1995<br>(RESTATED) | 1994<br>(RESTATED) |
|   | -----                   |                    |                    |
|   | (DOLLARS IN THOUSANDS)  |                    |                    |
| OPERATING ACTIVITIES  |                         |                    |                    |
| Net income.....   | \$ 4,992                | \$ 4,373           | \$ 4,528           |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                    |                    |
| Provision for loan losses.....  | 875                     | 420                | 100                |
| Depreciation, amortization, and accretion, net.....                               | 499                     | 691                | 261                |
| Security (gains) losses, net.....   | (55)                    | (121)              | 3                  |
| Loss from fraudulent transactions.....  | --                      | 405                | --                 |
| Decrease in accrued interest receivable.....                                      | 600                     | 471                | 295                |
| Increase (decrease) in accrued interest payable.....                              | (19)                    | 314                | (399)              |
| Other, net.....   | (247)                   | 62                 | (193)              |
|   | -----                   | -----              | -----              |
| Net cash provided by operating activities..                                       | 6,645                   | 6,615              | 4,595              |
|   | -----                   | -----              | -----              |
| INVESTING ACTIVITIES  |                         |                    |                    |
| Net decrease in federal funds sold.....   | 875                     | 785                | 3,810              |
| Securities available for sale:  |                         |                    |                    |
| Proceeds from the sale of securities.....   | 31,765                  | 48,411             | 9,887              |
| Proceeds from maturities and repayments of securities.....                        | 15,389                  | 1,060              | 10,700             |
| Purchases of securities.....  | (28,842)                | (38,547)           | (8,529)            |
| Investment securities:  |                         |                    |                    |
| Proceeds from maturities and repayments of securities.....                        | 3,744                   | 10,530             | 10,545             |
| Purchases of securities.....  | (1,459)                 | (995)              | (7,837)            |
| Net increase in loans.....  | (27,580)                | (25,315)           | (7,587)            |
| Purchases of premises and equipment.....  | (257)                   | (127)              | (358)              |
| Other, net.....   | 303                     | 108                | 60                 |
|   | -----                   | -----              | -----              |
| Net cash provided by (used for) investing activities.....                         | (6,062)                 | (4,090)            | 10,691             |
|   | -----                   | -----              | -----              |
| FINANCING ACTIVITIES  |                         |                    |                    |
| Net increase (decrease) in deposits.....  | 1,171                   | (2,409)            | (15,431)           |
| Decrease in obligation under capital lease.....                                   | (294)                   | (264)              | (71)               |
| Cash dividends paid.....  | (694)                   | (891)              | (810)              |
|   | -----                   | -----              | -----              |
| Net cash provided by (used for ) financing activities.....                        | 183                     | (3,564)            | (16,312)           |
|   | -----                   | -----              | -----              |
| Increase (decrease) in cash and cash equivalents.....                             | 766                     | (1,039)            | (1,026)            |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR..                                  | 6,625                   | 7,664              | 8,690              |
|   | -----                   | -----              | -----              |
| CASH AND CASH EQUIVALENTS AT END OF YEAR.....                                     | \$ 7,391                | \$ 6,625           | \$ 7,664           |
|   | =====                   | =====              | =====              |

See accompanying notes to the financial statements.

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PEOPLES BANK OF UNITY

NOTES TO FINANCIAL STATEMENTS  
(IN THOUSANDS, EXCEPT SHARES AND PER SHARE DATA)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Peoples Bank of Unity (the "Bank"), conform with generally accepted accounting principles and with general practice within the banking industry.

A summary of the significant accounting and reporting policies applied in the presentation of the accompanying financial statements follows:

Nature of Operations and Basis of Presentation

Peoples Bank of Unity is a state chartered bank located in Pittsburgh, Pennsylvania. The Bank's principal sources of revenue emanate from its portfolio of residential real estate, commercial mortgage, commercial and consumer loans, as well as, interest on investment securities and a variety of deposit services provided to its customers through six locations. The Bank is supervised by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking.

The financial statements have been prepared in conformity with generally accepted accounting principles. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Investment Securities

Effective January 1, 1994, the Bank adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In adopting Statement 115, the Bank classified investment securities into two categories: Held to Maturity and Available for Sale.

Debt securities acquired with the intent and ability to hold to maturity are stated at cost adjusted for amortization of premium and accretion of discount which are computed using a method which approximates the effective interest method. Certain other debt and equity securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available for sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method. Interest and dividends on investment securities are recognized as income when earned.

Loans

Interest income on all loans is recognized as income on the accrual method. For commercial and real estate mortgage loans on which interest is 90 days past due, accrual of income is generally discontinued, and any previously accrued interest is reversed against current income. Payments received on nonaccrual loans are applied to principal until full recovery of principal has been recognized. Installment loans are generally charged off between 90 and 120 days past due or when deemed uncollectible in the opinion of management.

Loan origination and commitment fees and certain direct loan origination costs are being deferred and the net amount amortized as an adjustment to the related loan's yield. These amounts are being amortized over the contractual life of the related loans.

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NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

Allowance for Loan Losses

Effective January 1, 1995, the Bank adopted Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by Statement No. 118. Under this Standard, the Bank estimates credit losses on impaired loans based on the present value of expected cash flows or fair value of the underlying collateral if the loan repayment is expected to come from the sale or operation of such collateral. Prior to 1995, the credit losses related to these loans were estimated based on undiscounted cash flows or the fair value of the underlying collateral. Statement 118 amends Statement 114 to permit a creditor to use existing methods for recognizing interest income on impaired loans eliminating the income recognition provisions of Statement 114. The adoption of these statements did not have a material effect on the Bank's financial position or results of operations.

Impaired loans are commercial and commercial real estate loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Bank individually evaluates such loans for impairment and does not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "nonaccrual loans," although the two categories overlap. The Bank may choose to place a loan on nonaccrual status due to payment delinquency or uncertain collectibility, while not classifying the loan as impaired if the loan is not a commercial or commercial real estate loan. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of impaired loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or, as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which is defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed.

The allowance for loan losses represents the amount which management estimates is adequate to provide for potential losses in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses which is charged to operations. The provision is based upon management's periodic evaluation of individual loans, the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors. The estimates used in determining the adequacy of the allowance for loan losses are particularly susceptible to significant change in the near term.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Real Estate Owned

Real estate owned, which is acquired in settlement of foreclosed loans, is carried as a component of other assets at the lower of cost or fair value minus estimated cost to sell. Direct costs incurred in the foreclosure

PEOPLES BANK OF UNITY

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

process and subsequent holding costs incurred on such properties are recorded as expenses of current operations. Any subsequent write downs and gains or losses on property dispositions are charged to other income and expense.

Retirement Plans

Pension expense for the Bank's defined benefit plan is actuarially determined. The funding policy for the plan is to contribute amounts to the plan sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus such additional amounts as may be appropriate, subject to federal income tax limitations.

Expense for the Bank's defined contribution plan is determined based on matching of employee voluntary contributions.

Income Taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred income tax expenses or benefits are based on the changes in the deferred tax asset or liability from period to period.

Cash Flow Information

The Bank has defined cash and cash equivalents as those amounts included in the balance sheet caption cash and due from banks. For the years ended December 31, 1996, 1995, and 1994, cash paid for interest was \$7,064, \$7,365 and \$7,696, respectively. Cash paid for income taxes was \$2,494 in 1996, \$1,299 in 1995, and \$1,851 in 1994.

Significant non-cash activity included commitments to purchase investment securities of \$2,011 at December 31, 1995 and \$3,940 at December 31, 1994. These commitments resulted from unsettled trades existing at each of the respective balance sheet dates. Also, in 1994 the Bank recorded a capital lease obligation of \$855 for the purchase of a computer system.

Earnings Per Share

Earnings per share for the years ended December 31, 1996, 1995, and 1994 have been calculated based upon the weighted average number of issued and outstanding common shares.

Reclassifications

Certain reclassifications have been made to the 1995 and 1994 financial statements to conform to 1996 classifications. Such reclassifications had no effect on net income.

2. RESTATEMENT

The accompanying financial statements for 1995 and 1994 have been restated to reflect a change in the allowance for loan losses and related provision for loan losses, as a result of management's re-evaluation of the methodology for assessing its adequacy. The methodology utilized by management includes a detailed review of all classified loans to determine if any specific reserve allocations were required on an individual loan balance, as well as, applying standard loss ratios to those loans not individually evaluated. Management determined the

PEOPLES BANK OF UNITY

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

need to increase the standard loss ratios based upon the overall risk

characteristics of the various portfolio segments, the impact of economic conditions on borrowers, and other relevant factors. Management also determined it was appropriate to retroactively apply these factors based upon the significant loan growth the Bank was experiencing. In addition, the financial statements for 1995 have been restated for the discovery of certain fraudulent loans as further discussed in Note 10.

The effect of the restatements were to increase (decrease) net income as follows:

|  | 1995     | 1994     |
|--|----------|----------|
|  | -----    | -----    |
| Provision for loan losses.....         | \$ (270) | \$ (100) |
| Loss from fraudulent transactions..... | (405)    | --       |
| Income taxes.....                      | 230      | 34       |
|  | -----    | -----    |
| Total.....                             | \$ (445) | \$ (66)  |
|  | =====    | =====    |
| Earnings per share.....                | \$(3.85) | \$(.57)  |

### 3. COMMON STOCK SPLIT

On May 9, 1995, the shareholders approved a five for one stock split to shareholders of record as of that same date, thereby increasing the number of issued and outstanding shares to 115,660, and decreasing the par value of each share to \$10. All references to the number of common shares and per share amounts for 1994 have been restated to reflect the stock split.

### 4. INVESTMENT SECURITIES

Upon the adoption of Statement 115, the Bank initially transferred from the investment securities portfolio to the available for sale classification investment securities with an amortized cost of \$20,141 and an estimated market value of \$21,525. The net appreciation of these securities at adoption was recorded, net of federal income taxes, to an unrealized securities gain (loss) account which is a component of stockholders' equity.

During the first quarter of 1995, the Bank transferred its entire U. S. Treasury securities portfolio from held to maturity to available for sale for purposes of restructuring the mix of the portfolio. At the time of transfer these securities had an amortized cost of \$99,137 and an estimated market value of \$98,262. Also, in December of 1995, in accordance with the Financial Accounting Standards Board Special Report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities," the Bank reclassified all of its investment securities, except for obligations of states and political subdivisions, from the held to maturity classification to the available for sale classification with an amortized cost of \$15,964 and an estimated market value of \$15,280.

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## PEOPLES BANK OF UNITY

### NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

The amortized cost and estimated market values of investment securities are as follows:

| 1996              |                              |                               |                              |
|-------------------|------------------------------|-------------------------------|------------------------------|
| AMORTIZED<br>COST | GROSS<br>UNREALIZED<br>GAINS | GROSS<br>UNREALIZED<br>LOSSES | ESTIMATED<br>MARKET<br>VALUE |
| -----             |                              |                               |                              |

AVAILABLE FOR SALE

|                                      |           |          |          |           |
|--------------------------------------|-----------|----------|----------|-----------|
| U. S. Treasury securities.....       | \$27,145  | \$ 669   | \$ --    | \$27,814  |
| U. S. Government agency securities.. | 4,065     | 83       | --       | 4,148     |
| Mortgage-backed securities.....      | 47,327    | 401      | (266)    | 47,462    |
| Corporate securities.....            | 14,163    | 143      | (56)     | 14,250    |
|                                      | -----     | -----    | -----    | -----     |
| Total debt securities.....           | 92,700    | 1,296    | (322)    | 93,674    |
| Equity securities.....               | 282       | 2,065    | --       | 2,347     |
|                                      | -----     | -----    | -----    | -----     |
| Total.....                           | \$ 92,982 | \$ 3,361 | \$ (322) | \$ 96,021 |
|                                      | =====     | =====    | =====    | =====     |

1996

|  | AMORTIZED<br>COST | GROSS<br>UNREALIZED<br>GAINS | GROSS<br>UNREALIZED<br>LOSSES | ESTIMATED<br>MARKET<br>VALUE |
|--|-------------------|------------------------------|-------------------------------|------------------------------|
|--|-------------------|------------------------------|-------------------------------|------------------------------|

HELD TO MATURITY

|   |           |        |         |           |
|---|-----------|--------|---------|-----------|
| Obligations of states and political subdivisions..... | \$ 22,095 | \$ 350 | \$ (45) | \$ 22,400 |
|   | =====     | =====  | =====   | =====     |

1995

|  | AMORTIZED<br>COST | GROSS<br>UNREALIZED<br>GAINS | GROSS<br>UNREALIZED<br>LOSSES | ESTIMATED<br>MARKET<br>VALUE |
|--|-------------------|------------------------------|-------------------------------|------------------------------|
|--|-------------------|------------------------------|-------------------------------|------------------------------|

AVAILABLE FOR SALE

|                                      |           |          |          |           |
|--------------------------------------|-----------|----------|----------|-----------|
| U. S. Treasury securities.....       | \$ 52,301 | \$ 2,264 | \$ --    | \$ 54,565 |
| U. S. Government agency securities.. | 1,008     | --       | (11)     | 997       |
| Mortgage-backed securities.....      | 38,321    | 557      | (35)     | 38,843    |
| Corporate securities.....            | 21,324    | 306      | (172)    | 21,458    |
|                                      | -----     | -----    | -----    | -----     |
| Total debt securities.....           | 112,954   | 3,127    | (218)    | 115,863   |
| Equity securities.....               | 282       | 1,368    | --       | 1,650     |
|                                      | -----     | -----    | -----    | -----     |
| Total.....                           | \$113,236 | \$ 4,495 | \$ (218) | \$117,513 |
|                                      | =====     | =====    | =====    | =====     |

1995

|  | AMORTIZED<br>COST | GROSS<br>UNREALIZED<br>GAINS | GROSS<br>UNREALIZED<br>LOSSES | ESTIMATED<br>MARKET<br>VALUE |
|--|-------------------|------------------------------|-------------------------------|------------------------------|
|--|-------------------|------------------------------|-------------------------------|------------------------------|

HELD TO MATURITY

|   |           |        |         |           |
|---|-----------|--------|---------|-----------|
| Obligations of states and political subdivisions..... | \$ 24,383 | \$ 551 | \$ (56) | \$ 24,878 |
|   | =====     | =====  | =====   | =====     |

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PEOPLES BANK OF UNITY

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

The amortized cost and estimated market value of debt securities at December 31, 1996, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| AVAILABLE FOR SALE            | HELD TO MATURITY              |
|-------------------------------|-------------------------------|
| -----                         | -----                         |
| ESTIMATED<br>AMORTIZED MARKET | ESTIMATED<br>AMORTIZED MARKET |

|  | COST     | VALUE    | COST     | VALUE    |
|--|----------|----------|----------|----------|
|  | -----    | -----    | -----    | -----    |
| Due in one year or less.....                   | \$ 9,016 | \$ 9,051 | \$ 8,744 | \$ 8,793 |
| Due after one year through five<br>years.....  | 39,243   | 40,106   | 11,542   | 11,707   |
| Due after five years through ten<br>years..... | 9,218    | 9,253    | 1,809    | 1,900    |
| Due after ten years.....                       | 35,223   | 35,264   | --       | --       |
|  | -----    | -----    | -----    | -----    |
| Total.....                                     | \$92,700 | \$93,674 | \$22,095 | \$22,400 |
|  | =====    | =====    | =====    | =====    |

Investment securities with a carrying value of \$13,798 and \$14,610 at December 31, 1996 and 1995, respectively, were pledged to secure deposits and other purposes as required by law.

Proceeds from the sale of investment securities available for sale were \$31,765, \$48,411 and \$9,887 in 1996, 1995, and 1994, respectively. Gross gains resulting from these sales were \$164, \$320 and \$8 in 1996, 1995, and 1994, respectively. Gross losses were \$113 in 1996, \$207 in 1995 and \$71 in 1994.

Proceeds from the exercising of call features of investment securities held to maturity were \$204, \$2,554, and \$2,160 in 1996, 1995, and 1994, respectively. Gains resulting from these calls were \$4, \$8, and \$60 in 1996, 1995, and 1994, respectively.

#### 5. LOANS

Major classifications of loans are summarized as follows:

|  | 1996      | 1995      |
|--|-----------|-----------|
|  | -----     | -----     |
| Real estate--construction.....               | \$ 10,524 | \$ 6,479  |
| Real estate--mortgages:                      |           |           |
| Residential.....                             | 103,824   | 83,437    |
| Commercial.....                              | 21,450    | 17,320    |
| Commercial--industrial and agricultural..... | 8,849     | 8,075     |
| Consumer.....                                | 9,361     | 11,252    |
|  | -----     | -----     |
|  | 154,008   | 126,563   |
| Less allowance for loan losses.....          | 1,686     | 1,127     |
|  | -----     | -----     |
| Net loans.....                               | \$152,322 | \$125,436 |
|  | =====     | =====     |

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#### PEOPLES BANK OF UNITY

#### NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

Changes in the allowance for loan losses for the years ended December 31, 1996, 1995, and 1994, are as follows:

|                              | 1996    | 1995   | 1994  |
|------------------------------|---------|--------|-------|
|                              | -----   | -----  | ----  |
| Balance, January 1.....      | \$1,127 | \$ 838 | \$762 |
| Loans charged off.....       | (348)   | (150)  | (60)  |
| Recoveries.....              | 32      | 19     | 36    |
|                              | -----   | -----  | ----  |
| Net loans charged off.....   | (316)   | (131)  | (24)  |
| Provision for loan loss..... | 875     | 420    | 100   |

|                           |         |         |       |
|---------------------------|---------|---------|-------|
| Balance, December 31..... | \$1,686 | \$1,127 | \$838 |
|                           | =====   | =====   | ===== |

At December 31, 1996 and 1995, loans that were considered to be impaired totaled \$487 and \$184, respectively, after charge-offs of \$58 in 1996. All impaired loans are included in nonperforming loans. The related allowance for loan losses allocated to impaired loans was \$5 and \$58 at December 31, 1996 and 1995, respectively. The average recorded investment in impaired loans during 1996 and 1995 was \$356 and \$31, respectively. Interest recognized on impaired loans was \$3 for the year ended December 31, 1996. There was no interest income recognized on impaired loans in 1995.

In the normal course of business, loans are extended to executive officers, directors, and their associates. In management's opinion, all of these loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons. A summary of loan activity for those executive officers, directors, and their associates with aggregate loan balances in excess of \$60 for the year ended December 31, 1996, is as follows:

| DECEMBER 31,<br>1995 | AMOUNTS<br>ADDITIONS | OTHER<br>COLLECTED | OTHER<br>CHANGES | DECEMBER 31,<br>1996 |
|----------------------|----------------------|--------------------|------------------|----------------------|
| -----                | -----                | -----              | -----            | -----                |
| \$996                | \$3,107              | \$(1,768)          | \$7,704          | \$10,039             |

Other changes represent the effect of changes in the members of the Board of Directors and executive officers during 1996.

The Bank's primary business activity is with customers located within its local trade area. Commercial, residential, personal, and agricultural loans are granted. The Bank also selectively funds residential loans originated outside of its trade area provided such loans meet the Bank's credit policy guidelines. Although the Bank has a diversified loan portfolio, at December 31, 1996 and 1995, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

|   | 1996    | 1995    |
|---|---------|---------|
|   | -----   | -----   |
| Land.....   | \$ 377  | \$ 377  |
| Buildings and leasehold improvements.....           | 4,033   | 3,909   |
| Furniture, fixtures, and equipment.....             | 4,657   | 4,542   |
|   | -----   | -----   |
|   | 9,067   | 8,828   |
| Less accumulated depreciation and amortization..... | 4,955   | 4,347   |
|   | -----   | -----   |
| Total.....  | \$4,112 | \$4,481 |
|   | =====   | =====   |

Depreciation and amortization expense amounted to \$625 in 1996, \$604 in 1995, and \$473 in 1994.

7. DEPOSITS

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

|                                 | 1996      | 1995      |
|---------------------------------|-----------|-----------|
|                                 | -----     | -----     |
| Noninterest-bearing demand..... | \$ 43,502 | \$ 39,711 |
| Interest-bearing demand.....    | 19,842    | 20,566    |
| Money market.....               | 15,341    | 14,315    |
| Savings.....                    | 79,505    | 85,672    |
| Time deposits.....              | 79,903    | 76,658    |
|                                 | -----     | -----     |
| Total.....                      | \$238,093 | \$236,922 |
|                                 | =====     | =====     |

Time deposits include certificates of deposit in denominations of \$100 or more. Such deposits aggregated \$12,414 and \$9,536 at December 31, 1996 and 1995, respectively.

Interest expense on certificates of deposit over \$100 amounted to \$419 in 1996, \$389 in 1995, and \$197 in 1994.

At December 31, 1996, the scheduled maturities of time deposits are as follows:

|                          |          |
|--------------------------|----------|
| 1997.....                | \$45,111 |
| 1998.....                | 15,893   |
| 1999.....                | 3,771    |
| 2000.....                | 4,706    |
| 2001 and thereafter..... | 10,422   |
|                          | -----    |
|                          | \$79,903 |
|                          | =====    |

8. INCOME TAXES

The provision for income taxes consists of:

|                        | 1996     | 1995     | 1994     |
|------------------------|----------|----------|----------|
|                        | -----    | -----    | -----    |
| Currently payable..... | \$2,098  | \$1,736  | \$1,564  |
| Deferred.....          | (83)     | (120)    | 29       |
|                        | -----    | -----    | -----    |
| Total.....             | \$ 2,015 | \$ 1,616 | \$ 1,593 |
|                        | =====    | =====    | =====    |

Income taxes (benefit) applicable to security gains (losses) were \$19 in 1996, \$41 in 1995 and \$(1) in 1994.

The components of the net deferred tax liabilities are as follows:

| 1996  | 1995  |
|-------|-------|
| ----- | ----- |

|  |          |          |
|--|----------|----------|
| Deferred Tax Assets:                     |          |          |
| Allowance for loan losses.....           | \$ 451   | \$ 261   |
| Deferred loan origination fees, net..... | 229      | 238      |
| Accrued pension costs.....               | --       | 21       |
| Loss on fraudulent transactions.....     | 71       | 138      |
|  | -----    | -----    |
| Total deferred tax assets.....           | 751      | 658      |
|  | -----    | -----    |
| Deferred Tax Liabilities:                |          |          |
| Premises and equipment.....              | (180)    | (189)    |
| Prepaid pension costs.....               | (19)     | --       |
| Net unrealized gain on securities.....   | (1,033)  | (1,454)  |
|  | -----    | -----    |
| Total deferred tax liabilities.....      | (1,232)  | (1,643)  |
|  | -----    | -----    |
| Net deferred tax liabilities.....        | \$ (481) | \$ (985) |
|  | =====    | =====    |

The reconciliation of the federal statutory rate and the Bank's effective income tax rate is as follows:

|  | 1996     |                     | 1995    |                     | 1994     |                     |
|--|----------|---------------------|---------|---------------------|----------|---------------------|
|  | AMOUNT   | % OF PRE-TAX INCOME | AMOUNT  | % OF PRE-TAX INCOME | AMOUNT   | % OF PRE-TAX INCOME |
|  | -----    | -----               | -----   | -----               | -----    | -----               |
| Provision at statutory rate..            | \$ 2,382 | 34.0 %              | \$2,036 | 34.0 %              | \$ 2,081 | 34.0 %              |
| Effect of tax free income....            | (419)    | (6.0)               | (479)   | (8.0)               | (541)    | (8.8)               |
| Non-deductible interest expense.....     | 40       | .6                  | 50      | .8                  | 49       | .8                  |
| Other, net.....                          | 12       | .2                  | 9       | .2                  | 4        | --                  |
|  | -----    | -----               | -----   | -----               | -----    | -----               |
| Actual provision and effective rate..... | \$ 2,015 | 28.8 %              | \$1,616 | 27.0 %              | \$ 1,593 | 26.0 %              |
|  | =====    | =====               | =====   | =====               | =====    | =====               |

## 9. RETIREMENT PLANS

### Defined Benefit Plan

The Bank sponsors a trustee, non-contributory defined benefit pension plan covering substantially all employees and officers of the Bank. The plan calls for benefits to be paid to eligible employees at retirement based primarily on years of service and compensation rates near retirement. Contributions are intended to provide for benefits attributed to employee service to date and for those benefits expected to be earned in the future.

The following presents the components of the net periodic pension cost:

|  | 1996   | 1995   | 1994   |
|--|--------|--------|--------|
|  | -----  | -----  | -----  |
| Service costs of the current period.....           | \$ 152 | \$ 140 | \$ 133 |
| Interest cost on projected benefit obligation..... | 148    | 132    | 116    |
| Actual return on plan assets.....                  | (187)  | (360)  | 31     |
| Net amortization and deferral.....                 | 22     | 251    | (126)  |
|  | -----  | -----  | -----  |
| Total.....   | \$ 135 | \$ 163 | \$ 154 |
|  | =====  | =====  | =====  |

PEOPLES BANK OF UNITY

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

The actuarial present value of the accumulated benefit obligation at December 31, 1996 and 1995 was \$1,292 and \$1,099 including vested benefit obligations of \$1,219 and \$1,038, respectively. The following sets forth the funded status of the plan and the amounts recognized in the accompanying balance sheet:

|  | 1996     | 1995     |
|--|----------|----------|
|  | -----    | -----    |
| Plan assets at fair value.....   | \$ 2,438 | \$ 2,028 |
| Actuarial present value of projected benefit obligation...   | (2,069)  | (1,984)  |
|  | -----    | -----    |
| Funded status.....   | 369      | 44       |
| Prior service costs.....   | 260      | 286      |
| Unrecognized transition amount.....  | (49)     | (58)     |
| Unrecognized net gain from past experience different from<br>that assumed and effects from changes in assumptions..... | (524)    | (336)    |
|  | -----    | -----    |
| Pension asset (liability).....   | \$ 56    | \$ (64)  |
|  | =====    | =====    |

The plan assets are primarily invested in fixed income mutual funds.

Assumptions used in determining net periodic pension cost are as follows:

|  | 1996  | 1995  | 1994  |
|--|-------|-------|-------|
|  | ----  | ----  | ----  |
| Discount rate.....                               | 7.50% | 7.50% | 7.50% |
| Expected long-term rate of return on assets..... | 7.50  | 7.50  | 7.50  |
| Rate of increase in compensation levels.....     | 6.00  | 6.00  | 6.00  |

Defined Contribution Plan

The Bank maintains a section 401(k) employee savings and investment plan covering substantially all employees and officers of the Bank. The Bank's contributions to the plan are based on 50% matching of voluntary contributions of up to 4% of individual compensation. Additionally, the Bank may contribute a discretionary amount each year. Employee contributions are vested at all times and Bank contributions are fully vested after seven years. Bank contributions to the plan were \$86, \$83 and \$110 for the years ended 1996, 1995, and 1994, respectively.

10. LOSS FROM FRAUDULENT TRANSACTIONS

In September of 1996, it was discovered that a now former executive officer of the Bank had executed a series of fraudulent transactions which resulted in a loss of \$405. These transactions consisted primarily of granting loans to individuals where the proceeds were ultimately received by the executive officer. These loans are reflected as a charge to operations in the 1995 statement of income. The Bank is actively pursuing recovery.

11. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

In the normal course of business, there are various outstanding commitments and certain contingent liabilities which are not reflected in the accompanying financial statements. These commitments and contingent liabilities represent financial instruments with off-balance-sheet risk. The contract or notional amounts of those

PEOPLES BANK OF UNITY

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

instruments reflect the extent of involvement in particular types of financial instruments which were comprised of the following:

|                                | 1996     | 1995     |
|--------------------------------|----------|----------|
|                                | -----    | -----    |
| Commitments to extend credit:  |          |          |
| Fixed rate.....                | \$ 7,221 | \$ 4,368 |
| Variable rate.....             | 15,142   | 10,027   |
| Standby letters of credit..... | 3,380    | 3,717    |
|                                | -----    | -----    |
| Total.....                     | \$25,743 | \$18,112 |
|                                | =====    | =====    |

The range of interest rates on fixed rate commitments was 6.50% to 9.50% at December 31, 1996.

The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The same credit policies are used in making commitments and conditional obligations as for on-balance-sheet instruments. Generally, collateral is required to support financial instruments with credit risk. The terms are typically for a one-year period with an annual renewal option subject to prior approval by management.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments are comprised primarily of available commercial and personal lines of credit. Standby letters of credit written are conditional commitments issued to guarantee the performance of a customer to a third party.

The exposure to loss under these commitments is limited by subjecting them to credit approval and monitoring procedures. Substantially all of the commitments to extend credit are contingent upon customers maintaining specific credit standards at the time of the loan funding. Management assesses the credit risk associated with certain commitments to extend credit in determining the level of the allowance for loan losses. Since many of the commitments are expected to expire without being drawn upon, the contractual amounts do not necessarily represent future funding requirements.

Minimum future lease payments under a capital lease as of December 31, 1996, are as follows:

|  |       |
|--|-------|
| 1997.....                                    | \$237 |
| Less amounts representing interest.....      | (12)  |
|  | ----  |
| Present value of minimum lease payments..... | \$225 |
|  | ===== |

Contingent Liabilities

The Bank is involved in various legal actions from normal business activities. Management believes that the liabilities, if any, arising from these proceedings will not have a material adverse effect on the Bank's financial position, operating results, or liquidity.

12. REGULATORY MATTERS

The Pennsylvania Banking Code restricts the availability of additional paid in capital for dividend purposes. At December 31, 1996, additional paid in capital of \$13,544 was not available for dividends.

PEOPLES BANK OF UNITY

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

Included in cash and due from banks are required federal reserves of \$1,782 and \$1,524 at December 31, 1996 and 1995, respectively, for facilitating the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of cash on hand and/or balances maintained directly with the Federal Reserve Bank.

13. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by the regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 1996, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 1996, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based and Tier 1 leverage ratios at least 100 to 200 basis points above those ratios set forth in the table below. There have been no conditions or events since that notification that management believes have changed the Bank's category.

The following table reflects the Bank's capital ratios at December 31:

|  | 1996     |        | 1995     |        |
|--|----------|--------|----------|--------|
|  | AMOUNT   | RATIO  | AMOUNT   | RATIO  |
| Total Capital (to Risk Weighted Assets)  |          |        |          |        |
| Actual.....                              | \$49,522 | 31.99% | \$45,424 | 31.36% |
| For Capital Adequacy Purposes.....       | 12,384   | 8.00   | 11,589   | 8.00   |
| To Be Well Capitalized.....              | 15,480   | 10.00  | 14,486   | 10.00  |
| Tier I Capital (to Risk Weighted Assets) |          |        |          |        |
| Actual.....                              | \$47,836 | 30.90% | \$44,297 | 30.58% |
| For Capital Adequacy Purposes.....       | 6,192    | 4.00   | 5,794    | 4.00   |
| To Be Well Capitalized.....              | 9,288    | 6.00   | 8,691    | 6.00   |
| Tier I Capital (to Average Assets)       |          |        |          |        |
| Actual.....                              | \$47,836 | 16.65% | \$44,297 | 15.56% |
| For Capital Adequacy Purposes.....       | 11,495   | 4.00   | 11,387   | 4.00   |
| To Be Well Capitalized.....              | 14,369   | 5.00   | 14,234   | 5.00   |

PEOPLES BANK OF UNITY

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

14. FAIR VALUE DISCLOSURE

The estimated fair values of the Bank's financial instruments at December 31, 1996 and 1995 are as follows:

|   | 1996              |                  | 1995              |                  |
|---|-------------------|------------------|-------------------|------------------|
|   | CARRYING<br>VALUE | FAIR<br>VALUE    | CARRYING<br>VALUE | FAIR<br>VALUE    |
| <b>Financial assets:</b>                            |                   |                  |                   |                  |
| Cash and due from banks and federal funds sold..... | \$ 13,856         | \$ 13,856        | \$ 13,965         | \$ 13,965        |
| Securities available for sale.....                  | 96,021            | 96,021           | 117,513           | 117,513          |
| Investment securities.....                          | 22,095            | 22,400           | 24,383            | 24,878           |
| Net loans.....                                      | 152,322           | 148,720          | 125,436           | 124,941          |
| Accrued interest receivable.....                    | 2,158             | 2,158            | 2,764             | 2,764            |
| <b>Total.....</b>                                   | <b>\$286,452</b>  | <b>\$283,155</b> | <b>\$284,061</b>  | <b>\$284,061</b> |
| <b>Financial liabilities:</b>                       |                   |                  |                   |                  |
| Deposits.....                                       | \$238,093         | \$237,946        | \$236,922         | \$235,579        |
| Commitment to purchase investment securities.....   | --                | --               | 2,011             | 2,011            |
| Obligation under capital lease.....                 | 225               | 216              | 520               | 500              |
| Accrued interest payable.....                       | 1,064             | 1,064            | 1,083             | 1,083            |
| <b>Total.....</b>                                   | <b>\$239,382</b>  | <b>\$239,226</b> | <b>\$240,536</b>  | <b>\$239,173</b> |

Financial instruments are defined as cash, evidence of an ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses and other factors as determined through various option pricing formulas or simulation modeling. As many of these assumptions result from judgments made by management based upon estimates which are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in the assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Bank.

The Bank employed simulation modeling in determining the estimated fair value of financial instruments for which quoted market prices were not available based upon the following assumptions:

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PEOPLES BANK OF UNITY

NOTES TO FINANCIAL STATEMENTS--(CONTINUED)

Cash and Due From Banks, Federal Funds Sold, Accrued Interest Receivable, Commitment to Purchase Investment Securities, and Accrued Interest Payable

The fair value is equal to the current carrying value.

## Investment Securities

The fair value of securities available for sale and held to maturity is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

## Loans, Deposits, and Obligation Under Capital Lease

The fair value of loans is estimated by discounting the future cash flows using a simulation model which estimates future cash flows and constructs discount rates that consider reinvestment opportunities, operating expenses, non-interest income, credit quality, and prepayment risk. Demand, savings, and money market deposit accounts are valued at the amount payable on demand as of year end. Fair values for time deposits and the obligation under capital lease are estimated using a discounted cash flow calculation that applies contractual costs currently being offered in the existing portfolio to current market rates being offered for deposits and borrowings of similar remaining maturities.

## Commitments to Extend Credit and Standby Letters of Credit

These financial instruments are generally not subject to sale, and estimated fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment or letter of credit, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, are not considered material for disclosure. The contractual amounts of unfunded commitments and letters of credit are presented in Note 11.

## 15. AGREEMENT AND PLAN OF MERGER

On November 25, 1996, the Board of Directors entered into an Agreement and Plan of Reorganization and a related Agreement and Plan of Merger ("Plan of Merger"), whereby the Bank would be merged into S&T Bank, a Pennsylvania banking institution headquartered in Indiana, Pennsylvania. Under the terms of the Plan of Merger, each shareholder of the Bank will receive 26.25 shares of S&T Bancorp, Inc. (the parent holding company of S&T Bank) stock in exchange for each share of the Bank's stock, subject to the terms, conditions, and limitations set forth in the Plan of Merger.

Completion of the merger is subject to approval by various regulatory agencies and the stockholders of the Bank and S&T Bancorp, Inc.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### FINANCIAL CONDITION

General Total assets increased \$2.1 million or .7% from \$289.0 million at December 31, 1995 to \$291.1 million at December 31, 1996. During this period there were increases of \$27.4 million in total loans and \$766,000 in cash and due from banks, which were funded by declines in investment securities of \$23.8 million and federal funds sold of \$875,000 and increases in deposits of \$1.2 million.

Investment Portfolio Total investment securities declined during the year by \$23.8 million or 16.8% from \$141.9 million at December 31, 1995 to \$118.1 million at December 31, 1996. Management sold \$31.8 million of available for sale securities, primarily U. S. Treasury securities during the year. The proceeds from the sale of these securities were reinvested primarily into loan originations and mortgage-backed securities.

During 1995, management reclassified all of its investment securities, except obligations of states and political subdivisions, from the held to maturity classification to available for sale classification with an amortized cost of \$115.1 million and an estimated market value of \$113.5 million. In February 1995, management made the determination to reclassify all U. S. Treasury securities to available for sale amounting to \$99.1 million of amortized cost and \$98.3 million of estimated market value. In December 1995, in accordance with the Financial Accounting Standards Board Special Report "A Guide to Implementation of Statement 115 on Accounting for Certain Investments



|                                   |         |       |           |       |          |       |          |         |
|-----------------------------------|---------|-------|-----------|-------|----------|-------|----------|---------|
| securities.....                   |         | 4,148 | 7.56%     |       |          |       |          |         |
| Mortgage-backed securities.....   | 1,412   | 7.73% | 5,562     | 7.27% | \$ 5,224 | 7.05% | \$35,264 | 6.50%   |
| Corporate securities....          | 3,627   | 7.08% | 6,594     | 6.82% | 4,029    | 7.04% |          |         |
| Marketable equity securities..... |         |       |           |       |          |       |          | \$2,347 |
|                                   | -----   |       | -----     |       | -----    |       | -----    | -----   |
|                                   | \$9,051 |       | \$ 40,106 |       | \$ 9,253 |       | \$35,264 | \$2,347 |
|                                   | =====   |       | =====     |       | =====    |       | =====    | =====   |

INVESTMENT SECURITIES

|  |         |       |           |       |          |       |       |       |
|--|---------|-------|-----------|-------|----------|-------|-------|-------|
| Obligations of states and political subdivision..... | \$8,744 | 7.34% | \$ 11,542 | 7.75% | \$ 1,809 | 8.53% | \$ -- | \$ -- |
|  | =====   |       | =====     |       | =====    |       | ===== | ===== |

Loans Total loans amounted to \$154.0 million at December 31, 1996 compared to \$126.6 million at December 31, 1995, an increase of \$27.4 million or 21.6%. Total real estate loans amounted to \$135.8 million or 88.2% of total loans at December 31, 1996 comprised of: residential real estate loans of \$103.8 million, commercial real estate of \$21.5 million and real estate construction of \$10.5 million.

Peoples continues to focus its primary lending efforts in residential mortgages. In recent years there has been a very strong loan demand in residential real estate, as well as, somewhat less traditional commercial real

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estate and construction real estate loans. The loan growth has been spurred by new housing developments in the local market combined with strong marketing efforts of Peoples. Management believes that the conservative lending practices employed by Peoples reduce, to an acceptable level, the impact of declining values of real estate should a downturn in the local real estate market occur.

Management intends to continue to market real estate lending in its local market, as well as, other lending products to meet the needs of its customers. Management desires to maintain a diversified loan portfolio in its local market area to support the communities it serves. Peoples has no loan concentrations to any industry or group nor does it intend to develop such relationships.

The following table shows Peoples loan distribution at the end of each reported period:

|  | DECEMBER 31,   |           |           |          |          |
|--|----------------|-----------|-----------|----------|----------|
|  | 1996           | 1995      | 1994      | 1993     | 1992     |
|  | -----          |           |           |          |          |
|  | 1996           | 1995      | 1994      | 1993     | 1992     |
|  | -----          |           |           |          |          |
|  | (IN THOUSANDS) |           |           |          |          |
| Commercial, industrial and agricultural..... | \$ 8,849       | \$ 8,075  | \$ 8,834  | \$ 6,933 | \$ 6,105 |
| Real estate--construction.....               | 10,524         | 6,479     | 2,946     | 2,633    | 964      |
| Real estate--mortgage.....                   | 125,274        | 100,757   | 79,813    | 71,769   | 60,637   |
| Consumer.....                                | 9,361          | 11,252    | 10,333    | 13,159   | 13,326   |
|  | -----          | -----     | -----     | -----    | -----    |
| Total loans.....                             | \$154,008      | \$126,563 | \$101,926 | \$94,494 | \$81,032 |
|  | =====          | =====     | =====     | =====    | =====    |

The following table shows the maturity of loans (excluding residential mortgages of 1-4 family residences and consumer loans) outstanding as of December 31, 1996. Also provided are the amounts due after one year classified according to the sensitivity to changes in interest rates.

|  |           |            |            |       |
|--|-----------|------------|------------|-------|
|  | AFTER ONE |            |            |       |
|  | WITHIN    | BUT WITHIN | AFTER      |       |
|  | ONE YEAR  | FIVE YEARS | FIVE YEARS | TOTAL |

-----  
(IN THOUSANDS)  
-----

|  |         |          |          |          |
|--|---------|----------|----------|----------|
| Commercial, industrial and agricultural..... | \$2,442 | \$ 5,033 | \$ 1,373 | \$ 8,848 |
| Real estate--construction.....               | 1,809   | 3,688    | 5,027    | 10,524   |
| Real estate--mortgage.....                   | 6       | 2,304    | 19,140   | 21,450   |
|  | -----   | -----    | -----    | -----    |
| TOTAL.....                                   | \$4,257 | \$11,025 | \$25,540 | \$40,822 |
|  | =====   | =====    | =====    | =====    |
| Fixed interest rates.....                    |         | \$ 3,092 | \$17,237 |          |
| Variable interest rates.....                 |         | 7,933    | 8,303    |          |
|  |         | =====    | =====    |          |
| TOTAL.....                                   |         | \$11,025 | \$25,540 |          |
|  |         | =====    | =====    |          |

Nonperforming Loans Peoples nonperforming loans, which include nonaccrual loans and accruing loans past due 90 days or more, have been maintained at relatively low levels. Nonperforming loans, as a percentage of total loans, have continually declined since December 31, 1994 from 1.93% of total loans to 1.50% of total loans at December 31, 1995 and again to 1.29% of total loans at December 31, 1996.

During 1996, Peoples changed its policy of placing loans on a nonaccrual status, resulting in an increase of \$515,000 to \$1,450,000 at December 31, 1996 compared to \$935,000 at December 31, 1995. This increase was principally attributable to small homogenous one-to-four family residential mortgage loans. For commercial and real estate loans greater than 90 days past due, accrual of income is generally discontinued, and any previously accrued interest is reversed against current income. Consumer loans are generally charged off between 90 and 120 days past due or when deemed uncollectible in the opinion of management. Prior to 1996, management evaluated commercial and real estate loans on an individual basis to determine if they should be placed on

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nonaccrual status. The accrual of interest was discontinued, when in the opinion of management, collection was doubtful.

The following table summarizes Peoples nonaccrual and past due loans. Peoples has no restructured loans:

|  | DECEMBER 31,   |       |        |      |        |
|--|----------------|-------|--------|------|--------|
|  | 1996           | 1995  | 1994   | 1993 | 1992   |
|  | -----          |       |        |      |        |
|  | (IN THOUSANDS) |       |        |      |        |
|  | -----          |       |        |      |        |
| Nonaccrual loans.....                        | \$1,450        | \$935 | \$ 485 | \$96 | \$ 138 |
| Accruing loans past due 90 days or more..... | 538            | 969   | 1,487  | 931  | 1,380  |

Interest income that would have been recorded on loans accounted for on a non-accrual basis under the original terms of such loans was \$179,000 for the year ended December 31, 1996 and \$74,000 was recorded as interest income from non-accrual loans for the year ended December 31, 1996.

Impaired loans are included with non-accrual loans in the above table, and amounted to \$487,000 and \$184,000 as of December 31, 1996 and 1995, respectively. Impaired loans are commercial and commercial real estate loans for which it is probable that Peoples will not be able to collect all amounts due according to the contractual terms of the loan agreement. Peoples individually evaluates such loans for impairment and does not aggregate loans by major risk classifications.

Classified Assets Management regularly reviews the loan portfolio in order to identify potential problem loans, and classifies any potential problem loans as a special mention, substandard, doubtful, or loss asset. An asset is considered substandard if it is inadequately protected by the current equity and paying capacity of the borrower or of the collateral pledged, if any.

Substandard assets include those characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all the weaknesses of those classified as substandard with the additional characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable. Assets classified as loss are considered uncollectible and of such little value that their continuance as assets without the establishment of a specific reserve is not warranted. Assets that do not currently expose the bank to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving management's close attention are designated special mention. Special mention assets have a potential weakness or pose an unwarranted financial risk that, if not corrected, could weaken the asset and increase risk in the future.

On the basis of management's review of its loan portfolio, at December 31, 1996, Peoples has classified \$1.4 million as substandard and \$5.0 million as special mention. Peoples has no assets classified as doubtful or loss at December 31, 1996.

At December 31, 1996, there were no loans which were not included as past due, or nonaccrual, where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present repayment terms.

Allowance for Loan Losses The allowance for loan losses increased to \$1.7 million or 1.09% of total loans at December 31, 1996 from \$1.1 million or .89% of total loans at December 31, 1995 as compared to \$838,000 or .82% at December 31, 1994. The increase in the allowance for loan losses resulted primarily from increases in the loan portfolio, coupled with the fact that a significant portion of this growth was in commercial real estate loans. The adequacy of the allowance for loan losses is determined by management's periodic evaluation of individual loans, the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors.

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This table summarizes Peoples loan loss experience for each of the periods indicated:

|   | 1996    | 1995    | 1994                              | 1993                | 1992  |
|---|---------|---------|-----------------------------------|---------------------|-------|
|   | -----   | -----   | ----                              | ----                | ----  |
| Balance, beginning of period.....                             | \$1,127 | \$ 838  | \$762                             | \$757               | \$756 |
| Charge-offs:  |         |         |                                   |                     |       |
| Commercial, industrial and agricultural..                     | 92      |         | 3                                 | 1                   |       |
| Real estate-mortgage.....                                     | 31      | 82      |                                   | 46                  | 72    |
| Consumer.....   | 225     | 68      | 57                                | 55                  | 50    |
|   | -----   | -----   | ---- <td>---- <td>---- </td></td> | ---- <td>---- </td> | ----  |
|   | 348     | 150     | 60                                | 102                 | 122   |
|   | -----   | -----   | ---- <td>---- <td>---- </td></td> | ---- <td>---- </td> | ----  |
| Recoveries:   |         |         |                                   |                     |       |
| Commercial, industrial and agricultural..                     |         |         |                                   | 4                   |       |
| Real estate-mortgage.....                                     | 10      | 9       | 32                                | 30                  | 10    |
| Consumer.....   | 22      | 10      | 4                                 | 8                   | 3     |
|   | -----   | -----   | ---- <td>---- <td>---- </td></td> | ---- <td>---- </td> | ----  |
|   | 32      | 19      | 36                                | 42                  | 13    |
|   | -----   | -----   | ---- <td>---- <td>---- </td></td> | ---- <td>---- </td> | ----  |
| Net charge-offs.....  | 316     | 131     | 24                                | 60                  | 109   |
| Provision for loan losses.....                                | 875     | 420     | 100                               | 65                  | 110   |
|   | -----   | -----   | ---- <td>---- <td>---- </td></td> | ---- <td>---- </td> | ----  |
| Balance, end of period.....                                   | \$1,686 | \$1,127 | \$838                             | \$762               | \$757 |
|   | =====   | =====   | =====                             | =====               | ===== |
| Ratio of net charge-offs to average loans<br>outstanding..... | 0.23%   | 0.12%   | 0.02%                             | 0.07%               | 0.13% |

Management uses the aforementioned review and analysis to determine the adequacy of the allowance for loan losses on a quarterly basis. The provision for loan losses represents an amount that is sufficient to maintain the reserves at a level necessary to meet present and potential risk

characteristics of the loan portfolio. The increased levels of loans and charge-offs has been a significant factor in determining the level of the provision for loan losses.

Management also considers the causes of charge-offs to assist in the evaluation of the adequacy of the allowance for loan losses. There has been a marked increase in the levels of charge-offs in recent years relating to residential real estate and consumer loans. The charge-offs relating to residential real estate loans in 1995 were attributable to three properties which were foreclosed on and written down to fair value prior to being classified as other real estate owned. Historically, Peoples has had minimal activity relating to other real estate which is attributable to its conservative underwriting standards. Peoples has also noticed an increase in the level of consumer loan charge-offs, particularly those which are unsecured. The levels of personal bankruptcies in Peoples market area are at an all time high which have significantly contributed to the levels of consumer loan losses.

Peoples has allocated and unallocated components of its allowance for loan losses. The allocated portion reflects expected losses based on specific review of individual loans and applying standard loss ratios to those loans not individually evaluated. The unallocated component is more subjective in nature, based upon management's assessment of nonquantifiable factors such as: dependency on local economic conditions, increased levels and types of lending, increased levels of loan charge-offs, and trends and levels of current nonperforming loans. Peoples has increased its unallocated component of the allowance for loan losses as a result of the significant increases over the past three years of total loans, increased volume of commercial real estate lending, increased levels of charge-offs in the past two years, and the levels of personal bankruptcies occurring in its market area.

Based on continual evaluation of the loan quality and assessment of the risk characteristics, management believes the allowance for loan losses is adequate to absorb probable loan losses.

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This table shows the allocation of the allowance for loan losses as of the end of each reported period:

|   | DECEMBER 31, 1996  |        | DECEMBER 31, 1995  |        | DECEMBER 31, 1994  |        | DECEMBER 31, 1993  |        | DECEMBER 31, 1992  |        |
|---|--|--------|--|--------|--|--------|--|--------|--|--------|
|   | PERCENT OF<br>LOANS IN<br>EACH<br>CATEGORY TO<br>TOTAL<br>AMOUNT |        | PERCENT OF<br>LOANS IN<br>EACH<br>CATEGORY TO<br>TOTAL<br>AMOUNT |        | PERCENT OF<br>LOANS IN<br>EACH<br>CATEGORY TO<br>TOTAL<br>AMOUNT |        | PERCENT OF<br>LOANS IN<br>EACH<br>CATEGORY TO<br>TOTAL<br>AMOUNT |        | PERCENT OF<br>LOANS IN<br>EACH<br>CATEGORY TO<br>TOTAL<br>AMOUNT |        |
|   | LOANS  | AMOUNT | LOANS  | AMOUNT | LOANS  | AMOUNT | LOANS  | AMOUNT | LOANS  | AMOUNT |
| (IN THOUSANDS)                                  |  |        |  |        |  |        |  |        |  |        |
| Commercial, industrial<br>and agricultural..... | \$ 222   | 5%     | \$ 244   | 6%     | \$ 202   | 9%     | \$ 115   | 7%     | \$ 59  | 8%     |
| Real estate--construc-<br>tion.....             | 136  | 7%     | 81   | 5%     | 37   | 3%     | 20   | 3%     | 7  | 1%     |
| Real estate--mortgage...                        | 836  | 82%    | 539  | 80%    | 446  | 78%    | 389  | 76%    | 398  | 75%    |
| Consumer.....                                   | 98   | 6%     | 176  | 9%     | 129  | 10%    | 98   | 14%    | 161  | 16%    |
| Unallocated.....                                | 394  | 0%     | 87   | 0%     | 24   | 0%     | 140  | 0%     | 132  | 0%     |
|   | \$1,686  | 100%   | \$1,127  | 100%   | \$838  | 100%   | \$762  | 100%   | \$757  | 100%   |

Deposits Total average deposits decreased during the year by \$1.7 million from \$238.4 million at December 31, 1995 to \$236.7 million at December 31, 1996. Average noninterest-bearing deposits increased by \$4.2 million while average interest-bearing deposits decreased by \$5.9 million. The modest decrease in total average deposits is consistent with recent years' trends as competition from other financial services industries continues to offer customers an alternative investment instrument.

Since 1994, there has been a significant change in the composition of the deposit portfolio. Average demand deposits, money market accounts and savings accounts have declined from \$20.6 million, \$22.4 million and \$119.8 million at December 31, 1994 to \$20.0 million, \$14.9 million and \$83.2 million at December 31, 1996, respectively. During the same period, average time deposits

have increased from \$47.7 million at December 31, 1994 to \$77.7 million at December 31, 1996. The fluctuation between savings and time deposits was influenced by customer reaction to a strategic reduction in the rates paid on savings accounts beginning in 1994. Historically, Peoples paid higher than market rates on savings accounts. In an effort to lower Peoples interest rate risk, management began to reduce interest rates on savings products in 1994 to encourage depositors to move to time deposits.

The daily average amounts of deposits and rates paid on such deposits is summarized for the periods indicated in the following table:

|  | DECEMBER 31, |       |           |       |           |       |
|--|--------------|-------|-----------|-------|-----------|-------|
|  | 1996         |       | 1995      |       | 1994      |       |
|  | AMOUNT       | RATE  | AMOUNT    | RATE  | AMOUNT    | RATE  |
| (IN THOUSANDS)                           |              |       |           |       |           |       |
| Noninterest-bearing demand deposits..... | \$ 40,930    |       | \$ 36,757 |       | \$ 34,799 |       |
| Interest-bearing demand deposits.....    | 20,045       | 1.92% | 19,845    | 2.00% | 20,573    | 2.20% |
| Money market accounts.....               | 14,870       | 2.59% | 16,431    | 2.50% | 22,386    | 2.74% |
| Savings deposits.....                    | 83,165       | 2.49% | 94,656    | 3.03% | 119,788   | 3.25% |
| Time deposits.....                       | 77,670       | 5.35% | 70,721    | 5.54% | 47,717    | 4.85% |
|  | -----        |       | -----     |       | -----     |       |
|  | \$236,680    |       | \$238,410 |       | \$245,263 |       |
|  | =====        |       | =====     |       | =====     |       |

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Maturities of time certificates of deposit of \$100,000 or more outstanding at December 31, 1996, are summarized as follows:

|                               |          |
|-------------------------------|----------|
| 3 Months or less.....         | \$ 1,396 |
| Over 3 through 6 months.....  | 688      |
| Over 6 through 12 months..... | 2,731    |
| Over 12 months.....           | 7,599    |
|                               | -----    |
|                               | \$12,414 |
|                               | =====    |

Stockholder's Equity Stockholder's equity was \$49.8 million at December 31, 1996, an increase of \$2.7 million from \$47.1 million at December 31, 1995. The increase was comprised of net profits of \$5.0 million offset by dividends paid to stockholders of \$1.5 million and decreased net unrealized gain on securities of \$804,000.

Peoples is subject to risk-based capital rules. These guidelines include a common framework for defining elements of capital and a system for relating capital to risk. The minimum risk-based capital requirement is 8%. Additionally, the general regulatory guidelines establish a minimum ratio of leverage capital to adjusted total assets of 3% for top rated financial institutions, with less highly rated institutions or those with higher levels of risk, required to maintain ratios of 100 to 200 basis points above the minimum level.

The following table reflects Peoples capital ratios for the periods presented:

DECEMBER 31,

|                                | 1996      | 1995      |
|--------------------------------|-----------|-----------|
|                                | -----     | -----     |
| CAPITAL COMPONENTS             |           |           |
| Tier I.....                    | \$ 47,836 | \$ 44,297 |
| Total risk-based.....          | 49,522    | 45,424    |
| ASSETS                         |           |           |
| Risk weighted assets.....      | \$154,801 | \$144,858 |
| Average tangible assets.....   | 287,385   | 284,685   |
| CAPITAL RATIOS                 |           |           |
| Tier I risk-based capital..... | 30.90%    | 30.58%    |
| Total risk based capital.....  | 31.99%    | 31.36%    |
| Leverage.....                  | 16.65%    | 15.56%    |
| MINIMUM REGULATORY GUIDELINES  |           |           |
| Tier I risk-based capital..... | 4.00%     | 4.00%     |
| Total risk based capital.....  | 8.00%     | 8.00%     |
| Leverage.....                  | 4.00%     | 4.00%     |

#### LIQUIDITY AND INTEREST RATE SENSITIVITY

The liquidity of a banking institution reflects its ability to provide funds to meet loan requests, to accommodate possible outflows of deposits, and to take advantage of interest rate market opportunities. Funding of loan requests, providing for liability outflows, and management of interest rate fluctuations require continuous analysis in order to match the maturities of specific categories of short-term loans and investments with specific types of deposits. Peoples liquidity is thus normally considered in terms of the nature and mix of the institution's sources and uses of funds.

Closely related to the concept of liquidity is the management of rate sensitive assets and rate sensitive liabilities. Peoples manages its rate sensitivity position to minimize fluctuation in the net interest margin and to minimize the risk due to changes in interest rates, thereby attempting to achieve consistent growth of net interest income.

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The table below reflects Peoples interest rate sensitivity position of assets and liabilities based on their maturities or period of first repricing.

|  | RATE SENSITIVE |           |            |           |           | TOTAL     |
|--|----------------|-----------|------------|-----------|-----------|-----------|
|  | (IN THOUSANDS) |           |            |           |           |           |
|  | 1 TO 90        | 91 TO 180 | 181 TO 365 | 1 TO 2    | BEYOND    |           |
|  | DAYS           | DAYS      | DAYS       | YEARS     | 2 YEARS   |           |
|  | -----          | -----     | -----      | -----     | -----     | -----     |
| Rate Sensitive Assets                    |                |           |            |           |           |           |
| Loans.....                               | \$ 35,246      | \$ 9,661  | \$ 20,329  | \$ 24,843 | \$ 62,243 | \$152,322 |
| Federal funds sold....                   | 6,465          |           |            |           |           | 6,465     |
| Investment securi-<br>ties.....          | 3,371          | 5,629     | 8,795      | 17,554    | 82,767    | 118,116   |
|  | -----          | -----     | -----      | -----     | -----     | -----     |
| Total Rate Sensitive<br>Assets.....      | \$ 45,082      | \$ 15,290 | \$ 29,124  | \$ 42,397 | \$145,010 | \$276,903 |
|  | -----          | -----     | -----      | -----     | -----     | -----     |
| Cumulative Rate<br>Sensitive Assets...   | \$ 45,082      | \$ 60,372 | \$ 89,496  | \$131,893 | \$276,903 |           |
|  | -----          | -----     | -----      | -----     | -----     |           |
| Rate Sensitive Liabili-<br>ties          |                |           |            |           |           |           |
| Interest-bearing de-<br>mand.....        | \$ 19,842      |           |            |           |           | \$ 19,842 |
| Money market.....                        | 15,341         |           |            |           |           | 15,341    |
| Savings.....                             | 79,505         |           |            |           |           | 79,505    |
| Time deposits.....                       | 16,146         | \$ 13,513 | \$ 15,452  | \$ 15,893 | \$ 18,899 | 79,903    |
|  | -----          | -----     | -----      | -----     | -----     | -----     |
| Total Rate Sensitive<br>Liabilities..... | \$130,834      | \$ 13,513 | \$ 15,452  | \$ 15,893 | \$ 18,899 | \$194,591 |
|  | -----          | -----     | -----      | -----     | -----     | -----     |
| Cumulative Rate                          |                |           |            |           |           |           |

|   |             |             |             |             |           |           |
|---|-------------|-------------|-------------|-------------|-----------|-----------|
| Sensitive Liabilities.....                          | \$130,834   | \$144,347   | \$159,799   | \$175,692   | \$194,591 |           |
|   | -----       | -----       | -----       | -----       | -----     |           |
| Period Interest Rate Sensitivity.....               | \$ (85,752) | \$ 1,777    | \$ 13,672   | \$ 26,504   | \$126,111 | \$ 82,312 |
|   | =====       | =====       | =====       | =====       | =====     | =====     |
| Cumulative Gap.....                                 | \$ (85,752) | \$ (83,975) | \$ (70,303) | \$ (43,799) | \$ 82,312 |           |
|   | =====       | =====       | =====       | =====       | =====     |           |
| Rate Sensitive Assets/Rate Sensitive Liabilities... | 0.34        | 0.42        | 0.56        | 0.75        | 1.42      |           |

In analyzing its gap position, although all time periods are considered, Peoples emphasizes the next twelve month period. An institution is considered to be liability sensitive, or as having a negative gap, when the amount of its rate sensitive liabilities maturing or repricing with a given time period exceeds the amount of its rate sensitive assets also repricing within that same period. Conversely, an institution is considered to be asset sensitive, or as having a positive gap, when the amount of its rate sensitive liabilities maturing or repricing is less than the amount of its rate sensitive assets also maturing or repricing during the same period. Generally, in a falling interest rate environment, a negative gap should result in an increase in net interest income, and in a rising interest rate environment this negative gap should adversely affect net interest income. The converse would be true for a positive gap. The table above reflects that at the one year time horizon, Peoples is liability sensitive and should be adversely affected by a rising interest rate environment.

However, shortcomings are inherent in a simplified gap analysis that may result in changes in interest rates affecting net interest income more or less than the gap analysis would indicate. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, Peoples looks to its portfolio of investment securities available for sale as a primary source of liquidity, providing the ability to reprice these rate sensitive assets in periods of rising interest rates. Although Peoples does not employ simulation modeling of its interest rate sensitivity position on a routine basis, in management's opinion a rise in interest rates of 200 basis points would not have a material impact on Peoples net interest income.

RESULTS OF OPERATIONS

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 volume of interest-earning assets and interest-bearing liabilities and changes in interest yields and rates. Interest on obligations of states and political subdivisions is not subject to federal income tax. As such, the stated (pre-tax) yield on these securities is lower than the yields on taxable securities of similar risk and maturity. In order to make the pre-tax income and resultant yields comparable to taxable investment securities, a taxable equivalent adjustment was added to interest income in the tables below. This adjustment has been calculated using the U. S. federal statutory income tax rate of 34% for the years ended December 31, 1996, 1995, and 1994. The following table demonstrates the amount that has been added to interest income.

|   | DECEMBER 31,   |          |          |
|---|----------------|----------|----------|
|   | 1996           | 1995     | 1994     |
|   | -----          |          |          |
|   | (IN THOUSANDS) |          |          |
| Interest income per statements of income.....                   | \$21,011       | \$20,003 | \$19,905 |
| Adjustment to fully taxable equivalent basis.....               | 613            | 679      | 801      |
|   | -----          | -----    | -----    |
| Interest income adjusted to fully taxable equivalent basis..... | 21,624         | 20,682   | 20,706   |

|   |          |          |          |
|---|----------|----------|----------|
| Interest expense.....   | 7,045    | 7,679    | 7,297    |
|   | -----    | -----    | -----    |
| Net interest income adjusted to fully taxable equivalent basis..... | \$14,579 | \$13,003 | \$13,409 |
|   | =====    | =====    | =====    |

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The average balance sheet and net interest income analysis for the years ended December 31, 1996, 1995, and 1994 is as follows:

|   | DECEMBER 31,       |          |                |                    |          |                |                    |          |                |
|---|--------------------|----------|----------------|--------------------|----------|----------------|--------------------|----------|----------------|
|   | 1996               |          |                | 1995               |          |                | 1994               |          |                |
|   | AVERAGE<br>BALANCE | INTEREST | YIELD/<br>RATE | AVERAGE<br>BALANCE | INTEREST | YIELD/<br>RATE | AVERAGE<br>BALANCE | INTEREST | YIELD/<br>RATE |
|   | (IN THOUSANDS)     |          |                |                    |          |                |                    |          |                |
| ASSETS                                    |                    |          |                |                    |          |                |                    |          |                |
| Interest-earning assets:                  |                    |          |                |                    |          |                |                    |          |                |
| Loans (1).....                            | \$140,081          | \$12,317 | 8.79%          | \$113,380          | \$10,073 | 8.88%          | \$ 97,093          | \$ 8,781 | 9.04%          |
| Taxable investment securities.....        | 107,336            | 7,283    | 6.79%          | 126,134            | 8,256    | 6.55%          | 141,609            | 9,351    | 6.60%          |
| Tax-exempt investment securities.....     | 23,578             | 1,803    | 7.65%          | 25,254             | 1,997    | 7.91%          | 28,182             | 2,356    | 8.36%          |
| Federal funds sold.....                   | 4,052              | 221      | 5.45%          | 6,129              | 356      | 5.81%          | 5,049              | 218      | 4.32%          |
|   | -----              | -----    |                | -----              | -----    |                | -----              | -----    |                |
| Total interest-earning assets.....        | 275,047            | 21,624   | 7.86%          | 270,897            | 20,682   | 7.63%          | 271,933            | 20,706   | 7.61%          |
| Noninterest-earning assets                |                    |          |                |                    |          |                |                    |          |                |
| Cash and due from banks.....              | 6,711              |          |                | 6,933              |          |                | 8,625              |          |                |
| Premises and equipment.....               | 4,367              |          |                | 4,725              |          |                | 4,166              |          |                |
| Other assets.....                         | 2,517              |          |                | 3,079              |          |                | 3,459              |          |                |
| Less allowance for loan losses.....       | (1,257)            |          |                | (949)              |          |                | (812)              |          |                |
|   | -----              |          |                | -----              |          |                | -----              |          |                |
|   | \$287,385          |          |                | \$284,685          |          |                | \$287,371          |          |                |
|   | =====              |          |                | =====              |          |                | =====              |          |                |
| LIABILITIES AND SHAREHOLDERS' EQUITY      |                    |          |                |                    |          |                |                    |          |                |
| Interest-bearing liabilities:             |                    |          |                |                    |          |                |                    |          |                |
| Demand deposits.....                      | \$ 20,045          | \$ 385   | 1.92%          | \$ 19,845          | \$ 396   | 2.00%          | \$ 20,573          | \$ 453   | 2.20%          |
| Money market accounts..                   | 14,870             | 385      | 2.59%          | 16,431             | 410      | 2.50%          | 22,386             | 613      | 2.74%          |
| Savings deposits.....                     | 83,165             | 2,072    | 2.49%          | 94,656             | 2,864    | 3.03%          | 119,788            | 3,888    | 3.25%          |
| Time deposits.....                        | 77,670             | 4,153    | 5.35%          | 70,721             | 3,921    | 5.54%          | 47,717             | 2,315    | 4.85%          |
| Obligations under capital lease.....      | 377                | 50       | 13.26%         | 654                | 88       | 13.46%         | 222                | 28       | 12.67%         |
|   | -----              | -----    |                | -----              | -----    |                | -----              | -----    |                |
| Total interest-bearing liabilities.....   | 196,127            | 7,045    | 3.59%          | 202,307            | 7,679    | 3.80%          | 210,686            | 7,297    | 3.46%          |
| Noninterest-bearing liabilities:          |                    |          |                |                    |          |                |                    |          |                |
| Demand deposits.....                      | 40,930             |          |                | 36,757             |          |                | 34,799             |          |                |
| Other.....                                | 2,289              |          |                | 2,063              |          |                | 2,502              |          |                |
| Shareholders' equity....                  | 48,039             |          |                | 43,558             |          |                | 39,384             |          |                |
|   | -----              |          |                | -----              |          |                | -----              |          |                |
|   | \$287,385          |          |                | \$284,685          |          |                | \$287,371          |          |                |
|   | =====              |          |                | =====              |          |                | =====              |          |                |
|   |                    | -----    |                |                    | -----    |                |                    | -----    |                |
| Net interest income.....                  |                    | \$14,579 |                |                    | \$13,003 |                |                    | \$13,409 |                |
|   |                    | =====    |                |                    | =====    |                |                    | =====    |                |
| Net yield on interest-earning assets..... |                    |          | 5.30%          |                    |          | 4.80%          |                    |          | 4.93%          |

(1) For the purpose of these computations, nonaccruing loans are included in the daily average loan amounts outstanding.

The following tables set forth for the periods indicated a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rate:

|                                       | YEAR ENDED DECEMBER 31,        |          |          |                                |          |          |
|---------------------------------------|--------------------------------|----------|----------|--------------------------------|----------|----------|
|                                       | 1996 VS 1995                   |          |          | 1995 VS 1994                   |          |          |
|                                       | INCREASE (DECREASE) DUE TO (1) |          |          | INCREASE (DECREASE) DUE TO (1) |          |          |
|                                       | VOLUME                         | RATE     | NET      | VOLUME                         | RATE     | NET      |
| (IN THOUSANDS)                        |                                |          |          |                                |          |          |
| Interest earned on:                   |                                |          |          |                                |          |          |
| Loans.....                            | \$ 2,347                       | \$ (103) | \$ 2,244 | \$ 1,453                       | \$ (161) | \$ 1,292 |
| Taxable investment securities.....    | (1,267)                        | 294      | (973)    | (1,367)                        | 272      | (1,095)  |
| Tax-exempt investment securities..... | (123)                          | (71)     | (194)    | 211                            | (570)    | (359)    |
| Federal funds sold....                | (111)                          | (24)     | (135)    | (11)                           | 149      | 138      |
|                                       | \$ 846                         | \$ 96    | \$ 942   | \$ 286                         | \$ (310) | \$ (24)  |
| Interest paid on:                     |                                |          |          |                                |          |          |
| Demand deposits.....                  | 4                              | (15)     | (11)     | (17)                           | (40)     | (57)     |
| Money market accounts.....            | (40)                           | 15       | (25)     | (104)                          | (99)     | (203)    |
| Savings deposits.....                 | (491)                          | (301)    | (792)    | (413)                          | (611)    | (1,024)  |
| Time deposits.....                    | 371                            | (139)    | 232      | (190)                          | 1,796    | 1,606    |
| Other borrowed funds..                | (37)                           | (1)      | (38)     | 56                             | 4        | 60       |
|                                       | \$ (193)                       | \$ (441) | \$ (634) | \$ (668)                       | \$ 1,050 | \$ 382   |
| Change in net interest income.....    |                                |          | \$ 1,576 |                                |          | \$ (406) |

(1) The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

The table below shows operating and capital ratios of Peoples for the dates indicated:

|                               | YEAR ENDED DECEMBER 31 |        |        |
|-------------------------------|------------------------|--------|--------|
|                               | 1996                   | 1995   | 1994   |
| Return on average assets..... | 1.74%                  | 1.54%  | 1.58%  |
| Return on average equity..... | 10.39%                 | 10.04% | 11.50% |
| Dividend payout ratio.....    | 29.11%                 | 20.38% | 17.89% |
| Equity to asset ratio.....    | 17.12%                 | 16.30% | 14.40% |

#### COMPARISON OF THE YEAR ENDED DECEMBER 31, 1996 AND 1995

Net Income Net income amounted to \$5.0 million or \$43.16 per share in 1996, representing an increase of 14.2% from the \$4.4 million or \$37.81 per share in 1995. The return on average assets was 1.74% for 1996 and 1.54% for 1995. The return on average equity was 10.39% in 1996 compared to 10.04% in 1995.

Net Interest Income On a fully taxable equivalent basis, net interest income increased \$1.6 million or 12.1% in 1996 as compared to 1995. The net yield on interest-earning assets increased by 50 basis points (1% equals 100 basis points) to 5.30%, while the average balance of interest-earning assets increased by \$4.2 million or 1.5%.

Total interest income increased \$962,000 which is the result of the shifting of \$20.5 million of the investment securities with a weighted average yield of 6.94% along with \$2.1 million of federal funds sold yielding 5.45% to the loan portfolio yielding 8.79%, plus the additional loan growth of \$4.1 million.

Total interest expense declined by \$634,000 primarily as a result of a 21 basis point decline in the total cost of funds from 3.80% in 1995 to 3.59% in 1996. This was also compounded by a decline in total average interest-bearing liabilities of \$6.2 million.

**Provision for Loan Losses** The provision for loan losses amounted to \$875,000 for 1996 compared to \$420,000 in 1995. The increase in the provision is the result of significant increases in the loan portfolio and loan charge-offs over the past two years. Also affecting the level of the provision for loan losses is the fact that a significant portion of this loan growth is secured by commercial real estate. Historically, Peoples has experienced minimal net charge-offs relating to residential real estate loans, however management recognizes that commercial real estate loans inherently possess a greater degree of risk of loss. Net charge-offs totaled \$316,000 in 1996 compared to \$131,000 in 1995. The increased levels of charge-offs have primarily been the result of unsecured consumer loans, resulting from personal bankruptcies reaching an all time high.

**Noninterest Income** Noninterest income decreased \$35,000 or 4.2% in 1996 compared to 1995. The decrease was attributable to reduced levels of security gains in 1996 and higher levels of service charges on deposit accounts. During 1996, Peoples recognized net security gains of \$55,000 compared to net security gains in 1995 of \$121,000. The level of security gains in 1996 and 1995 were the result of the sale of U. S. Treasury securities during the periods, as previously discussed. The increase in service charges on deposit accounts relates to a greater volume on noninterest-bearing deposit accounts.

**Noninterest Expense** Noninterest expense increased by \$134,000 in 1996 compared to 1995. The increase was primarily the result of increases in salaries and employee benefits of \$113,000, professional fees of \$465,000 and other expenses of \$225,000, offset by declines in FDIC insurance premiums of \$277,000 and loss from fraudulent transactions of \$405,000.

Salaries and employee benefits increased by \$113,000 or 3.7% which reflects normal salary increases during 1996.

Professional fees relating to accounting and legal services increased by \$465,000 during 1996, as a result, of two significant events. The first event was the discovery and investigation of activities of a now former executive officer of Peoples who had executed a series of fraudulent transactions. The second event was the negotiation and performance of the Agreement and Plan of Merger being entered into by Peoples and S&T Bank, in connection with which Peoples was required to comply with the additional reporting requirements of filings to be submitted to the Securities and Exchange Commission.

The most significant increases in other expenses related to costs of real estate owned and costs associated with the loan growth in recent years. Historically, Peoples has had very low volumes of real estate acquired in settlement of loans. During 1996, Peoples incurred costs associated with the foreclosure and disposal of real estate owned amounting to \$52,000. Costs associated with the credit analysis of existing loans, such as credit searches and reappraisals to ensure the credit worthiness of the loan portfolio, increased by approximately \$50,000 during 1996.

As a result of the Bank Insurance Fund (the "BIF") reaching its required level of capitalization, Peoples was only required to pay a \$2,000 premium in 1996 compared to 4 basis points on all insurable deposits or \$279,000 in 1995.

As discussed in the Notes to the Financial Statements, it was discovered that a now former executive officer of Peoples had executed a series of fraudulent transactions which resulted in a loss of \$405,000. These

transactions consisted primarily of granting loans to individuals where the

proceeds were ultimately received by the executive officer. Peoples is actively pursuing recovery.

Federal Income Taxes Federal income tax expense increased \$399,000 to \$2,015,000 in 1996, as a result of higher levels of pre-tax income. The 1996 effective tax rate of 28.8% was below the 34% statutory rate primarily as a result of tax-exempt interest.

#### COMPARISON OF THE YEAR ENDED DECEMBER 31, 1995 AND 1994

Net Income Net income amounted to \$4.4 million or \$37.81 per share in 1995, representing a decline of 3.4% from the \$4.5 million or \$39.15 per share in 1994. The return on average assets was 1.54% for 1995 and 1.58% for 1994. The return on average equity was 10.04% in 1995 compared to 11.50% in 1994.

Net Interest Income On a fully taxable equivalent basis, net interest income decreased \$406,000 or 3.0% in 1995 as compared to 1994. The net yield on interest-earning assets decreased slightly by 13 basis points to 4.80%, while the average balance of interest-earning assets declined by \$1.0 million or .4%.

Although net interest income declined slightly, average loans increased by \$16.3 million while average investment securities declined by \$18.4 million. The yield on average loans during 1995 amounted to 8.88% compared to the weighted yield on investment securities of 6.77%.

Net interest income was most significantly effected by the increase in costs of funds relating to time deposits, increasing 69 basis points compounded by the increase in average time deposits of \$23.0 million. The increase in average time deposits was offset by a decline in average savings accounts of \$25.1 million. As a result of the significant growth in loans during the year, management attempted to shift its deposit mixture to improve its interest rate risk position. The level and mix of funds is continually monitored by the Asset/Liability Committee in order to mitigate the interest rate sensitivity and liquidity risks of the balance sheet.

Provision for Loan Losses The provision for loan losses amounted to \$420,000 for 1995 compared to \$100,000 in 1994. As previously discussed in the comparison of 1996 results of operations with 1995, the increase in the provision is primarily the result of the continued loan growth in 1995 and the risk associated with those loans. Net charge-offs totaled \$131,000 in 1995 as compared to \$24,000 in 1994. The increase in charge-offs in 1995 related primarily to write downs of \$82,000 on three residential real estate properties which were acquired in foreclosure and transferred to other real estate owned.

Noninterest Income Noninterest income increased \$141,000 or 20.2% in 1995 compared to 1994. The increase was attributable to increased levels of security gains in 1995. During 1995 Peoples recognized net security gains of \$121,000 compared to net security losses in 1994 of \$3,000. The level of security gains in 1995 were the result of the sale of U. S. Treasury securities for the purpose of reinvesting the proceeds in loan originations and mortgage-backed securities.

Noninterest Expense Noninterest expense decreased by \$331,000 in 1995 compared to 1994. The decline was primarily the result of declines in salaries and employee benefits of \$294,000, data processing costs of \$266,000 and FDIC insurance premiums of \$280,000, offset by increases in furniture and equipment of \$150,000 and loss from fraudulent transactions of \$405,000.

The decline in salary and employee benefits was the result of two significant events. The first event was a change in the health coverage in 1995 from an indemnity plan to a point of service plan resulting in a savings of \$92,000. The second change resulted from a buyout of an employment contract and related pension benefit in 1994 of a former executive officer of Peoples, resulting in a charge to operations of \$189,000.

Data processing expense declined and furniture and fixture expense increased as a result of the new data processing system put in place during the fourth quarter of 1994. The new computer equipment placed in service

Peoples utilized a third party for data processing needs.

FDIC insurance premiums were reduced from 23 basis points to 4 basis points resulting in a savings of \$280,000 to Peoples. The FDIC insurance rate was reduced as a result of the BIF reaching its required level of capitalization.

In September of 1996, it was discovered that a now former executive officer of Peoples had executed a series of fraudulent transactions which resulted in a loss of \$405,000. These transactions consisted primarily of granting loans to individuals where the proceeds were ultimately received by the executive officer. Peoples is actively pursuing recovery.

Federal Income Taxes Federal income tax expense increased \$23,000 to \$1,616,000 in 1995, as a result of lower levels of tax-exempt income. The 1995 effective tax rate of 27.0% was below the 34% statutory rate primarily as a result of tax-exempt interest.

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APPENDIX A

#### AGREEMENT AND PLAN OF REORGANIZATION

AGREEMENT AND PLAN OF REORGANIZATION ("Reorganization Agreement") dated as of November 25, 1996, by and among PEOPLES BANK OF UNITY ("Peoples"), a Pennsylvania banking institution having its registered office at 7660 Saltzburg Road, Pittsburgh, Pennsylvania 15239-3700, S&T BANCORP, INC. ("S&T"), a Pennsylvania corporation having its principal executive office at 800 Philadelphia Street, Indiana, Pennsylvania 15701-3921 and S&T Bank, a Pennsylvania banking institution having its registered office at 800 Philadelphia Street, Indiana, Pennsylvania 15701-3921, the stock of which is wholly owned by S&T.

#### WITNESSETH

WHEREAS, the parties hereto desire that Peoples shall be merged with and into S&T Bank ("Merger") pursuant to an Agreement and Plan of Merger substantially in the form attached hereto as Annex A ("Plan of Merger") pursuant to which the shareholders of Peoples will receive shares of common stock of S&T in exchange for their shares of common stock of Peoples; and

WHEREAS, the parties hereto desire to provide for certain undertakings, conditions, representations, warranties and covenants in connection with the transactions contemplated hereby.

NOW, THEREFORE, in consideration of the premises and of the mutual representations, warranties and covenants herein contained and intending to be legally bound hereby, the parties hereto do hereby agree as follows:

#### ARTICLE 1

##### Definitions

1.1. "Bank Holding Company Act" shall mean the Bank Holding Company Act of 1956, as amended.

1.2. "Closing Date" shall mean the date specified pursuant to Section 4.9 hereof as the date on which the parties hereto shall close the transactions contemplated herein.

1.3. "Code" shall mean the Internal Revenue Code of 1986, as amended.

1.4. "Commission" or "SEC" shall mean the Securities and Exchange Commission.

1.5. "Competing Transaction" shall mean any of the following involving Peoples (other than the transactions contemplated by this Reorganization Agreement): (a) any merger, consolidation, share exchange for a controlling interest, business combination or other similar transaction; (b) any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 15% or more of the assets of Peoples in a single transaction or series of transactions to the same person, entity or group or (c) any public announcement by Peoples of a proposal, plan or intention to do any of the foregoing or any agreement to engage in any of the foregoing.

1.6. "Department of Banking" shall mean the Pennsylvania Department of Banking.

1.7. "Effective Date" shall mean the date specified pursuant to Section 4.9 hereof as the effective date of the Merger.

1.8. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

1.9. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

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1.10. "FDIA" shall mean the Federal Deposit Insurance Act.

1.11. "FDIC" shall mean the Federal Deposit Insurance Corporation.

1.12. "Federal Reserve Board" shall mean the Board of Governors of the Federal Reserve System.

1.13. "Investment Company Act" means the Investment Company Act of 1940, as amended.

1.14. "Pennsylvania Banking Code" shall mean the Pennsylvania Banking Code of 1965, as amended.

1.15. "Peoples Financial Statements" shall mean (i) the unaudited balance sheet and income statement of Peoples as of September 30, 1996 and the audited balance sheets as of December 31, 1995 and 1994 and the related statements of cash flows and changes in shareholders' equity (including related notes, if any) and the income statements for each of the three years ended December 31, 1995, 1994 and 1993 and (ii) the balance sheets of Peoples and related statements of income (including statements of cash flows and changes in shareholders' equity and related notes, if any) with respect to quarterly or annual periods ended subsequent to September 30, 1996; except that financial statements as of, or for the nine months ended, September 30, 1996 are contained in a revised Call Report to be filed in November or December, 1996, and have been prepared in accordance with generally accepted accounting principles in all material respects, except that such financial statements do not contain statements of cash flows or changes in shareholders' equity or footnotes and are subject to normal year-end adjustments.

1.16. "Previously Disclosed" shall mean disclosed prior to the execution hereof in a letter dated of even date herewith from Peoples and delivered to S&T.

1.17. "Proxy Statement" shall mean the joint proxy statement/prospectus (or similar documents) together with any supplements thereto sent to the shareholders of S&T and Peoples to solicit their votes in connection with this Reorganization Agreement and the Plan of Merger.

1.18. "Registration Statement" shall mean the registration statement with respect to the S&T Common Stock to be issued in connection with the Merger as declared effective by the Commission under the Securities Act.

1.19. "Rights" shall mean warrants, options, rights, convertible securities and other arrangements or commitments which obligate an entity to issue or dispose of any of its capital stock, and stock appreciation rights, performance units and other similar stock-based rights whether they obligate the issuer thereof to issue stock or other securities or to pay cash.

1.20. "SEC Documents" shall mean all reports and registration statements filed, or required to be filed, by a party hereto pursuant to the Securities Laws.

1.21. "Securities Act" shall mean the Securities Act of 1933, as amended.

1.22. "Securities Laws" shall mean: the Securities Act; the Exchange Act; the Investment Company Act; the Investment Advisers Act of 1940, as amended; the Trust Indenture Act of 1939, as amended; and the rules and regulations of the Commission promulgated thereunder.

1.23. "S&T Financial Statements" shall mean (i) the consolidated balance sheets of S&T as of September 30, 1996 and as of December 31, 1995 and 1994 and the related consolidated statements of income, cash flows and changes in shareholders' equity (including related notes, if any) for the nine months ended September 30, 1996 and each of the three years ended December 31, 1995, 1994 and 1993 as filed by S&T in SEC Documents and (ii) the consolidated balance sheets of S&T and related consolidated statements of income, cash flows and changes in shareholders' equity (including related notes, if any) as filed by S&T in SEC Documents with respect to quarterly or annual periods ended subsequent to September 30, 1996.

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1.24. "Tax" or "Taxes" shall mean all income, gross receipts, gains, sales, use, employment, franchise, profits, excise, property, value added, commercial rent or other taxes, fees, stamp taxes and duties, assessments or charges of any kind whatsoever (whether payable directly or by withholding), together with any interest and penalties, additions to tax or additional amounts with respect thereto imposed by any taxing authority.

1.25. "Tax Returns" shall mean all federal, state, local and foreign tax returns including, without limitation, estimated tax returns, returns required under Sections 1441-1446 and 6031-6060 of the Code and any regulations thereunder, and any comparable state and local laws and regulations, withholding tax returns, FICA and FUTA returns and back-up withholding returns required under Section 3406 of the Code and the regulations thereunder, and any comparable state and local laws and regulations.

Other terms used herein are defined in the preamble and the recitals to this Reorganization Agreement.

## ARTICLE 2

### Representations and Warranties of Peoples

Peoples hereby represents and warrants to S&T as follows:

#### 2.1. CAPITAL STRUCTURE OF PEOPLES

The authorized capital stock of Peoples consists of 115,660 shares of common stock, par value \$10.00 per share ("Peoples Common Stock"), all of which shares are issued and outstanding. All outstanding shares of Peoples capital stock have been duly issued and are validly outstanding, fully paid and nonassessable. There are no Rights authorized, issued or outstanding with respect to the capital stock of Peoples. None of the shares of Peoples capital stock has been issued in violation of the preemptive rights of any person.

#### 2.2. NO SUBSIDIARIES

Peoples does not own, directly or indirectly, 5% or more of the outstanding capital stock or other voting securities of any corporation, bank, savings association or other organization.

#### 2.3. ORGANIZATION, STANDING AND AUTHORITY OF PEOPLES

Peoples is a duly organized Pennsylvania banking institution, validly existing and in good standing under applicable laws. Peoples has full power and authority to carry on its business as now conducted. Peoples is not required to be qualified to do business in any other State of the United States or any foreign jurisdiction. Peoples has all material federal, state and local governmental authorizations necessary for it to own or lease its properties and assets and to carry on its business as it is now being conducted.

#### 2.4. AUTHORIZED AND EFFECTIVE REORGANIZATION AGREEMENT

(a) Peoples has all requisite corporate power and authority to enter into and perform all of its obligations under this Reorganization Agreement. The execution and delivery of this Reorganization Agreement and the consummation of the transactions contemplated hereby have been duly and validly authorized by all necessary corporate action in respect thereof on the part of Peoples, subject to approval thereof by the shareholders of Peoples to the extent required by applicable law and the Articles of Incorporation and By-Laws of Peoples.

(b) Upon the execution of the Plan of Merger and at all times thereafter until the Closing Date, Peoples will have all requisite corporate power and authority to enter into and perform all of its obligations under the Plan of Merger, and the execution and delivery of the Plan of Merger and the consummation of the transactions contemplated thereby (at the time of such execution) will have been duly and validly authorized by all necessary corporate action in respect thereof on the part of Peoples, except that the affirmative vote of the holders of two-thirds of the outstanding shares of Peoples Common Stock is required to approve the Plan of Merger pursuant to the Pennsylvania Banking Code.

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(c) This Reorganization Agreement constitutes a legal, valid and binding obligation of Peoples and the Plan of Merger, upon the authorization, execution and delivery thereof by the parties thereto, will constitute a legal, valid and binding obligation of Peoples, in each case enforceable against it in accordance with their respective terms, subject to receipt of shareholder approval and, as to enforceability, subject to bankruptcy, insolvency, fraudulent conveyance and other laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(d) Except as Previously Disclosed, neither the execution and delivery of this Reorganization Agreement or the Plan of Merger, nor consummation of the transactions contemplated hereby or thereby, nor compliance by Peoples with any of the provisions hereof or thereof shall (i) conflict with or result in a breach of any provision of the articles of incorporation or by-laws of Peoples, (ii) constitute or result in a breach of any material term, condition or provision of, or constitute a default under, or give rise to any right of termination, cancellation or acceleration with respect to, or result in the creation of any lien, charge or encumbrance upon any property or asset of Peoples pursuant to, any material note, bond, mortgage, indenture, license, agreement or other instrument or obligation, or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Peoples.

#### 2.5. FINANCIAL STATEMENTS; BOOKS AND RECORDS; MINUTE BOOKS

The Peoples Financial Statements fairly present the financial position of Peoples as of the dates indicated and the results of operations (and changes in shareholders' equity and cash flows for audited periods) of Peoples for the periods then ended in conformity with generally accepted accounting principles (in all material respects for unaudited periods) applied on a consistent basis except as disclosed therein and except that the Peoples Financial Statements as of, or for the nine months ended, September 30, 1996 (which were included in a revised Call Report) and all other interim financial statements for periods prior to September 30, 1996 were prepared in accordance with generally accepted accounting principles in all material respects, except that such financial statements do not contain statements of cash flows or changes in shareholders' equity or footnotes and are subject to normal year-end adjustments. Except as Previously Disclosed, the books and records of Peoples fairly reflect in all material respects the transactions to which it is a party or by which its properties are subject or bound. Except as Previously Disclosed, such books and records have been properly kept and maintained and are in compliance in all material respects with all applicable legal and accounting requirements. Except as Previously Disclosed, the minute books of Peoples contain accurate records of all corporate actions of its shareholders and Board of Directors (including committees of its Board of Directors).

#### 2.6. MATERIAL ADVERSE CHANGE

Except as Previously Disclosed, Peoples has not suffered any material adverse change in its financial condition, results of operations or business since December 31, 1995.

#### 2.7. ABSENCE OF UNDISCLOSED LIABILITIES

Peoples has no liability (contingent or otherwise) that is material to Peoples, or that, when combined with all similar liabilities, would be material to Peoples, except as disclosed in the Peoples Financial Statements as of the date of this Reorganization Agreement or as Previously Disclosed.

#### 2.8. PROPERTIES

Peoples has good and marketable title free and clear of all liens, encumbrances, charges, defaults or equitable interests to all of the properties and assets, real and personal, reflected on the Peoples Financial Statements as being owned by Peoples as of December 31, 1995 or acquired after such date, except (i) liens for taxes not yet due and payable, (ii) pledges to secure deposits and other liens incurred in the ordinary course of banking business, (iii) such imperfections of title, easements and encumbrances, if any, as are not material in character, amount or extent and (iv) dispositions and encumbrances for reasonably adequate consideration in the ordinary course of business. All leases pursuant to which Peoples, as lessee, leases real or personal property are

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valid and subsisting in accordance with their respective terms. Peoples has Previously Disclosed a true, complete and correct list of all personal property owned by officers or directors of Peoples and located on the premises of Peoples or used in Peoples' business.

## 2.9 LOANS

Each loan reflected as an asset in the Peoples Financial Statements as of September 30, 1996, and each loan entered into subsequent thereto, (i) is evidenced in all material respects by notes, agreements or other evidences of indebtedness which are true, genuine and what they purport to be, (ii) to the extent secured, has been secured by valid liens and security interests which have been perfected, and (iii) is the legal, valid and binding obligation of the obligor named therein, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance and other laws of general applicability relating to or affecting creditors' rights and to general equity principles. Except as Previously Disclosed, as of September 30, 1996, Peoples is not a party to any loan, including any loan guaranty, with any director, executive officer or 5% shareholder of Peoples or any person, corporation or enterprise controlling, controlled by or under common control with any of the foregoing.

## 2.10. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflected on the Peoples Financial Statements, as of their respective dates, is adequate in all material respects under the requirements of generally accepted accounting principles to provide for reasonably anticipated losses on outstanding loans.

## 2.11. TAX MATTERS

(a) Peoples has timely filed all federal income tax returns required to be filed by it for each year through December 31, 1995 and has timely filed, or caused to be filed, all other federal, state, local and foreign Tax Returns required to be filed with respect to Peoples.

(b) All Taxes due in respect of any tax periods have been paid or adequate reserves have been established for the payment of such Taxes and, as of the Closing Date, all Taxes due or to become due in respect of any tax periods ending on or prior to the Closing Date will have been paid or adequate reserves or accruals will have been established for the payment thereof. Peoples will not have any material liability for any Taxes in excess of the amounts so paid or reserves or accruals so established. No audit examination or deficiency or refund litigation is pending with respect to tax periods of Peoples ending on or prior to the Closing Date.

(c) All federal, state and local (and, if applicable, foreign) Tax Returns filed by Peoples are complete and accurate in all material respects. Peoples is not delinquent in the payment of any Tax, assessment or governmental charge, and Peoples has not requested any extension of time within which to file any Tax Returns in respect of any taxable year or portion thereof which have not since been filed. No deficiencies for any Tax, assessment or governmental charge have been proposed, asserted or assessed (tentatively or otherwise) against Peoples which have not been settled and paid. There are currently no agreements in effect with respect to Peoples to extend the period of limitations for the assessment or collection of any Tax.

(d) Termination of the employment of any employees of Peoples following consummation of the transactions contemplated hereby will not cause Peoples to make or to be required to make any "excess parachute payment" as that term is

defined in Section 280G of the Code.

## 2.12. EMPLOYEE BENEFIT PLANS

(a) Peoples has Previously Disclosed true and complete copies of all qualified pension or profit-sharing plans, any deferred compensation, consulting, bonus or group insurance contract or any other incentive, welfare or employee benefit plan or agreement maintained for the benefit of employees or former employees of Peoples, and will make available to S&T (i) the most recent actuarial and financial reports prepared with respect to any

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plans qualified under Section 401(a) of the Code, (ii) the most recent annual reports filed with any government agency and (iii) all rulings and determination letters and any open requests for rulings or letters that pertain to any plan qualified under Section 401(a) of the Code.

(b) Neither Peoples (nor any pension plan maintained by it) has incurred or reasonably expects to incur any material liability to the Internal Revenue Service with respect to any plan qualified under Section 401(a) of the Code. Except as Previously Disclosed, Peoples has never sponsored, participated in or maintained any defined benefit pension plan. Peoples has never participated in a multiemployer plan as such term is defined in ERISA.

(c) A favorable determination letter has been issued by the Internal Revenue Service with respect to each "employee pension plan" (as defined in Section 3(2) of ERISA) of Peoples which is intended to be a qualified plan to the effect that such plan is qualified under Section 401 of the Code and tax exempt under Section 501 of the Code. No such letter has been revoked or threatened to be revoked and Peoples does not know of any ground on which such revocation may be based. Such plans have been operated in all material respects in accordance with their terms and applicable law.

(d) No prohibited transaction (which shall mean any transaction prohibited by Section 406 of ERISA and not exempt under Section 408 of ERISA) has occurred with respect to any "employee benefit plan" (as defined in Section 3(3) of ERISA) maintained by Peoples which would result in the imposition, directly or indirectly, of an excise tax under Section 4975 of the Code or the correction of which would have a material adverse effect on the financial condition, results of operations or business of Peoples.

## 2.13. CERTAIN CONTRACTS

(a) Except as Previously Disclosed, Peoples is neither a party to, nor is it bound by, (i) any material agreement, arrangement or commitment whether or not made in the ordinary course of business (other than loans or loan commitments made in the ordinary course of the banking business of Peoples), (ii) any agreement, indenture or other instrument relating to the borrowing of money by Peoples or the guarantee by Peoples of any such obligation, other than instruments relating to transactions entered into in the customary course of the banking business of Peoples and reflected in the Peoples Financial Statements, (iii) any agreement, arrangement or commitment relating to the employment of a consultant or the employment, election, retention in office or severance of any present or former director or officer or (iv) any contract, agreement or understanding with a labor union, in each case whether written or oral.

(b) Peoples is not in default under any material agreement, commitment, arrangement, lease, insurance policy or other instrument whether entered into in the ordinary course of business or otherwise and whether written or oral, and there has not occurred any event that, with the lapse of time or giving of notice or both, would constitute such a default.

(c) Since December 31, 1995, Peoples has neither incurred nor paid any obligation or liability that would be material to Peoples, except obligations incurred or paid in connection with transactions in the ordinary course of business of Peoples consistent with its past practices or except as Previously Disclosed or reflected in the Peoples Financial Statements.

(d) Except as Previously Disclosed, Peoples is not a party to any transaction (other than agreements Previously Disclosed in connection with Section 2.13(a) hereof) with (i) any person who has been an executive officer or a director of Peoples since January 1, 1993, (ii) any spouse of any such

officer or director, (iii) any parent, child, brother, sister, or other family relation of any such officer or director who has the same home as such officer or director, (iv) any corporation or other entity of which any such officer or director or any such family relation is an officer, director, partner, or greater than 5% shareholder (based on percentage ownership of voting stock) or (v) any "affiliate" or "associate" of any such persons or entities (as such terms are defined in the rules and regulations promulgated under the Securities Act), including, without limitation, (x) any transaction involving a contract, agreement, or other arrangement providing for the employment of, furnishing of materials,

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products or services by, rental of real or personal property from, or otherwise requiring payments to, any such person or entity, and (y) loans (including any loan guaranty) outstanding at the date hereof, but not (z) deposit accounts maintained at Peoples in the ordinary course of its banking business.

#### 2.14. LEGAL PROCEEDINGS

Except as Previously Disclosed, there are no actions, suits or proceedings instituted, pending or, to the knowledge of Peoples, threatened against Peoples or against any asset, interest or right of Peoples that would, if determined adversely to Peoples, have a material adverse effect on Peoples. To the knowledge of Peoples, there are no actual or threatened actions, suits or proceedings which present a claim to restrain or prohibit the transactions contemplated herein or to impose upon S&T, Peoples or any of their respective subsidiaries or affiliates any material cost or obligation in connection therewith. Except as Previously Disclosed, there are no actions, suits or proceedings instituted, pending or, to the knowledge of Peoples, threatened against any present or former director or executive officer of Peoples that might give rise to a claim for indemnification that would, if determined adversely to Peoples, have a material adverse effect on Peoples, and, to the knowledge of Peoples, there is no reasonable basis for any such action, suit or proceeding.

#### 2.15. COMPLIANCE WITH LAWS

Except as Previously Disclosed, Peoples is in compliance in all material respects with all statutes and regulations applicable to the conduct of its business, and neither Peoples nor, to the knowledge of Peoples, any director or officer thereof has received notification from any agency or department of federal, state or local government (i) asserting a material violation of any such statute or regulation, (ii) threatening to revoke any license, franchise, permit or government authorization or (iii) restricting or in any way limiting its operations. Peoples is not subject to any regulatory or supervisory cease and desist order, agreement, directive, memorandum of understanding or commitment, and it has not received any communication requesting that it enter into any of the foregoing. Without limiting the generality of the foregoing, Peoples has timely filed all currency transaction reports required to be filed and taken all other actions required under the Currency and Foreign Transactions Reporting Act, codified at 31 U.S.C. (S) 5301 et seq., and its implementing regulations.

#### 2.16. BROKERS AND FINDERS

Neither Peoples nor any of its officers, directors or employees has employed any broker, finder or financial advisor or incurred any liability for any fees or commissions in connection with the transactions contemplated herein or the Plan of Merger, except that Peoples has engaged and will pay a fee or commission to Danielson Associates, Inc.

#### 2.17. INSURANCE

Peoples has Previously Disclosed a complete and accurate summary of all insurance policies and bonds maintained by Peoples. Except as Previously Disclosed, Peoples has not received any notice of a premium increase or cancellation with respect to any of its insurance policies or bonds and, within the last three years, Peoples has not been refused any insurance coverage sought or applied for, and Peoples has no reason to believe that existing insurance coverage cannot be renewed as and when the same shall expire, upon terms and conditions as favorable as those presently in effect, other than possible increases in premiums or unavailability in coverage that

have not resulted from any extraordinary loss experience of Peoples.

#### 2.18. DEPOSIT INSURANCE

Except as Previously Disclosed, Peoples is an insured bank as defined in the FDIA, and Peoples has paid all assessments and filed all reports required by the FDIA.

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#### 2.19. ENVIRONMENTAL LIABILITY

There is no legal, administrative, arbitral or other proceeding, or, to the knowledge of Peoples, claim, action, cause of action, or governmental investigation of any nature seeking to impose, or that could result in the imposition, on Peoples of any liability arising under any local, state or federal environmental statute, regulation or ordinance including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, pending or, to the knowledge of Peoples, threatened against Peoples, which liability might have a material adverse effect on the financial condition, results of operations or business of Peoples; except as Previously Disclosed, to the knowledge of Peoples, there is no reasonable basis for any such proceeding, claim, action or governmental investigation that would impose any such liability; and Peoples is not subject to any agreement, order, judgment, decree or memorandum by or with any court, governmental authority, regulatory agency or third party imposing any such liability.

#### 2.20. CERTAIN INFORMATION

The information contained in the Proxy Statement, other than information subject to Section 3.9(a) hereof, at the time the Proxy Statement is mailed to shareholders of Peoples up to and including the time of the Peoples shareholders' meeting to vote upon the Merger, (i) shall comply in all material respects with the applicable provisions of the regulations of the Securities Laws and (ii) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading.

#### 2.21. POOLING OF INTERESTS

As of the date of this Reorganization Agreement, Peoples, after having consulted with its independent auditors concerning the requirements of the relevant accounting literature and SEC pronouncements and interpretations, does not believe that it has taken any steps which would preclude S&T from accounting for the Merger under the pooling of interests method and knows of no reason relating to it which would reasonably cause it to believe that the Merger will not qualify as a pooling of interests for financial accounting purposes.

### ARTICLE 3

#### Representations and Warranties of S&T

S&T hereby represents and warrants to Peoples as follows:

##### 3.1. CAPITAL STRUCTURE OF S&T

The authorized capital stock of S&T consists at September 30, 1996 of (i) 10,000,000 shares of preferred stock, no par value, none of which has been issued and (ii) 25,000,000 shares of common stock, par value \$2.50 per share ("S&T Common Stock"), of which 11,046,355 shares were issued and outstanding and 774,589 shares were held in treasury. All outstanding shares of S&T capital stock have been duly issued and are validly outstanding, fully paid and nonassessable. There are no Rights authorized, issued or outstanding with respect to the capital stock of S&T. None of the shares of S&T's capital stock has been issued in violation of the preemptive rights of any person. The shares of S&T Common Stock to be issued in connection with the Merger have been duly authorized and, when issued in accordance with the terms of this Reorganization Agreement and the Plan of Merger, will be validly issued, fully paid, nonassessable and free and clear of any preemptive rights. As of September 30, 1996, no shares of S&T Common Stock were reserved for issuance.

##### 3.2. ORGANIZATION, STANDING AND AUTHORITY OF S&T

Each of S&T and its wholly-owned banking subsidiary, S&T Bank, is a duly organized corporation, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania, with full corporate power and authority to carry on its business as now conducted. S&T's wholly-owned nonbanking subsidiary, S&T

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Investment Company, Inc., is a duly organized corporation, validly existing and in good standing under the laws of the State of Delaware, with full corporate power and authority to carry on its business as now conducted. S&T is registered as a bank holding company under the Bank Holding Company Act.

### 3.3. AUTHORIZED AND EFFECTIVE REORGANIZATION AGREEMENT

(a) Each of S&T and S&T Bank has all requisite corporate power and authority to enter into and perform all of its obligations under this Reorganization Agreement. The execution and delivery of this Reorganization Agreement and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action in respect thereof on the part of S&T and S&T Bank.

(b) Upon the execution of the Plan of Merger and at all times thereafter until the Closing Date, S&T and S&T Bank will have all requisite corporate power and authority to enter into and perform all of its obligations under the Plan of Merger, and the execution and delivery of the Plan of Merger and the consummation of the transactions contemplated thereby (at the time of such execution) will have been duly and validly authorized by all necessary corporate action in respect thereof on the part of S&T and S&T Bank, except that the affirmative vote of the holders of two-thirds of the outstanding shares of S&T Common Stock is required to authorize the issuance of S&T Common Stock pursuant to this Reorganization Agreement and Plan of Merger in accordance with Nasdaq requirements.

(c) The Board of Directors of S&T has directed that this Reorganization Agreement and the Plan of Merger be submitted to S&T's stockholders for approval at a special meeting to be held as soon as practicable.

(d) This Reorganization Agreement constitutes a legal, valid and binding obligation of S&T and S&T Bank and the Plan of Merger, upon the authorization, execution and delivery thereof by the parties thereto, will constitute a legal, valid and binding obligation of S&T and S&T Bank, enforceable against them in accordance with their respective terms, subject to receipt of shareholder approval and, as to enforceability, subject to bankruptcy, insolvency, fraudulent conveyance and other laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(e) Neither the execution and delivery of this Reorganization Agreement or the Plan of Merger, nor consummation of the transactions contemplated hereby or thereby, nor compliance by S&T or S&T Bank with any of the provisions hereof or thereof shall (i) conflict with or result in a breach of any provision of the articles of incorporation, charter or by-laws of S&T or S&T Bank, (ii) constitute or result in a breach of any term, condition or provision of, or constitute a default under, or give rise to any right of termination, cancellation or acceleration with respect to, or result in the creation of any lien, charge or encumbrance upon any property or asset of S&T or S&T Bank pursuant to, any note, bond, mortgage, indenture, license, agreement or other instrument or obligation or (iii) violate any order, writ, injunction, decree, statute, rule or regulation applicable to S&T or S&T Bank, except for such violations, rights, conflicts, breaches, creations or defaults which, either individually or in the aggregate would not have a material adverse effect on S&T.

### 3.4. SEC DOCUMENTS; REGULATORY FILINGS

S&T has filed all SEC Documents required by the Securities Laws and such SEC Documents complied, as of their respective dates, in all material respects with the Securities Laws. S&T and each S&T subsidiary has filed all reports required by statute or regulation to be filed with any federal or state bank regulatory agency and such reports were prepared, in all material respects, in accordance with the applicable statutes, regulations and instructions in existence as of the date of filing of such reports.

### 3.5. FINANCIAL STATEMENTS; BOOKS AND RECORDS; MINUTE BOOKS

The S&T Financial Statements fairly present the consolidated financial position of S&T as of the dates indicated and the results of operations, changes in shareholders' equity and cash flows of S&T for the periods

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then ended in conformity with generally accepted accounting principles applied on a consistent basis except as disclosed therein. The books and records of S&T fairly reflect in all material respects the transactions to which it is a party or by which its properties are subject or bound. Such books and records have been properly kept and maintained and are in compliance in all material respects with all applicable legal and accounting requirements. The minute books of S&T contain accurate records of all corporate actions of its shareholders and Board of Directors (including committees of its Board of Directors).

### 3.6. MATERIAL ADVERSE CHANGE

S&T has not suffered any material adverse change in its financial condition, results of operations or business since December 31, 1995.

### 3.7. ABSENCE OF UNDISCLOSED LIABILITIES

S&T has no liability (contingent or otherwise) that is material to S&T, or that, when combined with all similar liabilities, would be material to S&T, except as disclosed in the S&T Financial Statements.

### 3.8. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses reflected on the S&T Financial Statements, as of their respective dates, is adequate in all material respects under the requirements of generally accepted accounting principles to provide for reasonably anticipated losses on outstanding loans.

### 3.9. CERTAIN INFORMATION

(a) The information provided by S&T to Peoples for use in the Proxy Statement, at the time the Proxy Statement is mailed to shareholders of Peoples and at all subsequent times up to and including the time of the Peoples shareholders' meeting to vote upon the Merger, shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

(b) When the Registration Statement or any post-effective amendment thereto shall become effective, and at all times subsequent to such effectiveness up to and including the time of the S&T shareholders' meeting to vote upon the Merger, such Registration Statement and all amendments or supplements thereto, with respect to all information set forth therein furnished by S&T relating to S&T, (i) shall comply in all material respects with the applicable provisions of the Securities Laws, and (ii) shall not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements contained therein not misleading.

### 3.10. BROKERS AND FINDERS

Neither S&T nor any of its officers, directors or employees, has employed any broker, finder or financial advisor or incurred any liability for any fees or commissions in connection with the transactions contemplated herein or the Plan of Merger, except that S&T has engaged and will pay a fee or commission to McDonald & Company Securities, Inc.

### 3.11. COMPLIANCE WITH LAWS

Each of S&T and its subsidiaries is in compliance in all material respects with all statutes and regulations applicable to the conduct of its business, and none of S&T, its subsidiaries or, to the knowledge of S&T, any director or executive officer of S&T or any of its subsidiaries has received notification from any agency or department of federal, state or local government (i) asserting a material violation of any such statute or regulation, (ii) threatening to revoke any license, franchise, permit or government authorization or (iii) restricting or in any way limiting its operations. None

of S&T or any subsidiary of S&T is subject to any regulatory or

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supervisory cease and desist order, agreement, directive, memorandum of understanding or commitment, and none of them has received any communication requesting that they enter into any of the foregoing.

### 3.12. LEGAL PROCEEDINGS

To the knowledge of S&T, there are no actions, suits or proceedings instituted, pending or, to the knowledge of S&T, threatened against S&T or against any asset, interest or right of S&T that would, if determined adversely to S&T, have a material adverse effect on S&T. To the knowledge of S&T, there are no actual or threatened actions, suits or proceedings which present a claim to restrain or prohibit the transactions contemplated herein or to impose upon S&T, Peoples or any of their respective subsidiaries or affiliates any material cost or obligation in connection therewith. There are no actions, suits or proceedings instituted, pending or, to the knowledge of S&T, threatened against any present or former director or executive officer of S&T that might give rise to a claim for indemnification that would, if determined adversely to S&T, have a material adverse effect on S&T, and, to the knowledge of S&T, there is no reasonable basis for any such action, suit or proceeding.

### 3.13. POOLING OF INTERESTS

As of the date of this Reorganization Agreement, S&T, after having consulted with its independent auditors concerning the requirements of the relevant accounting literature and SEC pronouncements and interpretations, does not believe that it has taken any steps which would preclude it from accounting for the Merger under the pooling of interests method and knows of no reason relating to it which would reasonably cause it to believe that the Merger will not qualify as a pooling of interests for financial accounting purposes.

## ARTICLE 4

### Covenants

#### 4.1. SHAREHOLDERS' MEETINGS

S&T and Peoples shall submit this Reorganization Agreement and the Plan of Merger and, in the case of S&T, the issuance of S&T Common Stock thereunder, to their respective shareholders for approval at special meetings to be held as soon as practicable. Subject to the fiduciary duties of the respective boards of directors of S&T and Peoples as determined by each after consultation with such board's counsel, the boards of directors of S&T and Peoples shall recommend at the respective shareholders' meetings that the shareholders vote in favor of such approval.

#### 4.2. PROXY STATEMENT; REGISTRATION STATEMENT

The Board of Directors of Peoples will direct that this Reorganization Agreement and the Plan of Merger be submitted to Peoples' shareholders for approval at a special meeting to be held as soon as practicable. As promptly as practicable after the date hereof, S&T and Peoples shall cooperate in the preparation of the Proxy Statement to be mailed to the shareholders of S&T and Peoples in connection with the Merger and the transactions contemplated thereby and to be filed by S&T as part of the Registration Statement. S&T will advise Peoples, promptly after it receives notice thereof, of the time when the Registration Statement or any post-effective amendment thereto has become effective or any supplement or amendment has been filed, of the issuance of any stop order, of the suspension of qualification of the S&T Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or the initiation or threat of any proceeding for any such purpose, or of any request by the SEC for the amendment or supplement of the Registration Statement or for additional information. S&T shall take all actions necessary to register or qualify the shares of S&T Common Stock to be issued in the Merger pursuant to all applicable state "blue sky" or securities laws and shall maintain such registrations or qualifications in effect for all purposes hereof. S&T shall apply for approval to have the shares of S&T Common Stock authorized for trading on the Nasdaq National Market System prior to the Effective Date.

#### 4.3. PLAN OF MERGER

The terms of the Plan of Merger are incorporated herein by reference. Peoples shall execute and deliver the Plan of Merger as soon as practicable following S&T's request therefor.

#### 4.4. APPLICATIONS

As promptly as practicable after the date hereof, S&T shall submit any requisite applications for prior approval of the transactions contemplated herein and in the Plan of Merger (i) to the FDIC pursuant to 12 U.S.C. (S) 1828(c)(2) and (ii) to the Department of Banking pursuant to Section 1603 of the Pennsylvania Banking Code, and each of the parties hereto shall submit any applications, notices or other filings to any other state or federal government agency, department or body the approval of which is required for consummation of the Merger. S&T and Peoples each represents and warrants to the other that all information concerning it and its directors, officers and shareholders included (or submitted for inclusion) in any such application and furnished by it shall be true, correct and complete in all material respects.

#### 4.5. BEST EFFORTS; CERTAIN NOTICES AND INFORMATION

(a) S&T and Peoples shall each use its best efforts in good faith to (i) furnish such information as may be required in connection with the preparation of the documents referred to in Sections 4.2 and 4.4 above and (ii) take or cause to be taken all action necessary or desirable on its part so as to permit consummation of the Merger at the earliest possible date, including, without limitation, (1) obtaining the consent or approval of each individual, partnership, corporation, association or other business or professional entity whose consent or approval is required for consummation of the transactions contemplated hereby, provided that Peoples shall not agree to make any payments or modifications to agreements in connection therewith without the prior written consent of S&T, except where such payment or modification would not have a material adverse effect on Peoples, and (2) requesting the delivery of appropriate opinions, consents and letters from its counsel and independent auditors. No party hereto shall take or fail to take, or to the best of its ability permit to be taken or omitted to be taken by any third persons, any action that would substantially impair the prospects of completing the Merger pursuant to this Reorganization Agreement and the Plan of Merger, that would materially delay such completion, or that would adversely affect the qualification of the Merger for pooling of interests accounting treatment or as a reorganization within the meaning of Section 368(a) of the Code.

(b) Peoples shall give prompt notice to S&T, and S&T shall give prompt notice to Peoples, of (i) the occurrence, or failure to occur, of any event which occurrence or failure would be likely to cause any representation or warranty contained in this Reorganization Agreement to be untrue or inaccurate in any material respect at any time from the date hereof to the Closing Date and (ii) any material failure of S&T or Peoples, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder, and each party shall use all reasonable efforts to remedy such failure.

(c) Each party shall provide and shall request its auditors to provide the other party with such historical financial information regarding it (and related audit reports and consents) as the other party may reasonably request for securities disclosure purposes.

#### 4.6. INVESTIGATION AND CONFIDENTIALITY

Peoples and S&T will each keep the other advised of all material developments relevant to its business and to the consummation of the transactions contemplated herein. Peoples and S&T may make or cause to be made such investigation of the financial and legal condition of the other as such party reasonably deems necessary or advisable in connection with the transactions contemplated herein and in the Plan of Merger, provided, however, that such investigation shall be reasonably related to such transactions and shall not interfere unnecessarily with normal operations. Peoples and S&T agree to furnish the other and the other's advisors with such financial data and other information with respect to its business and properties as such other party shall from time to time reasonably request. No investigation pursuant to this Section 4.6 shall affect or be deemed to modify any

representation or warranty made by, or the conditions to the obligations to consummate the Merger of, any party hereto. Each party shall, and shall cause its directors, officers, attorneys and advisors to, maintain the confidentiality of all information obtained in such investigation which is not otherwise publicly disclosed by the other party, said undertaking with respect to confidentiality to survive any termination of this Agreement pursuant to Section 6.1 hereof. In the event of termination of this Reorganization Agreement, each party shall return to the furnishing party or destroy and certify the destruction of all information previously furnished in connection with the transactions contemplated by this Reorganization Agreement.

#### 4.7. PRESS RELEASES

Peoples and S&T shall agree with each other as to the form and substance of any press release related to this Reorganization Agreement and the Plan of Merger or the transactions contemplated hereby or thereby, and shall consult each other as to the form and substance of other public disclosures related thereto, provided, however, that nothing contained herein shall prohibit either party, following notification to the other party, from making any disclosure which its counsel deems necessary.

#### 4.8. COVENANTS OF PEOPLES

(a) Prior to the Closing Date, and except as otherwise provided for by this Reorganization Agreement, the Plan of Merger or consented to or approved by S&T, Peoples shall use its reasonable efforts to preserve its properties, business and relationships with customers, employees and other persons.

(b) Except with the prior written consent of S&T, between the date hereof and the Effective Date, Peoples shall not:

(1) carry on its business other than in the usual, regular and ordinary course in substantially the same manner as heretofore conducted;

(2) declare, set aside, make or pay any dividend or other distribution in respect of its capital stock, except that Peoples may, in order to conform to the S&T dividend policy subsequent to the execution of this Reorganization Agreement, (i) declare a dividend in December 1996 with a record date of January 2, 1997 and payable in January 1997 in an amount equal to the dollar amount of the per share dividend in respect of the fourth quarter of 1996 that S&T declares in December 1996, payable to S&T shareholders in January 1997, multiplied by the number of the shares of S&T Common Stock to be received by shareholders of Peoples pursuant to the Merger ("Exchange Ratio"); (ii) if the Effective Date shall not have occurred prior to April 1, 1997, declare a dividend on or after April 1, 1997, payable in April 1997 in an amount equal to the dollar amount of the per share dividend in respect of the first quarter of 1997 that S&T declares in March 1997, payable to S&T shareholders in April 1997, multiplied by the Exchange Ratio; and (iii) if the Effective Date shall not have occurred prior to July 1, 1997, declare a dividend on or after July 1, 1997, payable in July 1997 in an amount equal to the dollar amount of the per share dividend in respect of the second quarter of 1997 that S&T declares in June 1997, payable to S&T shareholders in July 1997, multiplied by the Exchange Ratio;

(3) issue any shares of its capital stock or permit any treasury shares to become outstanding, incur any additional debt obligation or other obligation for borrowed money, other than in the ordinary course of business of Peoples consistent with past practice;

(4) issue, grant or authorize any Rights or effect any recapitalization, reclassification, stock dividend, stock split or like change in capitalization;

(5) amend its charter or by-laws;

(6) merge with any other corporation, savings association or bank or permit any other corporation, savings association or bank to merge into it or consolidate with any other corporation, savings association or bank; acquire control over any other firm, bank, corporation, savings association or organization; or create any subsidiary;

(7) fail to comply in any material respect with any material laws, regulations, ordinances or governmental actions applicable to it and to the conduct of its business; enter into any material swap, hedge or other similar off-balance sheet transaction; waive or release any material right or cancel or compromise any material debt or claim; restructure, extend or modify any loan Previously Disclosed pursuant to the second sentence of Section 2.9 hereof or that would have been required to have been so disclosed if it had been outstanding at September 30, 1996, waive or release any right or cancel or compromise any debt or claim in connection with any such loan, or make any new loan that would have been required to have been so disclosed if it had been outstanding at September 30, 1996;

(8) liquidate or sell or dispose of any material assets or acquire any material assets; make any capital expenditures in excess of \$25,000 in the aggregate; or establish new branches or other similar facilities; or enter into or modify any leases or other contracts that involve annual payments by Peoples that exceed \$10,000 in any instance or \$25,000 in the aggregate;

(9) increase the rate of compensation of, pay or agree to pay any bonus to, or provide any other employee benefit or incentive to, any of its directors, officers or employees except in accordance with Peoples' standard compensation and benefits practices; enter into, modify or extend any employment or severance contracts with any of its present or former directors, officers or employees; or enter into or substantially modify (except as may be required by applicable law) any pension, retirement, stock option, stock purchase, stock appreciation right, savings, profit sharing, deferred compensation, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement related thereto, in respect of any of its directors, officers or other employees;

(10) change its lending, investment, asset/liability management or other material banking policies in any material respect except as may be required by changes in applicable law, regulation or regulatory directives;

(11) change its methods of accounting in effect at December 31, 1995, except as required by changes in generally accepted accounting principles concurred in by its independent certified public accountants (including but not limited to the adoption of Statement of Financial Accounting Standard 107), or change any of its methods of reporting income and deductions for federal income tax purposes from those employed in the preparation of its federal income tax returns for the year ended December 31, 1995, except as required by changes in law or applicable regulations;

(12) solicit, encourage or initiate inquiries or proposals with respect to any acquisition or purchase of all or a substantial portion of the assets of, or a substantial equity interest in, Peoples or any business combination with Peoples, or, subject to the fiduciary duties of its directors as advised by counsel, furnish any information relating to or in connection with any such inquiries or proposals, other than as contemplated by this Reorganization Agreement; or authorize or permit any officer, director, agent or affiliate of it to do any of the above; or fail to notify S&T immediately if any such inquiries or proposals are received by, any such information is required from, or any such negotiations or discussions are sought to be initiated with Peoples; or

(13) agree to do any of the foregoing.

(c) As soon as practicable, Peoples shall cause (i) financial statements to be prepared in conformity with generally accepted accounting principles for whatever full fiscal year periods are necessary to comply with the requirements of Form S-4 under the Securities Act, with respect to this transaction, and with the other requirements of the rules and regulations under the Securities Act and the Exchange Act as may be applicable to S&T, (ii) its independent public accountants to perform an audit of such financial statements in conformity with generally accepted auditing standards, and (iii) its independent public accountants to consent to the use of their opinion with respect to such financial statement in registration statements filed by S&T under the Securities Act.

The transactions contemplated by this Reorganization Agreement and the Plan of Merger shall be consummated at a closing to be held at such location as the parties may agree, on the first business day following

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satisfaction of the conditions to consummation of the Merger set forth in Article 5 hereof or such later date within 30 days thereafter as reasonably may be specified by S&T, with the Merger to be consummated after such intermediate steps as S&T reasonably may specify. The Merger shall be effective at the time and date specified in the Articles of Merger.

#### 4.10. PEOPLES EMPLOYEES; BOARD OF DIRECTORS; INDEMNIFICATION

(a) All employees of Peoples as of the Effective Date shall become employees of S&T or a subsidiary of S&T. Nothing in this Reorganization Agreement shall give any employee of Peoples a right to continuing employment with S&T after the Effective Date. As soon as practicable after the Effective Date, S&T shall provide or cause to be provided to all employees of Peoples who remain employed by S&T benefits which in the aggregate are no less favorable than those generally afforded to other S&T employees holding similar positions, provided that for purposes of determining eligibility for and vesting of such employee benefits, service with Peoples prior to the Effective Date shall be treated as service to the same extent as if such persons had been employees of S&T or affiliates of S&T, and provided further that this Section 4.10(a) shall not be construed (i) to limit the ability of S&T and its affiliates to terminate the employment of any employee or to review employee benefits programs from time to time and to make such changes as they deem appropriate or (ii) to require S&T or its affiliates to provide employees or former employees with post-retirement medical benefits.

(b) S&T shall take all requisite action immediately prior to the Effective Date to elect as members of its board of directors three persons selected by Peoples to serve as directors of S&T.

(c) From and after the Effective Date for a period of three years, S&T shall indemnify persons who serve as directors and officers of Peoples as of the date of this Reorganization Agreement for claims arising prior to the Effective Date as provided under S&T's By-Laws as delivered to Peoples prior to the execution of this Reorganization Agreement, as if such persons had been entitled to indemnification under such S&T By-Laws prior to the Effective Date.

#### 4.11. AFFILIATES

(a) S&T and Peoples shall cooperate and use their best efforts to identify those persons who may be deemed to be "affiliates" of Peoples and S&T within the meaning of Rule 145 promulgated by the Commission under the Securities Act and for purposes of qualifying the "Merger" for "pooling interests" accounting treatment. Peoples shall use its best efforts to cause each Peoples affiliate so identified to deliver to S&T no later than 30 days prior to the Effective Date, a written agreement providing that such person will not dispose of S&T Common Stock received in the Merger except in compliance with the Securities Act, the rules and regulations promulgated thereunder and the Commission's rules relating to the pooling of interests accounting treatment.

(b) S&T shall use its best efforts to publish no later than 90 days after the end of the first month after the Effective Date in which there are at least 30 days of post-Merger combined operations (which month may be the month in which the Effective Date occurs), combined sales and net income figures as contemplated by and in accordance with the terms of SEC Accounting Series Release No. 135.

#### 4.12. NASDAQ APPLICATION

S&T shall apply to have the shares of S&T Common Stock that may be issued in the Merger authorized for trading on the Nasdaq National Market System.

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## Conditions Precedent

### 5.1. CONDITIONS PRECEDENT--S&T AND PEOPLES

The respective obligations of Peoples, S&T, or S&T Bank to effect the Merger, shall be subject to satisfaction or waiver of the following conditions at or prior to the Closing Date:

(a) All corporate action necessary to authorize the execution, delivery and performance of this Reorganization Agreement and the Plan of Merger and consummation of the transactions contemplated hereby and thereby shall have been duly and validly taken, including without limitation the approvals of the shareholders of Peoples and S&T in accordance with applicable law;

(b) The parties hereto shall have received all regulatory approvals required or deemed necessary in connection with the transactions contemplated by this Reorganization Agreement and the Plan of Merger, all notice periods and waiting periods required after the granting of any such approvals shall have passed and all conditions contained in any such approval required to have been satisfied prior to consummation of such transactions shall have been satisfied, provided, however, that no such approval shall have imposed any condition or requirement which, in the reasonable opinion of the Board of Directors of S&T materially and adversely affects the anticipated economic and business benefits to S&T of the transactions contemplated by this Reorganization Agreement taken as a whole;

(c) The Registration Statement (including any post-effective amendment thereto) shall be effective under the Securities Act, and no proceeding shall be pending or to the knowledge of S&T threatened by the Commission to suspend the effectiveness of such Registration Statement, and S&T shall have received all state securities or "blue sky" permits or other authorizations, or confirmations as to the availability of an exemption from registration requirements as may be necessary;

(d) None of the parties hereto or to the Plan of Merger shall be subject to any order, decree or injunction of a court or agency of competent jurisdiction which enjoins or prohibits the consummation of the transactions contemplated by this Reorganization Agreement and the Plan of Merger;

(e) The shares of S&T Common Stock that may be issued in the Merger shall have been authorized for trading on the Nasdaq National Market System; and

(f) S&T and Peoples shall have received an opinion of Arnold & Porter substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion, (i) the Merger will constitute a reorganization within the meaning of Section 368(a) of the Code and (ii) no gain or loss will be recognized by a shareholder of Peoples who exchanges all of the shareholder's Peoples Common Stock solely for S&T Common Stock in the Merger (except with respect to cash received in lieu of a fractional share interest in S&T Common Stock).

### 5.2. CONDITIONS PRECEDENT--PEOPLES

The obligations of Peoples to effect the Merger shall be subject to satisfaction of the following additional conditions at or prior to the Closing Date unless waived by Peoples pursuant to Section 6.4 hereof:

(a) The representations and warranties of S&T set forth in Article 3 hereof shall be true and correct in all material respects as of the date of this Reorganization Agreement and as of the Closing Date as though made on and as of the Closing Date (or on the date when made in the case of any representation and warranty which specifically relates to an earlier date), except (i) as otherwise contemplated by this Reorganization Agreement or consented to in writing by Peoples and (ii) insofar as the failure of any representation and warranty to be true and correct does not have, and is not reasonably likely to have, a material adverse effect on S&T;

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(b) S&T and S&T Bank shall have in all material respects performed all obligations and complied with all covenants required by this Reorganization Agreement and the Plan of Merger;

(c) S&T and S&T Bank each shall have delivered to Peoples a certificate,

dated the Closing Date and signed by its Chairman and Chief Executive Officer or Executive Vice President to the effect that the conditions set forth in paragraphs (a) and (b) of this section have been satisfied;

(d) The shares of S&T Common Stock to be received by the shareholders of Peoples pursuant to the Merger shall be freely tradeable by the recipients thereof, subject to restrictions upon resale imposed by virtue of Rule 145 under the Securities Act and the Commission's rules relating to the pooling of interests accounting treatment, as agreed to in the written agreements provided pursuant to Section 4.11(a) hereof;

(e) Peoples shall have received an opinion of Arnold & Porter, counsel to S&T, dated the Closing Date, as to such matters as Peoples may reasonably request with respect to the transactions contemplated hereby and by the Plan of Merger; and

(f) Peoples shall have received an opinion from Danielson Associates Inc. dated the date of the Proxy Statement that the consideration to be received by the shareholders of Peoples pursuant to this Reorganization Agreement is fair from a financial point of view to the shareholders of Peoples.

### 5.3. CONDITIONS PRECEDENT--S&T

The obligations of S&T and S&T Bank to effect the Merger shall be subject to satisfaction of the following additional conditions at or prior to the Closing Date unless waived by S&T pursuant to Section 6.4 hereof:

(a) The representations and warranties of Peoples set forth in Article 2 hereof shall be true and correct in all material respects as of the date of this Reorganization Agreement and as of the Closing Date as though made on and as of the Closing Date (or on the date when made in the case of any representation and warranty which specifically relates to an earlier date), except (i) as otherwise contemplated by this Reorganization Agreement or consented to in writing by S&T and (ii) insofar as the failure of any representation and warranty to be true and correct does not have, and is not reasonably likely to have, a material adverse effect on Peoples.

(b) Peoples shall have in all material respects performed all obligations and complied with all covenants required by this Reorganization Agreement and the Plan of Merger;

(c) Peoples shall have delivered to S&T a certificate, dated the Closing Date and signed by its Chairman or its Acting Chief Executive Officer or other appropriate officer to the effect that the conditions set forth in paragraphs (a) and (b) of this section have been satisfied;

(d) S&T shall have received an opinion or opinions of Kirkpatrick & Lockhart LLP, counsel to Peoples, dated the Closing Date, as to such matters as S&T may reasonably request with respect to the transactions contemplated hereby and by the Plan of Merger;

(e) S&T shall have received an opinion letter, dated as of the Closing Date, from Ernst & Young LLP, its independent public accountants, to the effect that the Merger will qualify for pooling of interests accounting treatment under Accounting Principles Board Opinion No. 16 if closed and consummated in accordance with this Reorganization Agreement; except that this condition shall be deemed to have been waived by S&T to the extent that it takes any action or causes any conditions to occur, without the written consent of Peoples, which constitute the sole reason for Ernst & Young LLP being unable to render such opinion; and

(f) S&T shall have received a "comfort" letter from S.R. Snodgrass, A.C. dated not more than five days prior to (i) the effective date of the Registration Statement and (ii) the Closing Date, with respect to certain financial information regarding Peoples, in form and in substance which is customary in transactions of the nature contemplated by this Reorganization Agreement.

## 6.1. TERMINATION

This Reorganization Agreement and the Plan of Merger may be terminated, either before or after approval by the shareholders of Peoples:

(a) At any time on or prior to the Effective Date, by the mutual consent in writing of the parties hereto;

(b) At any time on or prior to the Closing Date, by S&T in writing, if Peoples has, or by Peoples in writing, if S&T has, in any material respect, breached (i) any covenant or agreement contained herein or in the Plan of Merger or (ii) any representation or warranty contained herein if the failure of any such representation and warranty to be true and correct has, or is reasonably likely to have, a material adverse effect upon S&T or Peoples, and in either case if such breach has not been cured by the earlier of 30 days after the date on which written notice of such breach is given to the party committing such breach or the Closing Date;

(c) On the Closing Date, by either party hereto in writing, if any of the conditions precedent set forth in Article 5 hereof with respect to such party have not been satisfied or fulfilled;

(d) At any time, by either party hereto in writing, if the applications for prior approval referred to in Section 4.4 hereof have been denied, and the time period for appeals and requests for reconsideration has run;

(e) At any time, by either party hereto in writing, if the shareholders of S&T or Peoples do not approve the transactions contemplated herein at the annual or special meetings duly called for that purpose;

(f) At any time, by either party in writing, if such party determines in good faith that any condition precedent to such party's obligations to consummate the Merger is or would be impossible to satisfy, provided that the terminating party has given the other party written notice with respect thereto at least 10 days prior to such termination and has given the other party a reasonable opportunity to discuss the matter with a view to achieving a mutually acceptable resolution; or

(g) By either party hereto in writing, if the Closing Date has not occurred by the close of business on September 30, 1997.

## 6.2. EFFECT OF TERMINATION

In the event this Reorganization Agreement or the Plan of Merger is terminated pursuant to Section 6.1 hereof, this Reorganization Agreement and the Plan of Merger shall become void and have no effect, except that (i) the provisions relating to confidentiality and expenses set forth in Sections 4.6 and 7.1 hereof, respectively, shall survive any such termination and (ii) a termination pursuant to Section 6.1(b)(i) shall not relieve the breaching party from liability for an uncured willful breach of a covenant or agreement giving rise to such termination.

## 6.3. SURVIVAL OF REPRESENTATIONS, WARRANTIES AND COVENANTS

All representations, warranties and covenants in this Reorganization Agreement and the Plan of Merger or in any instrument delivered pursuant hereto or thereto shall expire on, and be terminated and extinguished at, the Effective Date other than covenants that by their terms are to survive or be performed after the Effective Date, provided that no such representations, warranties or covenants shall be deemed to be terminated or extinguished so as to deprive S&T or Peoples (or any director, officer or controlling person thereof) of any defense in law or equity which otherwise would be available against the claims of any person, including, without limitation, any shareholder or former shareholder of either S&T or Peoples, the aforesaid representations, warranties and covenants being material inducements to the consummation by S&T, S&T Bank and Peoples of the transactions contemplated herein.

## 6.4. WAIVER

Except with respect to any required shareholder or regulatory approval, S&T and Peoples, respectively, by written instrument signed by an executive

officer of such party, may at any time (whether before or after approval of this Reorganization Agreement and the Plan of Merger by the shareholders of S&T and Peoples) extend the time for the performance of any of the obligations or other acts of Peoples, on the one hand, or S&T or S&T Bank, on the other hand, and may waive (i) any inaccuracies of such parties in the representations or warranties contained in this Reorganization Agreement, the Plan of Merger or any document delivered pursuant hereto or thereto, (ii) compliance with any of the covenants, undertakings or agreements of such parties, or satisfaction of any of the conditions precedent to its obligations, contained herein or in the Plan of Merger or (iii) the performance by such parties of any of its obligations set out herein or therein; provided, however, that no such waiver executed after approval of this Reorganization Agreement and the Plan of Merger by the shareholders of S&T or Peoples shall change the number of shares of S&T Common Stock into which each share of Peoples Common Stock shall be converted pursuant to the Merger.

#### 6.5. AMENDMENT OR SUPPLEMENT

This Reorganization Agreement and the Plan of Merger may be amended or supplemented at any time by mutual agreement of the parties hereto, in the case of this Reorganization Agreement, or thereto, in the case of the Plan of Merger. Any such amendment or supplement must be in writing and approved by their respective boards of directors and/or officers authorized thereby and shall be subject to the proviso in Section 6.4 hereof.

### ARTICLE 7

#### Miscellaneous

##### 7.1. EXPENSES

(a) Each party hereto shall bear and pay all costs and expenses incurred by it in connection with the transactions contemplated in this Reorganization Agreement, including fees and expenses of its own financial consultants, accountants and counsel, except that S&T shall bear and pay all costs and expenses incurred in connection with printing the Registration Statement and joint Proxy Statement and prospectus of S&T and Peoples.

(b) Peoples and S&T each acknowledge that the other has spent, and will be required to spend, substantial time and effort in examining the business, properties, affairs, financial condition and prospects of the other, has incurred, and will continue to incur, substantial fees and expenses in connection with such examination, the preparation of this Reorganization Agreement and the accomplishment of the transactions contemplated hereby, and will be unable to evaluate and, possibly, make investments in or acquire other entities due to the limited number of personnel available for such purpose and the constraints of time. Therefore, to induce S&T to enter into this Reorganization Agreement, (i) if S&T terminates this Reorganization Agreement pursuant to Section 6.1(b) or (c) by reason of Peoples' failure to meet any condition contained in Section 5.3(a) or (b) due to Peoples' knowing and intentional misrepresentation or knowing and intentional breach of warranty or breach of any covenant or agreement, and within 9 months from the date of termination a Competing Transaction is consummated or Peoples shall have entered into an agreement or an agreement in principle which if consummated would constitute a Competing Transaction or (ii) if Peoples terminates this Reorganization Agreement pursuant to Section 6.1(b) or (c) because this Reorganization Agreement did not receive the requisite vote of Peoples stockholders and within 9 months from the date of termination (other than a termination pursuant to Article IX of the Plan of Merger) a Competing Transaction is consummated or Peoples shall have entered into an agreement which if consummated would constitute a Competing Transaction, then Peoples shall pay to S&T a fee in the amount of \$1,600,000, not as a penalty but as full and complete liquidated damages. Upon payment of such fee, Peoples shall have no further liability to S&T at law or equity. The fee shall be payable to S&T notwithstanding that any action taken by the Board of Directors of Peoples which may give rise to the obligation

to pay the fee may have been taken in accordance with the fiduciary duties of the Board of Directors. Any payment required pursuant to this Section 7.1(b) shall be made as promptly as practicable, but in no event later than two business days after the date it becomes payable hereunder and shall be made by

wire transfer of immediately available funds to an account designated by S&T. In the event that S&T is entitled to the fee, Peoples shall also pay S&T interest at the rate of 6% per year on any amounts that are not paid when due, plus all costs and expenses in connection with or arising out of the enforcement of the obligation of Peoples to pay the fee or such interest.

#### 7.2. ENTIRE AGREEMENT

This Reorganization Agreement and the Plan of Merger contain the entire agreement between the parties with respect to the transactions contemplated hereunder and thereunder and supersede all prior arrangements or understandings with respect thereto, written or oral, other than documents referred to herein or therein. The terms and conditions of this Reorganization Agreement and the Plan of Merger shall inure to the benefit of and be binding upon the parties hereto and thereto and their respective successors. Nothing in this Reorganization Agreement or the Plan of Merger, expressed or implied, is intended to confer upon any party, other than the parties hereto and thereto, and their respective successors, any rights, remedies, obligations or liabilities.

#### 7.3. NO ASSIGNMENT

No party hereto may assign any of its rights or obligations under this Reorganization Agreement to any other person.

#### 7.4. NOTICES

All notices or other communications which are required or permitted hereunder shall be in writing and sufficient if delivered personally or sent by facsimile transmission or overnight express or by registered or certified mail, postage prepaid, addressed as follows:

If to Peoples:

Peoples Bank of Unity  
7660 Saltsburg Road  
Pittsburgh, Pennsylvania 15239-3700  
Attention: Russell P. Miller  
Facsimile No.: (412) 795-0635

With a required copy to:

Kirkpatrick & Lockhart LLP  
1500 Oliver Building  
Pittsburgh, Pennsylvania 15222-2312  
Attention: J. Robert Van Kirk  
Facsimile No.: (412) 355-6501

If to S&T or S&T Bank:

S&T Bancorp, Inc.  
800 Philadelphia Street  
Indiana, Pennsylvania 15701-3921  
Attention: Robert D. Duggan  
Facsimile No.: (412) 465-1488

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With a required copy to:

Arnold & Porter  
555 12th Street, N.W.  
Washington, D.C. 20004-1202  
Attention: Catherine C. McCoy  
Facsimile No.: (202) 942-5999

#### 7.5. CAPTIONS

The captions contained in this Reorganization Agreement are for reference purposes only and are not part of this Reorganization Agreement.

#### 7.6. COUNTERPARTS

This Reorganization Agreement may be executed in any number of counterparts,

and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

7.7. GOVERNING LAW

This Reorganization Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to agreements made and entirely to be performed within such jurisdiction, except to the extent federal law may be applicable.

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IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have caused this Reorganization Agreement to be executed in counterparts by their duly authorized officers and their corporate seal to be hereunto affixed and attested by their officers thereunto duly authorized, all as of the day and year first above written.

Attest S&T Bancorp, Inc.

/s/ James C. Miller By /s/ Robert D. Duggan

Name: James C. Miller Name: Robert D. Duggan

Title: E.V.P Title: Chairman & CEO

(SEAL)

Attest Peoples Bank of Unity

/s/ Ernest J. Draganza By /s/ Russell P. Miller

Name: Ernest J. Draganza Name: Russell P. Miller

Title: SVP & CFO, Acting CEO Title: President

(SEAL)

Attest S&T Bank

/s/ Robert D. Duggan By /s/ James C. Miller

Name: Robert D. Duggan Name: James C. Miller

Title: Chairman & CEO Title: President & C.O.O.

(SEAL)

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ANNEX A

S&T BANK

AGREEMENT AND PLAN OF MERGER ("Plan of Merger") dated as of \_\_\_\_\_, 1997, adopted and made by and between PEOPLES BANK OF UNITY ("Peoples"), a Pennsylvania banking institution having its registered office at 7660 Saltsburg Road, Pittsburgh, Pennsylvania 15239-3700 and S&T BANK, a Pennsylvania banking institution having its registered office at 800 Philadelphia Street, Indiana, Pennsylvania 15701-3921, each acting pursuant to resolutions adopted by the vote of a majority of its board of directors in accordance with Section 1603 of the Pennsylvania Banking Code, and joined in by S&T BANCORP, INC. ("S&T"), a Pennsylvania corporation having its principal executive office at 800 Philadelphia Street, Indiana, Pennsylvania 15701-3921.

WITNESSETH

WHEREAS, Peoples is a Pennsylvania banking institution organized and existing under the laws of the Commonwealth of Pennsylvania, the authorized capital stock of which consists of 115,660 shares of common stock, par value \$10.00 per share ("Peoples Common Stock"), all of which shares are issued and outstanding on the date hereof;

WHEREAS, S&T Bank is a Pennsylvania banking institution organized and existing under the laws of the Commonwealth of Pennsylvania, the authorized capital stock of which consists of 605,300 shares of common stock, par value \$2.50 per share, all of which shares are issued and outstanding on the date hereof;

WHEREAS, S&T is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania that is registered as a bank holding company pursuant to the Bank Holding Company Act of 1956, as amended, the authorized capital stock of which consists at September 30, 1996 of (i) 10,000,000 shares of preferred stock, no par value, none of which has been issued and (ii) 25,000,000 shares of common stock, par value \$2.50 per share ("S&T Common Stock"), of which 11,046,355 shares were issued and outstanding and 774,589 shares were held in treasury; and

WHEREAS, S&T and Peoples have entered into an Agreement and Plan of Reorganization ("Reorganization Agreement") that contemplates the merger of Peoples with and into S&T Bank;

WHEREAS, the respective Boards of Directors of S&T, S&T Bank and Peoples deem the merger of Peoples with and into S&T Bank, under and pursuant to the terms and conditions herein set forth or referred to, desirable and in the best interests of the respective institutions and their respective shareholders, and the respective Boards of Directors of S&T, S&T Bank and Peoples have adopted resolutions approving this Plan of Merger and each of the Boards of Directors of S&T, S&T Bank and Peoples has directed that this Plan of Merger be submitted to their respective shareholders for approval; and

WHEREAS, approval of this Plan of Merger requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of Peoples Common Stock and the holders of at least two-thirds of the outstanding shares of the common stock of S&T Bank.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained and intending to be legally bound hereby, the parties hereto do hereby agree as follows:

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ARTICLE I

The Merger

Subject to the terms and conditions of this Plan of Merger, on the Effective Date (as hereinafter defined), Peoples shall be merged with and into S&T Bank pursuant to the provisions of, and with the effect provided in, Sections 1601-1607 of the Pennsylvania Banking Code (said transaction being hereinafter referred to as the "Merger"). On the Effective Date, the separate existence of Peoples shall cease and S&T Bank shall continue its existence as the surviving entity unaffected and unimpaired by the Merger, and shall be liable for all of the liabilities of Peoples existing at the Effective Date (S&T Bank as existing on and after the Effective Date being hereinafter sometimes referred to as the "Surviving Bank").

## ARTICLE II

### Articles of Incorporation and By-laws

The Articles of Incorporation and the By-Laws of the Surviving Bank in effect immediately prior to the Effective Date shall be the Articles of Incorporation and the By-Laws of the Surviving Bank, in each case until amended in accordance with applicable law.

## ARTICLE III

### Board of Directors

On the Effective Date, the Board of Directors of the Surviving Bank shall consist of those persons serving as directors of the Surviving Bank immediately prior to the Effective Date together with three directors to be designated by Peoples.

## ARTICLE IV

### Capital

Each share of capital stock of S&T Bank issued and outstanding immediately prior to the Effective Date shall, on the Effective Date, continue to be issued and outstanding.

## ARTICLE V

### Conversion and Exchange of Peoples Shares

1. On the Effective Date, each share of Peoples Common Stock outstanding immediately prior to the Effective Date (except as provided in Paragraphs 2, 5 and 7 of this Article) shall by virtue of the Merger be converted into 26.25 shares of S&T Common Stock.

2. On the Effective Date, all shares of Peoples Common Stock held in the treasury of Peoples or owned beneficially by Peoples other than in a fiduciary capacity or in connection with a debt previously contracted and all shares of Peoples Common Stock owned by S&T or owned beneficially by any subsidiary or affiliate of S&T other than in a fiduciary capacity or in connection with a debt previously contracted shall be cancelled and no cash, stock or other property shall be delivered in exchange therefor.

3. On and after the Effective Date, each holder of a certificate or certificates theretofore representing outstanding shares of Peoples Common Stock (any such certificate being hereinafter referred to as a "Certificate") may surrender the same to S&T or its agent for cancellation and each such holder shall be entitled upon such surrender to receive in exchange therefor certificate(s) representing the number of shares of S&T Common Stock to which such holder is entitled as provided herein and a check in an amount equal to the amount

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of cash, without interest, to be paid pursuant to Paragraph 7 of this Article V to which such holder is entitled. Until surrendered, each Certificate shall be deemed for all purposes to evidence ownership of the number of shares of S&T Common Stock into which the shares represented by such Certificates have been changed or converted as aforesaid. No dividends or other distributions declared after the Effective Date with respect to S&T Common Stock shall be paid to the holder of any unsurrendered Certificate until the holder thereof shall surrender such Certificate in accordance with this Article V. After the surrender of a Certificate in accordance with this Article V, the record holder thereof shall be entitled to receive any such dividends or other distributions, without any interest thereon, which theretofore had become payable with respect to shares of S&T Common Stock represented by such Certificate. Certificates surrendered for exchange by any person who is an "affiliate" of Peoples for purposes of Rule 145(c) under the Securities Act of 1933, as amended, shall not be exchanged for certificates representing shares of S&T Common Stock until S&T has received the written agreement of such person contemplated by Section 4.11(a) of the Reorganization Agreement. If any certificate for shares of Peoples Common Stock is to be issued in a name other than that in which a certificate surrendered for exchange is issued, the

certificate so surrendered shall be properly endorsed and otherwise in proper form for transfer and the person requesting such exchange shall affix any requisite stock transfer tax stamps to the certificate surrendered or provide funds for their purchase or establish to the reasonable satisfaction of S&T or its agent that such taxes are not payable.

4. Upon the Effective Date, the stock transfer books of Peoples shall be closed and no transfer of Peoples Common Stock shall thereafter be made or recognized. Any other provision of this Plan of Merger notwithstanding, neither S&T or its agent nor any party to the Merger shall be liable to a holder of Peoples Common Stock for any amount paid or property delivered in good faith to a public official pursuant to any applicable abandoned property, escheat or similar law.

5. No conversion under Paragraph 1 of this Article V shall be made in respect of any share of Peoples Common Stock as to which a Peoples shareholder has elected to exercise dissenters' rights pursuant to Section 1222 of the Pennsylvania Banking Code, if any, until such time as such shareholder shall have effectively lost dissenters' rights.

6. In the event that prior to the Effective Date the outstanding shares of S&T Common Stock shall have been increased, decreased, or changed into or exchanged for a different number or kind of shares or securities by reorganization, recapitalization, reclassification, stock dividend, stock split, or other like changes in S&T's capitalization, all without S&T receiving consideration therefor, then an appropriate and proportionate adjustment shall be made in the number and kind of shares of S&T Common Stock to be thereafter delivered pursuant to this Plan of Merger.

7. Notwithstanding any other provision of this Article V, each holder of shares of Peoples Common Stock who would otherwise have been entitled to receive a fraction of a share of S&T Common Stock (after taking into account all Certificates delivered by such holder) shall receive, in lieu thereof, cash in an amount equal to such fractional part of a share of S&T Common Stock multiplied by the market value of such Common Stock. The market value of one share of S&T Common Stock on the Effective Date shall be the last sale price of such Common Stock as quoted in the NASDAQ National Market System (as reported by The Wall Street Journal or other authoritative source) on the last business day preceding such date. No such holder shall be entitled to dividends, voting rights or any other shareholder right in respect of any fractional share.

#### ARTICLE VI

##### Effective Date of the Merger

The Merger shall be effective at the time and on the date specified in the certificate of merger (such date and time being herein referred to as the "Effective Date").

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#### ARTICLE VII

##### Further Assurances

If at any time the Surviving Bank shall consider or be advised that any further assignments, conveyances or assurances are necessary or desirable to vest, perfect or confirm in the Surviving Bank title to any property or rights of Peoples, or otherwise carry out the provisions hereof, the proper officers and directors of Peoples, as of the Effective Date, and thereafter the officers of the Surviving Bank acting on behalf of Peoples, shall execute and deliver any and all proper assignments, conveyances and assurances, and do all things necessary or desirable to vest, perfect or confirm title to such property or rights in the Surviving Bank and otherwise carry out the provisions hereof.

#### ARTICLE VIII

##### Conditions Precedent

The obligations of S&T, S&T Bank and Peoples to effect the Merger as herein provided shall be subject to satisfaction, unless duly waived, of the conditions set forth in the Reorganization Agreement.

ARTICLE IX

Termination

Anything contained in this Plan of Merger to the contrary notwithstanding, and notwithstanding adoption hereof by the shareholders of S&T, S&T Bank and Peoples, this Plan of Merger may be terminated and the Merger abandoned as provided in the Reorganization Agreement; provided however, that the Plan of Merger may also be terminated, and the Merger may be abandoned by Peoples, if its Board of Directors so determines by a vote of a majority of the members of its entire Board of Directors, at any time during the three-day period commencing two days after the Determination Date, if either:

(x) both of the following conditions are satisfied: (1) the Average Closing Price on the Determination Date of shares of S&T Common Stock shall be less than 80% of the Starting Price; and (2) the Index Price on the Determination Date shall be greater than the product of 0.80 and the Index Price on the Starting Date; or

(y) the Average Closing Price on the Determination Date of shares of S&T Common Stock shall be less than 75% of the Starting Price.

If Peoples elects to exercise its termination right pursuant to the immediately preceding sentence, it shall give prompt written notice to S&T which notice shall specify which of clauses (x) or (y) is applicable (or if both are applicable, which clause is being invoked); provided that such notice of election to terminate may be withdrawn at any time within the aforementioned three-day period.

For Purposes of this Article IX, the following terms shall have the meanings indicated:

"Average Closing Price" shall mean the average of the daily last sale prices of S&T Common Stock as reported on the Nasdaq National Market System (as reported by The Wall Street Journal or, if not reported therein, as reported in a mutually agreed upon authoritative source) for the twenty consecutive full trading days in which such shares are traded on the Nasdaq National Market System ending at the close of trading on the Determination Date.

"Determination Date" shall mean the date the fifth trading day immediately preceding the planned Effective Date.

"Index Group" shall mean the group of bank holding companies listed in the SNL All Bank Index, the common stock of all of which shall be publicly traded since the Starting Date, as presently used by S&T for proxy statement purposes.

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"Index Price" on a given date shall mean the market-capitalization-weighted average (weighted pursuant to the SNL All Bank Index) of the closing prices of the companies composing the Index Group.

"Starting Date" shall mean November 25, 1996.

"Starting Price" shall mean the average of the daily last sale prices of S&T Common Stock as reported on the Nasdaq National Market System (as reported by The Wall Street Journal or, if not reported therein, as reported in a mutually agreed upon authoritative source) for the five consecutive full trading days in which such shares are traded on the Nasdaq National Market System ending on November 25, 1996.

If any company belonging to the Index Group or S&T declares or effects a stock dividend, reclassification, recapitalization, split-up, combination, exchange of shares or similar transaction between the Starting Date and the Determination Date, the prices for the common stock of such company or S&T shall be appropriately adjusted for the purposes of applying this Article IX.

In the event the Reorganization Agreement is terminated pursuant to the terms thereof, this Plan of Merger shall become void and have no effect.

ARTICLE X

Miscellaneous

1. This Plan of Merger may be amended or supplemented at any time by mutual agreement of S&T, S&T Bank and Peoples. Any such amendment or supplement must be in writing and approved by their respective Boards of Directors.

2. The headings of the several Articles herein are inserted for convenience of reference only and are not intended to be a part of or to affect the meaning or interpretation of this Plan of Merger.

3. This Plan of Merger may be executed in several counterparts, each of which shall be deemed the original, but all of which together shall constitute one and the same instrument.

4. This Plan of Merger shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to agreements made and entirely to be performed within such jurisdiction, except to the extent that federal law may be applicable.

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IN WITNESS WHEREOF, the parties hereto, intending to be legally bound hereby, have caused this Plan of Merger to be executed in counterparts by their duly authorized officers and their corporate seals to be hereunto affixed and attested by their officers thereunto duly authorized, all as of the day and year first above written.

Attest S&T Bancorp, Inc.

\_\_\_\_\_  
(SEAL) By \_\_\_\_\_

Attest Peoples Bank of Unity

\_\_\_\_\_  
(SEAL) By \_\_\_\_\_

Attest S&T Bank

\_\_\_\_\_  
(SEAL) By \_\_\_\_\_

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APPENDIX B

OPINION OF MCDONALD & COMPANY SECURITIES, INC.

March 20, 1997

Board of Directors  
S&T Bancorp, Inc.  
800 Philadelphia Street  
Box 190  
Indiana, PA 15701

Gentlemen and Madam:

You have requested our opinion with respect to the fairness, from a financial point of view, as of the date hereof, to the holders of common stock, par value \$2.50 per share ("S&T Common"), of S&T Bancorp, Inc. ("S&T") of the exchange ratio as set forth in Article V, Section 1 of the Agreement and Plan of Merger (the "Plan of Merger") which is Annex A to the Agreement and Plan of Reorganization, dated November 25, 1996 (the "Agreement"), by and

among S&T, S&T Bank and Peoples Bank of Unity ("Peoples").

The Plan of Merger provides for the merger (the "Merger") of Peoples with and into S&T Bank, pursuant to which, among other things, at the Effective Date (as defined in the Plan of Merger), outstanding shares of Peoples common stock, par value \$10.00 per share ("Peoples Common"), will be exchanged for 26.25 shares of S&T Common as set forth in Article V, Section 1 of the Plan of Merger (the "Exchange Ratio"). The terms and conditions of the Merger are more fully set forth in the Agreement and the Plan of Merger.

McDonald & Company Securities, Inc., as part of its investment banking business, is customarily engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

We have acted as S&T's financial advisor in connection with, and have participated in certain negotiations leading to, the execution of the Agreement. In connection with rendering our opinion set forth herein, we have among other things:

(i) Reviewed S&T's Annual Reports to Shareholders and Annual Reports on Form 10-K for each of the years ended December 31, 1996, December 31, 1995 and December 31, 1994, including the audited financial statements contained therein;

(ii) Reviewed Peoples' audited financial statements for each of the fiscal years ended December 31, 1996, December 31, 1995 and December 31, 1994;

(iii) Reviewed certain other public and non-public information, primarily financial in nature, relating to the respective businesses, earnings, assets and prospects of S&T and Peoples provided to us or publicly available;

(iv) Participated in meetings and telephone conferences with members of senior management of S&T and Peoples concerning the financial condition, business, assets, financial forecasts and prospects of the respective companies, as well as other matters we believed relevant to our inquiry;

(v) Reviewed certain stock market information for S&T Common and Peoples Common and compared it with similar information for certain companies, the securities of which are publicly traded;

(vi) Compared the results of operations and financial condition of S&T and Peoples with that of certain companies which we deemed to be relevant for purposes of this opinion;

(vii) Reviewed the financial terms, to the extent publicly available, of certain acquisition transactions which we deemed to be relevant for purposes of this opinion;

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(viii) Reviewed the Plan of Merger and the Agreement and schedules and exhibits and certain related documents; and

(ix) Performed such other reviews and analyses as we have deemed appropriate.

In our review and analysis and in arriving at our opinion, we have assumed and relied upon the accuracy and completeness of all of the financial and other information reviewed by us and have relied upon the accuracy and completeness of the representations, warranties and covenants of S&T and Peoples contained in the Agreement and the Plan of Merger. We have not been engaged to undertake, and have not assumed any responsibility for, nor have we conducted, an independent investigation or verification of such matters. We have not been engaged to and we did not conduct a physical inspection of any of the assets, properties or facilities of either S&T or Peoples, nor have we made or obtained or been furnished with any independent evaluation or appraisal of any of such assets, properties or facilities or any of the liabilities of either S&T or Peoples. With respect to financial forecasts used in our analysis, we have assumed that such forecasts have been reasonably prepared on a basis reflecting the best currently available estimates and

judgments of the management of S&T and Peoples as to the future performance of S&T and Peoples, as the case may be. We express no view as to such financial forecasts or the assumptions on which they are based. We have also assumed that all of the conditions to the consummation of the Merger, as set forth in the Agreement and the Plan of Merger, would be satisfied and that the Merger would be consummated on a timely basis in the manner contemplated by the Agreement and the Plan of Merger.

We will receive a fee for our services as financial advisor to S&T, a portion of which is contingent upon closing of the Merger.

In the ordinary course of business, we may trade securities of S&T and Peoples for our own account and for the accounts of customers and, accordingly, we may at any time hold a long or short position in such securities.

This opinion is based on economic and market conditions and other circumstances existing on, and information made available as of, the date hereof. In addition, our opinion is, in any event, limited to the fairness to S&T's stockholders, as of the date hereof, from a financial point of view, of the Exchange Ratio, and does not address S&T's underlying business decision to effect the Merger or any other terms of the Merger and does not constitute a recommendation to any S&T shareholder as to how such shareholder should vote with respect to the Merger. This opinion does not represent our opinion as to what the value of S&T Common or Peoples Common may be at the effective date of the Merger or as to the prospects of S&T's and Peoples' business.

This opinion is directed to and has been prepared for the confidential use of the Board of Directors of S&T. This opinion shall not be reproduced, summarized, described or referred to or given to any other person without our prior written consent. Notwithstanding the foregoing, this opinion may be included in a proxy statement to be mailed to the holders of S&T Common, and a proxy statement/prospectus to be mailed to holders of Peoples Common, in connection with the Merger, provided that this opinion will be reproduced in such documents in full, and any description of or reference to us or our actions, or any summary of the opinion in such documents will be in a form acceptable to us and our counsel.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio is fair to the holders of S&T Common from a financial point of view.

Very truly yours,

/s/ McDonald & Company Securities,  
Inc.

McDonald & Company Securities, Inc.

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APPENDIX C

S&T BANCORP, INC.

AMENDED AND RESTATED 1992 INCENTIVE STOCK PLAN

1. DEFINITIONS

In this Plan, except where the context otherwise indicates, the following definitions apply:

1.1. "Agreement" means a written agreement implementing a grant of an Option or Right or an award of Restricted Stock or Incentive Shares.

1.2. "Board" means the Board of Directors of the Corporation, but does not include members emeritus of the Board of Directors.

1.3. "Code" means the Internal Revenue Code of 1986, as amended.

1.4. "Committee" means the committee of the Board meeting the standards of Rule 16b-3(c)(2)(i) under the Exchange Act, or any similar successor rule, appointed by the Board to administer the Plan. Unless otherwise determined by the Board, the Compensation Committee of the Board shall be the Committee.

1.5. "Common Stock" means the common stock, par value \$2.50 per share, of the Corporation.

1.6. "Corporation" means S&T Bancorp, Inc.

1.7. "Date of Exercise" means the date on which the Corporation receives notice of the exercise of an Option or Right in accordance with the terms of Article 9.

1.8. "Date of Grant" means the date on which an Option or Right is granted or Restricted Stock or Incentive Shares are awarded by the Committee.

1.9. "Director" means a member of the Board of the Corporation.

1.10. "Employee" means any person determined by the Committee to be an employee of the Corporation or a Subsidiary, including an Employee Director.

1.11. "Employee Director" means a Director who is an Employee of the Corporation.

1.12. "Exchange Act" means the Securities Exchange Act of 1934, as amended.

1.13. "Fair Market Value" of a share of Common Stock means the amount equal to the fair market value of a share of Common Stock determined pursuant to a reasonable method adopted by the Committee in good faith for such purpose. Unless and until the Committee has adopted another method, the fair market value of a share of Common Stock shall equal the average of the high and low sales prices on the date such fair market value is to be determined, as reported by the National Association of Securities Dealers Automated Quotation System's National Market System ("NASDAQ"), or if there are no sales of Common Stock reportedly thereby on such date, the average of the high and low sales prices for shares of Common Stock reported by NASDAQ on the nearest trading date preceding such date.

1.14. "Grantee" means an Employee to whom Restricted Stock has been awarded pursuant to Article 11 or Incentive Shares have been awarded pursuant to Article 12.

1.15. "Incentive Shares" means Shares awarded pursuant to the provisions of Article 12.

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1.16. "Incentive Stock Option" means an Option granted under the Plan that qualifies as an incentive stock option under Section 422 of the Code and that the Corporation designates as such in the Agreement granting the Option.

1.17. "Nonstatutory Stock Option" means an Option granted under the Plan that is not an Incentive Stock Option.

1.18. "Option" means an option to purchase Shares granted under the Plan in accordance with the terms of Article 6 or Article 7.

1.19. "Option Period" means the period during which an Option may be exercised.

1.20. "Option Price" means the price per Share at which an Option may be exercised. The Option Price shall be determined by the Committee, but in no event shall the Option Price of an Incentive Stock Option be less than the greater of the Fair Market Value per Share determined as of the Date of Grant or the par value of a Share.

1.21. "Optionee" means an Employee or Director to whom an Option or Right has been granted.

1.22. "Outside Director" means a Director who is not an Employee Director.

1.23. "Outside Director Program" means that portion of the Plan under which grants are made to Directors, other than Employee Directors.

1.24. "Performance Goals" means performance goals established by the Committee which may be based on earnings or earnings growth, sales, return on assets, equity or investment, regulatory compliance, satisfactory internal or

external audits, improvement of financial ratings, achievement of balance sheet or income statement objectives, or any other objective goals established by the Committee, and may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. Such performance standards may be particular to an employee or the department, branch, Subsidiary or other division in which he or she works, or may be based on the performance of the Corporation generally, and may cover such period as may be specified by the Committee.

1.25. "Plan" means the Amended and Restated S&T Bancorp, Inc. 1992 Incentive Stock Plan.

1.26. "Related Option" means the Option in connection with which, or by amendment to which, a specified Right is granted.

1.27. "Related Right" means the Right granted in connection with, or by amendment to, a specified Option.

1.28. "Restricted Stock" means Shares awarded pursuant to the provisions of Article 11.

1.29. "Right" means a stock appreciation right granted under the Plan in accordance with the terms of Article 8.

1.30. "Right Period" means the period during which a Right may be exercised.

1.31. "Share" means a share of authorized but unissued Common Stock or a reacquired share of Common Stock.

1.32. "Subsidiary" means a corporation at least 50% of the total combined voting power of all classes of stock of which is owned by the Corporation, either directly or through one or more other Subsidiaries.

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## 2. PURPOSE

The Plan is intended to assist in attracting and retaining Employees and Directors of outstanding ability and to promote the identification of their interests with those of the shareholders of the Corporation.

## 3. ADMINISTRATION

The Plan shall be administered by the Committee. In addition to any other powers granted to the Committee, it shall have the following powers, subject to the express provisions of the Plan:

3.1. To determine in its discretion the Employees to whom Options or Rights shall be granted and to whom Restricted Stock or Incentive Shares shall be awarded, the number of Shares to be subject to each Option, Right, Restricted Stock or Incentive Share award, and the terms upon which Options or Rights granted to Employees may be acquired and exercised and the terms and conditions of Restricted Stock and Incentive Share awards;

3.2. To determine all other terms and provisions of each Agreement with an Employee, which need not be identical;

3.3. Without limiting the generality of the foregoing, to provide in its discretion in an Agreement with an Employee:

(i) For an agreement by the Optionee or Grantee to render services to the Corporation or a Subsidiary upon such terms and conditions as may be specified in the Agreement, provided that the Committee shall not have the power to commit the Corporation or any Subsidiary to employ or otherwise retain any Optionee or Grantee;

(ii) For restrictions on the transfer, sale or other disposition of Shares issued to the Optionee upon the exercise of an Option or Right, for other restrictions permitted by Article 11 with respect to Restricted Stock or for conditions with respect to the issuance of Incentive Shares.

(iii) For an agreement by the Optionee or Grantee to resell to the Corporation, under specified conditions, Shares issued upon the exercise of an Option or Right or awarded as Restricted Stock or Incentive Shares; and

(iv) For the payment of the Option Price upon the exercise of an Option otherwise than in cash, including without limitation by delivery of shares of Common Stock (other than Restricted Stock) valued at Fair Market Value on the Date of Exercise of the Option, or a combination of cash and shares of Common Stock, or for the payment in part of the Option Price with a promissory note in accordance with the terms of Section 9.2; and

(v) For the right of the Optionee to surrender his or her Option (or a portion thereof and to receive upon such surrender that number of shares having an aggregate Fair Market Value as of the date of surrender equal to the product of (i) the excess of the Fair Market Value of one share of Common Stock as of such surrender date over the Option Price with respect to such surrendered Option (or portion thereof, multiplied by (ii) the number of shares covered by the Option or portion thereof surrendered. No fractional shares shall be issued upon such surrender. Cash shall be paid in lieu of any such fractional share in an amount equal to the product of such fraction multiplied by the Fair Market Value of one share of Common Stock on the date of surrender. Any such surrender shall be treated as an exercise of such Option or portion thereof for purposes of this Plan. No such surrender may be made before the Option is exercisable.

3.4. To construe and interpret the Agreements and the Plan;

3.5. To require, whether or not provided for in the pertinent Agreement, of any person exercising an Option or Right or acquiring Restricted Stock or Incentive Shares, at the time of such exercise or acquisition, the making of any representations or agreements which the Committee may deem necessary or advisable in order to comply with the securities laws of the United States or of any state;

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3.6. To provide for satisfaction of an Optionee's or Grantee's tax liabilities arising in connection with the Plan through, without limitation, retention by the Corporation of shares of Common Stock otherwise issuable on the exercise of a Nonstatutory Stock Option or Right or pursuant to an award of Incentive Shares or through delivery of Common Stock to the Corporation by the Optionee or Grantee under such terms and conditions as the Committee deems appropriate; and

3.7. To make all other determinations and take all other actions necessary or advisable for the administration of the Plan.

Any determinations or actions made or taken by the Committee pursuant to this Article shall be binding and final.

#### 4. ELIGIBILITY

Options, Rights, Restricted Stock and Incentive Shares may be granted or awarded only to Employees, provided, however, that Outside Directors may receive Nonstatutory Stock Options in accordance with the provisions of Article 7 and provided further, that the members of the Committee are not eligible to receive Options (except for Nonstatutory Stock Options in accordance with the provisions of Article 7), Rights, Restricted Stock or Incentive Shares.

#### 5. STOCK SUBJECT TO THE PLAN

5.1. The maximum number of Shares that may be issued under the Plan is 600,000 shares.

5.2. If an Option or Right expires or terminates for any reason (other than termination by virtue of the exercise of a Related Option or Related Right, as the case may be) without having been fully exercised, if Shares of Restricted Stock are forfeited or if Incentive Shares are not issued or are forfeited, the unissued or forfeited Shares which had been subject to the Agreement relating thereto shall become available for the grant of other Options and Rights or for the award of additional Restricted Stock or Incentive Shares.

5.3. The Shares issued upon the exercise of a Right (or, if cash is payable in connection with such exercise, that number of Shares having a Fair Market Value equal to the cash payable upon such exercise), shall be charged against the number of Shares issuable under the Plan and shall not become available

for the grant of other Options and Rights for the award of Restricted Stock or Incentive Shares. If the Right referred to in the preceding sentence is a Related Right, the Shares subject to the Related Option, to the extent not charged against the number of Shares subject to the Plan in accordance with this Section 5.3, shall become available for the grant of other Options or Rights or for the award of additional Restricted Stock or Incentive Shares.

## 6. OPTIONS

6.1. The Committee is hereby authorized to grant Nonstatutory Stock Options and Incentive Stock Options to Employees. Nonstatutory Stock Options also may be granted to Outside Directors, pursuant to Article 7.

6.2. All agreements granting Options to Employees shall contain a statement that the Option is intended to be either (i) a Nonstatutory Stock Option or (ii) an Incentive Stock Option.

6.3. The Option Period for Options granted to Employees shall be determined by the Committee and specifically set forth in the Agreement, provided, however, that an Option shall not be exercisable before six months from the Date of Grant (except that this limitation need not apply in the event of the death or disability of the Optionee within the six-month period) or after ten years from the Date of Grant.

6.4. All Incentive Stock Options granted under the Plan shall comply with the provisions of the Code governing incentive stock options and with all other applicable rules and regulations.

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6.5. The maximum number of Shares of Common Stock with respect to which Options may be granted to any Employee under this Plan during its term is 200,000 Shares. In no event shall the Option Price of an Option be less than the Fair Market Value of a Share of Common Stock on the Date of Grant.

6.6. All other terms of Options granted under the Plan shall be determined by the Committee in its sole discretion.

## 7. OUTSIDE DIRECTOR PROGRAM

7.1. The Outside Director Program shall be a formula plan under which Outside Directors shall be granted Nonstatutory Stock Options, but only in accordance with the provisions set forth in this Article 7.

7.2. Nonstatutory Stock Options shall be granted to Outside Directors as follows:

(i) Commencing on December 19, 1994, and on the third Monday in December of each succeeding year (or the next business day if such date is a non-business day) (the "Automatic Grant Date"), each Outside Director shall be granted a Nonstatutory Stock Option to purchase 2,500 Shares at an Option Price equal to the Fair Market Value of the Shares on such date, which date shall be the Date of Grant; provided that the exercisability of such Nonstatutory Stock Options shall be conditioned upon approval of this Plan by the shareholders of the Corporation; and provided further, that if any such Outside Director has not served as a Director of the Corporation continuously since the last Automatic Grant Date, the Nonstatutory Stock Option granted pursuant to this Section 7.2(i) shall be for a number of Shares (rounded to the nearest whole Share) equal to 2,500 multiplied by a fraction, the numerator of which shall be the number of days since the last Automatic Grant Date that such person has served as a Director of the Corporation, and the denominator of which shall be 365; and

(ii) Nonstatutory Stock Options granted under this Article 7 shall vest six months from the Date of Grant and may be exercised by the Optionee at any time after vesting and prior to the termination of the Nonstatutory Stock Option; provided, however, that any Nonstatutory Stock Option granted prior to the approval of this Plan by the shareholders of the Corporation shall vest six months from the date of such shareholder approval. Nonstatutory Stock Options granted pursuant to this Article 7 shall terminate upon the earlier to occur of (A) 10 years from the date of Grant or (B) one year from the date on which such Optionee ceases to be a member of the Board or, if such Optionee ceases to be a member of the Board by reason of retirement, disability, death or removal from such position

without cause, five years from the date on which such Optionee ceases to be a member of the Board. Nonstatutory Stock Options are not transferable except to the extent provided in Article 10 hereof. Exercise of Nonstatutory Stock Options may be made only in writing delivered to the Corporation accompanied by payment of the Option Price.

7.3. In the event of any change in the capitalization of the Corporation by reason of stock dividends, split-ups, mergers, recapitalizations, combinations, exchanges of shares or the like, the Nonstatutory Stock Options granted pursuant to Section 7.2 above shall be for such number of Shares and at an Option Price as shall be adjusted in accordance with Article 13 hereof.

7.4. If on any Date of Grant of Nonstatutory Stock Options to Outside Directors there is an insufficient number of Shares available for such grants to Outside Directors, the number of Shares subject to each grant shall be reduced to the greatest whole number of Shares arrived at by dividing the remaining Shares available for such grants by the number of Outside Directors eligible for such grants.

## 8. RIGHTS

8.1. The Committee is hereby authorized to grant Rights to Employees.

8.2. A Right may be granted under the Plan:

(i) In connection with, and at the same time as, the grant of an Option under the Plan;

(ii) By amendment of an outstanding Nonstatutory Stock Option granted under the Plan; or

(iii) Independently of any Option granted under the Plan.

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A Right granted under clause (i) or (ii) of the preceding sentence is a Related Right. A Related Right may, in the Committee's discretion, apply to all or a portion of the Shares subject to the Related Option.

8.3. A Right may be exercised in whole or in part as provided in the Agreement, and, subject to the provisions of the Agreement, entitles its Optionee to receive, without any payment to the Corporation (other than required income tax withholding amounts), either cash or that number of Shares (equal to the highest whole number of Shares), or a combination thereof, in an amount or having a Fair Market Value determined as of the Date of Exercise not to exceed the number of Shares subject to the portion of the Right exercised multiplied by an amount equal to the excess of (i) the Fair Market Value of a share of Common Stock on the Date of Exercise of the Right over (ii) either (A) the Fair Market Value of a share of Common Stock on the Date of Grant of the Right if it is not a Related Right, or (B) the Option Price as provided in the Related Option if the Right is a Related Right.

8.4. The Right Period shall be determined by the Committee and specifically set forth in the Agreement, provided, however:

(i) A Right may not be exercised until the expiration of six months from the Date of Grant (except that this limitation need not apply in the event of the death or disability of the Optionee within the six-month period);

(ii) A Right will expire no later than the earlier of (A) ten years from the Date of Grant, or (B) in the case of a Related Right, the expiration of the Related Option;

(iii) A Right may be exercised only when the Fair Market Value of a share of Common Stock exceeds either (A) the Fair Market Value of a share of Common Stock on the Date of Grant of the Right if it is not a Related Right, or (B) the Option Price as provided in the Related Option if the Right is a Related Right; and

(iv) A Right that is a Related Right to an Incentive Stock Option may be exercised only when and to the extent the Related Option is exercisable.

8.5. The exercise, in whole or in part, of a Related Right shall cause a reduction in the number of Shares subject to the Related Option equal to the

number of Shares with respect to which the Related Right is exercised. Similarly, the exercise, in whole or in part, of a Related Option shall cause a reduction in the number of Shares subject to the Related Right equal to the number of Shares with respect to which the Related Option is exercised.

8.6. Rights granted under the Plan (other than cash-only Rights) shall comply with the requirements of Rule 16b-3(e) under the Exchange Act during the term of this Plan. Should any provision of this Article 8 necessary for that purpose at the date of adoption of this Plan by the Board no longer be necessary to comply with the requirements of Rule 16b-3(e) or should any additional provisions be necessary for this Article 8 to comply with the requirements of Rule 16b-3(e), the Board or the Committee may amend this Plan to delete, add to or modify the provisions of the Plan accordingly. The Corporation intends to comply, if and to the extent applicable, with the public information and reporting requirements of Rule 16b-3(e)(1); however, the Corporation's failure for any reason whatsoever to comply with such requirements or with any other requirements of Rule 16b-3, and any resultant unavailability of Rule 16b-3(e) to Optionees shall not impose any liability on the Corporation to any Optionee or any other party.

8.7. To the extent required by Rule 16b-3(e) under the Exchange Act or otherwise provided in the Agreement, the Committee shall have sole discretion to consent to or disapprove the election of any Optionee to receive cash in full or partial settlement of a Right. In cases where an election of settlement in cash must be consented to by the Committee, the Committee may consent to, or disapprove, such election at any time after such election, or within such period for taking action as is specified in the election, and failure to give consent shall be disapproval. Consent may be given in whole or as to a portion of the Right surrendered by the Optionee.

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If the election to receive cash is disapproved in whole or in part, the Right shall be deemed to have been exercised for Shares, or, if so specified in the notice of exercise and election, not to have been exercised to the extent the election to receive cash is disapproved.

8.8. The maximum number of Shares of Common Stock with respect to which Rights may be granted to any Employee under this Plan during its term is 200,000 Shares.

## 9. EXERCISE

9.1. An Option or Right may, subject to the provisions of the Agreement under which it was granted, be exercised in whole or in part by the delivery to the Corporation of written notice of the exercise, in such form as the Committee may prescribe, accompanied, in the case of an Option, by full payment for the Shares with respect to which the Option is exercised, unless and to the extent that the Committee agreed in the Agreement in which an Option was granted to accept a promissory note as provided in Section 9.2 hereof.

9.2. To the extent permitted by applicable law, the Committee may agree in the Agreement in which an Option is granted to an Employee to accept as partial payment for the Shares a promissory note of the Optionee evidencing his or her obligation to make future cash payment thereof; provided, however, that in no event may the Committee accept a promissory note for an amount in excess of the difference between the aggregate Option Price and the par value of the Shares. Promissory notes made pursuant to this Section 9.2 shall be payable as determined by the Committee, shall be secured by a pledge of the Shares and shall bear interest at a rate fixed by the Committee.

## 10. NONTRANSFERABILITY

Options, Rights, Incentive Shares granted or awarded under the Plan shall not be transferable otherwise than (A) by will or the laws of descent and distribution, or (B) pursuant to a qualified domestic relations order as defined in section 414(p) of the Code, and an Option or Right may be exercised during his or her lifetime only by the Optionee or, in the event of his or her legal disability, by his or her legal representative. A Related Right is transferable only when the Related Option is transferable and only with the Related Option and under the same conditions.

## 11. RESTRICTED STOCK AWARDS

11.1. The Committee is hereby authorized to award Shares of Restricted Stock to Employees.

11.2. Restricted Stock awards under the Plan shall consist of Shares that are restricted against transfer, subject to forfeiture, and subject to such other terms and conditions intended to further the purposes of the Plan as may be determined by the Committee. Such terms and conditions may provide, in the discretion of the Committee, for the vesting of such awards to be contingent upon the achievement of one or more specified Performance Goals.

11.3. Restricted Stock awards shall be evidenced by Agreements containing provisions setting forth the terms and conditions governing such awards. Each such Agreement shall contain the following:

(i) Prohibitions against the sale, assignment, transfer, exchange, pledge, hypothecation, or other encumbrance of (A) the Shares awarded as Restricted Stock under the Plan, (B) the right to vote the Shares, or (C) the right to receive dividends thereon in each case during the restriction period applicable to the Shares; provided, however, that the Grantee shall have all the other rights of a shareholder including, but not limited to, the right to receive dividends and the right to vote the Shares;

(ii) At least one term, condition or restriction constituting a "substantial risk of forfeiture" as defined in section 83(c) of the Code:

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(iii) Such other terms, conditions and restrictions as the Committee in its discretion may specify (including, without limitation, provisions creating additional substantial risks of forfeiture);

(iv) A requirement that each certificate representing Shares of Restricted Stock shall be deposited with the Corporation, or its designee, and shall bear the following legend:

"This certificate and the shares of stock represented hereby are subject to the terms and conditions (including the risks of forfeiture and restrictions against transfer) contained in the Amended and Restated S&T Bancorp, Inc. 1992 Incentive Stock Plan, and an Agreement entered into between the registered owner and S&T Bancorp, Inc. Release from such terms and conditions shall be made only in accordance with the provisions of the Plan and the Agreement, a copy of each of which is on file in the office of the Secretary of S&T Bancorp, Inc."

(v) The applicable period or periods of any terms, conditions or restrictions applicable to the Restricted Stock, provided, however, that the Committee in its discretion may accelerate the expiration of the applicable restriction period with respect to any part or all of the Shares awarded to a Grantee; and

(vi) The terms and conditions upon which any restrictions upon Shares of Restricted Stock awarded under the Plan shall lapse and new certificates free of the foregoing legend shall be issued to the Grantee or his or her legal representative.

11.4. The Committee may include in an Agreement a requirement that in the event of a Grantee's termination of employment for any reason prior to the lapse of restrictions, all Shares of Restricted Stock shall be forfeited by the Grantee to the Corporation without payment of any consideration by the Corporation, and neither the Grantee nor any successors, heirs, assigns or personal representatives of the Grantee shall thereafter have any further rights or interest in the Shares or certificates.

11.5. The maximum number of Shares of Restricted Stock that may be awarded to any Employee under this Plan during its term is 200,000 Shares.

## 12. INCENTIVE SHARE AWARDS

12.1. The Committee is hereby authorized to award Incentive Shares to Employees.

12.2. Incentive Shares shall be Shares that shall be issued at such times,

subject to achievement of such Performance Goals or other goals and on such other terms and conditions as the Committee shall deem appropriate and specify in the Agreement relating thereto.

12.3. The maximum number of Incentive Shares that may be awarded to any Employee under this Plan during its term is 200,000 Shares.

#### 13. CAPITAL ADJUSTMENTS

The number and class of Shares subject to each outstanding Option or Right or Restricted Stock or Incentive Share award, the Option Price and the aggregate number and class of Shares for which grants or awards thereafter may be made shall be subject to reflect such events as stock dividends, stock splits, adoption of stock rights plans, recapitalizations, mergers, consolidations or reorganizations of or by the Corporation. The adjustments made with respect to Nonstatutory Stock Options granted pursuant to Article 7 hereof shall be equivalent to the treatment accorded to holders of Common Stock.

#### 14. TERMINATION OR AMENDMENT

The Board shall give the power to terminate the Plan and to amend it in any respect, provided that, after the Plan has been approved by the shareholders of the Corporation, the Board may not, without the approval of the shareholders of the Corporation if such approval is then required by applicable law or in order for the Plan to

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continue to satisfy the requirements of Rule 16b-3 under the Exchange Act, amend the Plan so as to increase the number of Shares that may be issued under the Plan (except as provided in Article 13), to modify materially the requirements as to eligibility for participation in the Plan, to change the class of persons eligible to receive Incentive Stock Options, or to increase materially the benefits accruing to participants under the Plan. No amendment to the Outside Director Program shall be made more frequently than once every six months, other than to comport with changes in the Code or the rules thereunder. No termination or amendment of the Plan shall, without his or her consent, adversely affect the rights or obligations of any Optionee or Grantee.

#### 15. MODIFICATION, EXTENSION AND RENEWAL OF OPTIONS, RIGHTS, RESTRICTED STOCK AND INCENTIVE SHARES

Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify, extend or renew outstanding Options and Rights, or accept the surrender of outstanding options, rights and performance units (to the extent not theretofore exercised) granted under the Plan or under any other plan of the Corporation, a Subsidiary or a company or similar entity acquired by the Corporation or a Subsidiary, and authorize the granting of new Options and Rights pursuant to the Plan in substitution therefore (to the extent not theretofore exercised), and the substituted Options or Rights may specify a lower exercise price than the surrendered options, rights and performance units, a longer term than the surrendered options, rights and performance units or have any other provisions that are authorized by the Plan. Subject to the terms and conditions and within the limitations of the Plan, the Committee may modify the terms of any outstanding Agreement providing for awards of Restricted Stock or Incentive Shares. Notwithstanding the foregoing, however, no modification of an Option or Right granted under the Plan, or an award of Restricted Stock or Incentive Shares, shall, without the consent of the Optionee, or Grantee, alter or impair any of the Optionee's or Grantee's rights or obligations.

#### 16. EFFECTIVENESS OF THE PLAN

The Plan and any amendments requiring shareholder approval pursuant to Article 14 are subject to approval by vote of the shareholders of the Corporation within 12 months after their adoption by the Board. Subject to that approval, the Plan and any amendments are effective on the date on which they are adopted by the Board. Options, Rights, Restricted Stock and Incentive Shares may be granted or awarded prior to shareholder approval of the Plan or amendments, but each such Option, Right, Restricted Stock or Incentive Share grant or award shall be subject to the approval of the Plan or amendments by

the shareholders. Except to the extent required to satisfy the requirements of Rule 16b-3 under the Exchange Act, the date on which any Option, Right, Restricted Stock or Incentive Shares granted or awarded prior to shareholder approval of the Plan or amendment is granted or awarded shall be the Date of Grant for all purposes as if the Option, Right, Restricted Stock or Incentive Shares had not been subject to approval. No Option or Right may be exercised prior to such shareholder approval, and any Restricted Stock or Incentive Shares awarded shall be forfeited if such shareholder approval is not obtained.

#### 17. TERM OF THE PLAN

Unless sooner terminated by the Board pursuant to Article 14, the Plan shall terminate on the date ten years after its adoption by the Board, and no Options or Rights, Restricted Stock or Incentive Shares may be granted or awarded after termination. The termination shall not affect the validity of any Option, Right, Restricted Stock or Incentive Shares outstanding on the date of termination.

#### 18. INDEMNIFICATION OF COMMITTEE

In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, the members of the Committee shall be indemnified by the Corporation against the reasonable expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option, Right, Restricted

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Stock or Incentive Shares granted or awarded hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if such members acted in good faith and in a manner which they believed to be in, and not opposed to, the best interests of the Corporation.

#### 19. GENERAL PROVISIONS

19.1. The establishment of the Plan shall not confer upon any Employee or Director any legal or equitable right against the Corporation, any Subsidiary or the Committee, except as expressly provided in the Plan.

19.2 The Plan does not constitute inducement or consideration for the employment of any Employee or the service of any Director, nor is it a contract between the Corporation or any Subsidiary and any Employee or Director. Participation in the Plan shall not give an Employee or Director any right to be retained in the service of the Corporation or any Subsidiary.

19.3. The Corporation and its Subsidiaries may assume options, warrants, or rights to purchase stock issued or granted by other corporations whose stock or assets shall be acquired by the Corporation or its Subsidiaries, or which shall be merged into or consolidated with the Corporation. Neither the adoption of this Plan, nor its submission to the shareholders, shall be taken to impose any limitations on the powers of the Corporation or its affiliates to issue, grant, or assume options, warrants, rights, or restricted stock, otherwise than under this Plan, or to adopt other stock option or restricted stock plans or to impose any requirement of shareholder approval upon the same.

19.4. The interests of any Employee or Director under the Plan are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered except as provided in Article 11.

19.5. The Plan shall be governed, construed and administered in accordance with the laws of Pennsylvania and the intention of the Corporation that Incentive Stock Options granted under the Plan qualify as such under section 422 of the Code.

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S&T BANCORP, INC.  
ANNUAL MEETING OF SHAREHOLDERS  
APRIL 21, 1997

The undersigned hereby appoints Ruth B. Wells, James B. George and Delbert M. Baker or any successors, with full powers of substitution, to act as attorneys and proxies for the undersigned to vote all shares of the common stock of S&T, par value \$2.50 per share ("S&T Common Stock"), which the undersigned is entitled to vote at the Annual Meeting of Shareholders (the "Meeting"), to be held at the Fifth Street Training Center, located at 355 North Fifth Street, Indiana, Pennsylvania, on April 21, 1997, at 10:00 a.m. Eastern Standard Time and at any and all adjournments thereof, as follows:

1. Election of Directors for three year terms.

FOR all nominees listed below (except as marked  
to the contrary)

WITHHOLD AUTHORITY to vote for all nominees  
listed

The nominees for the Board of Directors are: Forrest L. Brubaker, John J. Delaney, W. Parker Ruddock, and Christine J. Toretti. (Authority to vote for any nominee may be withheld by striking a line through the nominee's name above.)

2. To consider and vote upon the approval of the Agreement and Plan of Reorganization dated November 25, 1996 and related Agreement and Plan of Merger (collectively the "Agreement") among Peoples Bank of Unity ("Peoples"), a Pennsylvania chartered bank, S&T Bancorp, Inc. ("S&T") and S&T Bank, which provides: (i) for the merger of Peoples with and into S&T Bank (the "Merger"); (ii) that, on the effective date of the Merger, each share of Peoples Common Stock, par value \$10.00 per share, will be converted and exchanged for 26.25 shares of S&T Common Stock and cash in lieu of any fractional share, determined in accordance with the terms of the Agreement; and (iii) for the issuance of up to 3,036,075 shares of S&T Common Stock.

FOR                       AGAINST                       ABSTAIN

3. To consider the approval of an amendment to the Amended and Restated 1992 Incentive Stock Plan (the "Stock Plan") to increase the number of shares of S&T Common Stock subject to the Stock Plan from 600,000 shares to 1,600,000 shares;

FOR                       AGAINST                       ABSTAIN

4. To ratify the appointment of Ernst & Young LLP as auditors for 1997.

FOR                       AGAINST                       ABSTAIN

5. To transact such other business as may properly come before the meeting or any adjournment thereof.

FOR                       AGAINST                       ABSTAIN

Only shareholders of record as of the close of business on February 28, 1997 are entitled to notice of and to vote at such meeting or any adjournment thereof.

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THIS PROXY WILL BE VOTED AS DIRECTED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE NOMINEES LISTED IN PROPOSAL 1, AND FOR PROPOSALS 2, 3, AND 4. IF ANY OTHER BUSINESS IS PRESENTED AT THE MEETING, INCLUDING MATTERS RELATING TO THE CONDUCT OF THE MEETING, THIS PROXY WILL BE VOTED BY THOSE NAMED IN THIS PROXY IN ACCORDANCE WITH THE DETERMINATION OF A MAJORITY OF THE BOARD OF DIRECTORS. AT THE PRESENT TIME, THE BOARD OF DIRECTORS KNOWS OF NO OTHER BUSINESS TO BE PRESENTED AT THE MEETING.  
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THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

Should the undersigned be present and elect to vote at the Meeting or at any

adjournment thereof and after notification to the Secretary of S&T at the Meeting of the shareholder's decision to terminate this proxy, then the power of said attorneys and proxies shall be deemed terminated and of no further force and effect.

The undersigned acknowledges receipt from S&T prior to the execution of this proxy of the Notice of Meeting and the Proxy Statement. The undersigned hereby revokes any and all proxies heretofor given, with respect to the undersigned's shares of S&T Common Stock.

Dated: \_\_\_\_\_, 1997

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PRINT NAME OF SHAREHOLDER

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SIGNATURE OF SHAREHOLDER

Please sign exactly as your name appears on this card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign.

PLEASE COMPLETE, DATE, SIGN AND MAIL THIS PROXY PROMPTLY IN THE ENCLOSED POSTAGE-PREPAID ENVELOPE.